Integrating Fiscal Impact Into Your Economic Development Strategy

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Myth:

Growth and development mean an increasing tax base and better financial health for the local government.

Fact:

A growing tax base doesn't guarantee financial health.

Revenue must grow faster than expenses.

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Economic Impact Analysis

Direct Impact

+

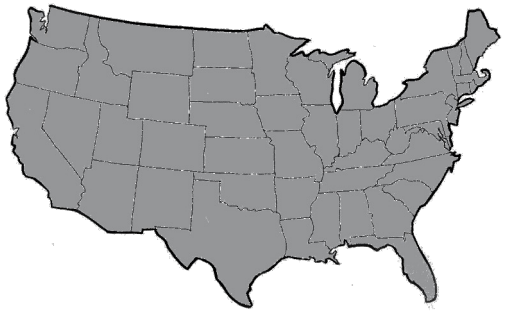
Indirect Impact

+

Induced Impact

→ Total Economic Impact

→ Jobs
→ Income
→ Output



+

ALWAYS POSITIVE

Basis for the "multiplier"
= Total/Direct

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Fiscal Impact Analysis

BASED ON SPECIFIC CHARATERISTICS OF YOUR COMMUNITY:

LAND USE, TAX STRUCTURE, COMMUTING PATTERNS, SERVICE DELIVERY, ETC.

EXPENSE
- EDUCATION
- PUBLIC SAFETY
- INCENTIVES, ETC.

REVENUE
- PROPERTY TAX
- SALES TAX
- FEES, ETC.

CAN HELP COMMUNITIES WEED OUT BAD DEALS!!

CHARACTERIZES INCENTIVES AND ECONOMIC DEVELOPMENT SPENDING AS AN INVESTMENT AND CAN DEMONSTRATE TO THE PUBLIC THAT INCENTIVE DECISIONS ARE NOT TAKEN LIGHTLY.

± CAN BE POSITIVE OR NEGATIVE!

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Economic vs. Fiscal Impact

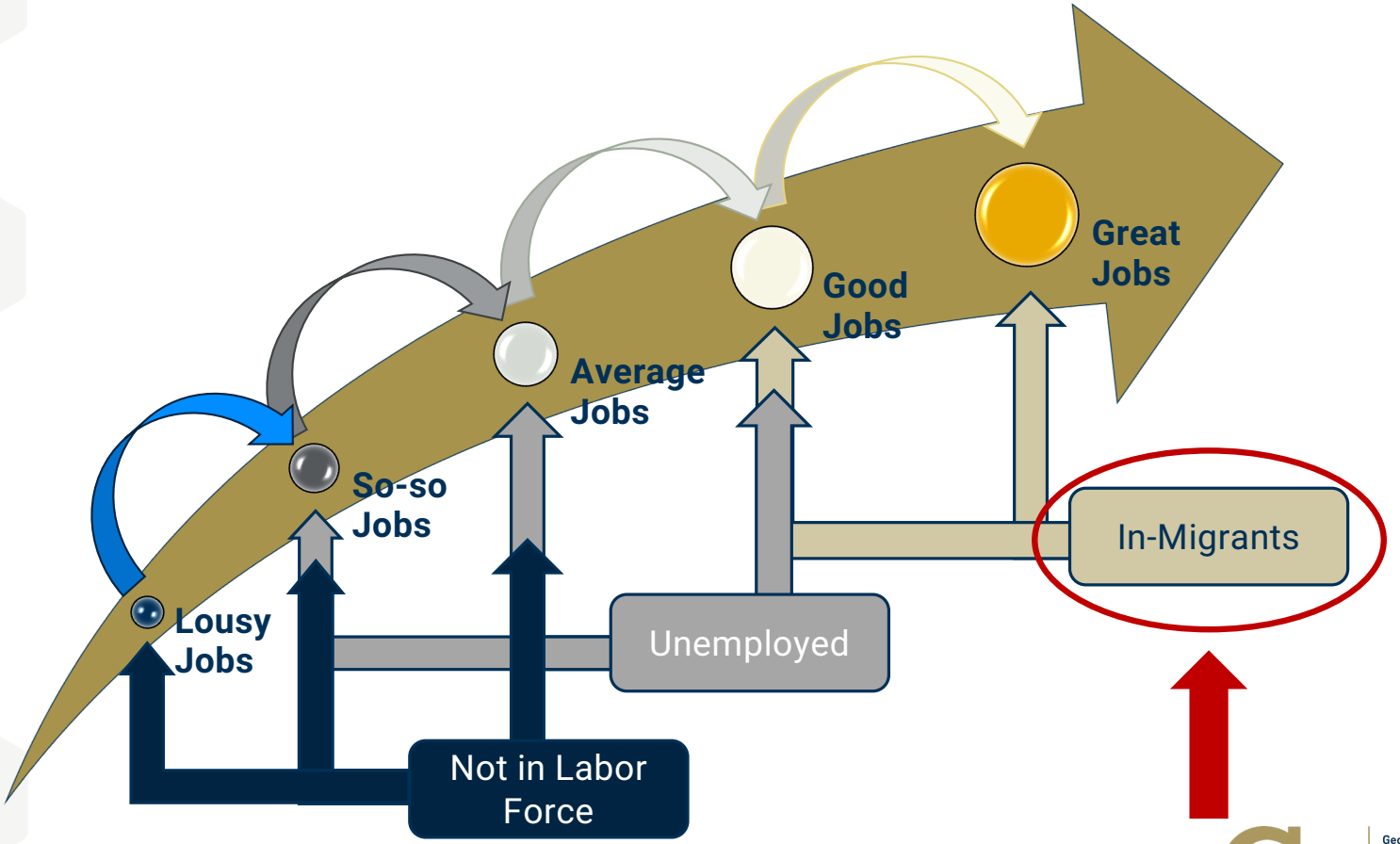
Understanding the difference between economic and fiscal impact is critical for economic development success.

Beware of "experts" from the ivory towers of academia with little or no practical experience!

"Fiscal and economic impact analyses are synonymous. I've never heard of a distinction."

-- FB post by an economics professor from a major USG institution

Job Chain In Your Community



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Where Will The New Employees Live?

New residential growth results in….

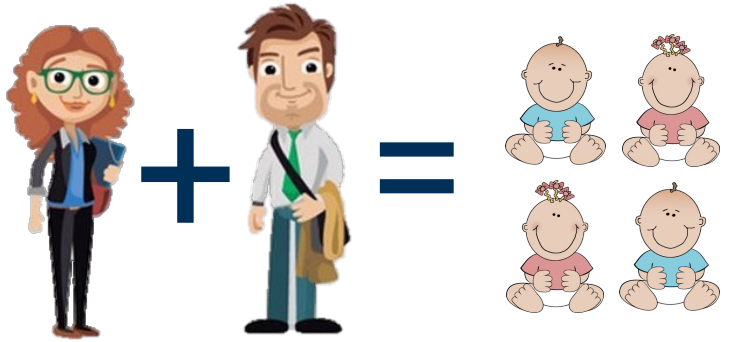
- **Increased property tax**
- **Increased sales tax**
- **Increased fines and fee revenue**

Some outside the county

Some inside the county

New residential growth also results in….

- **Increased educational costs**
- **Increased local government expenditures**



Do households generate enough revenue to pay for the increase in government expenses?

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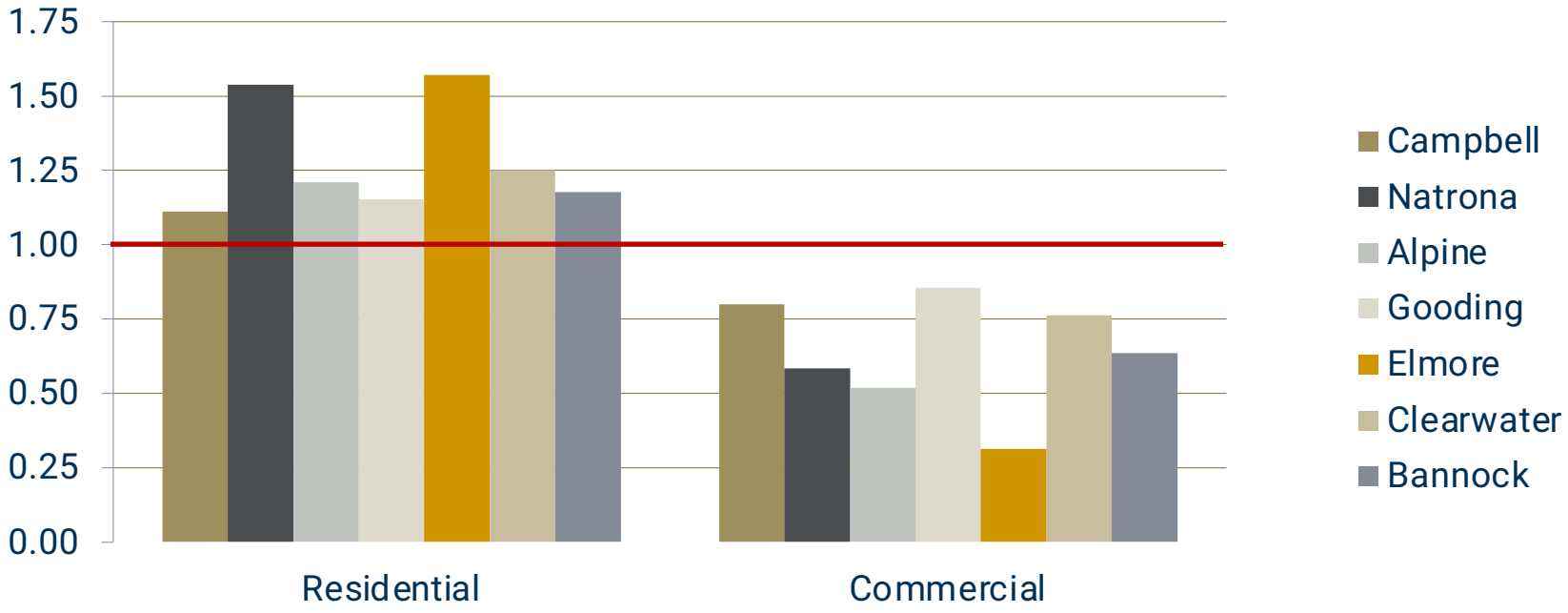
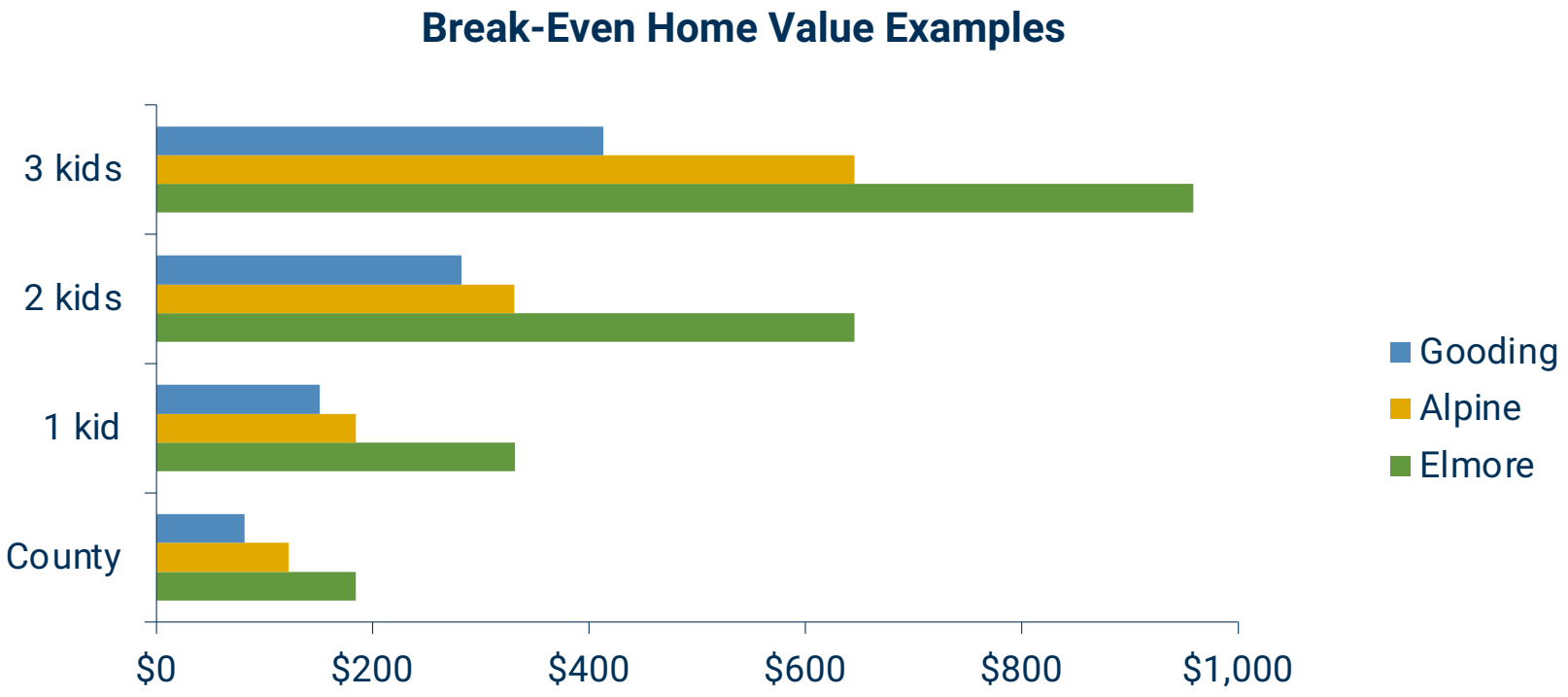
Cost Of Community Services



Source: Dr. Jeffrey Dorfman, The University of Georgia

Cost Of Community Services



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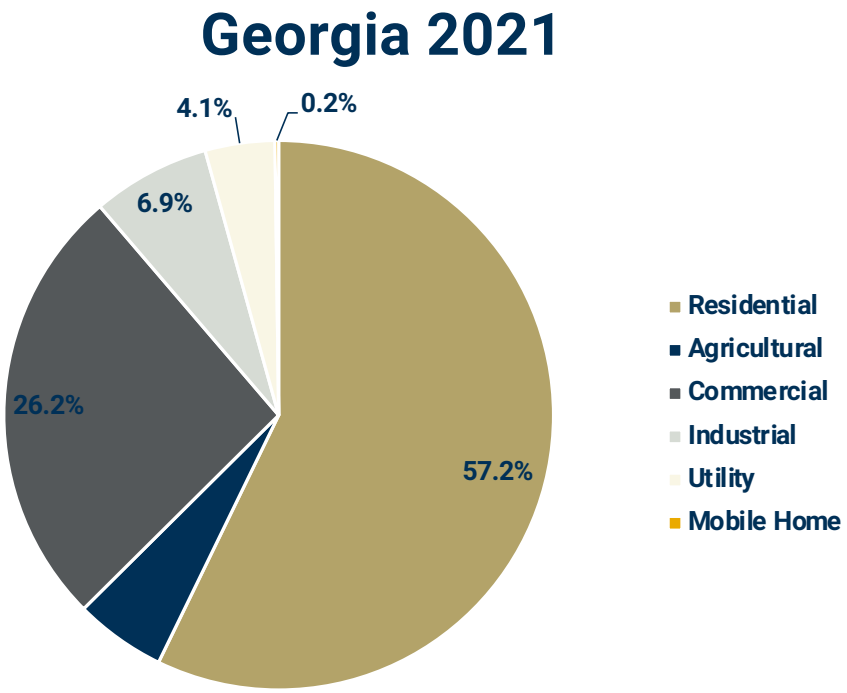
Tax Digest Split



How is your community's digest split?

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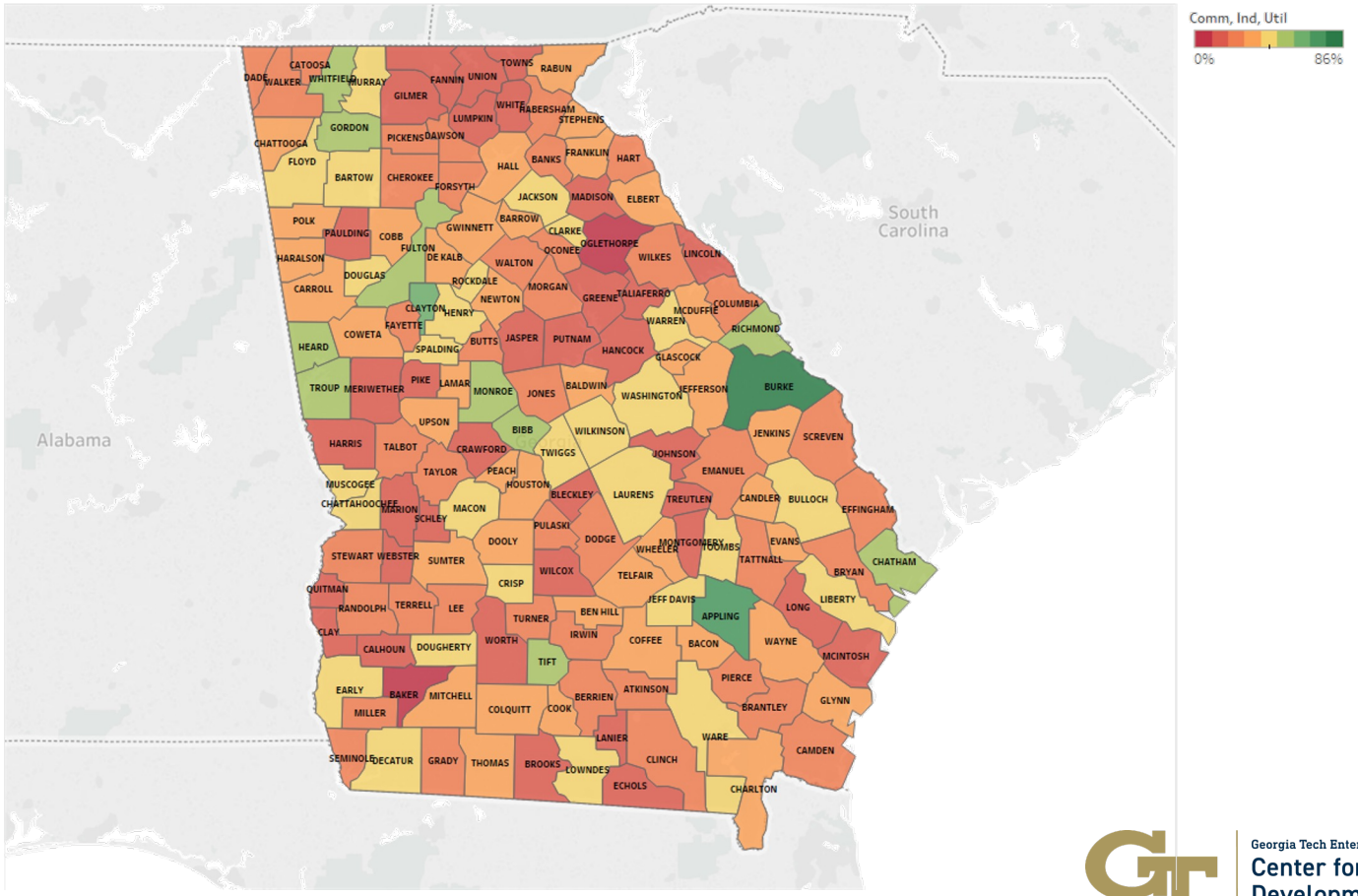
State of Georgia



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Incentives: What? When? And How?

What?

- Permit waivers
- Fee waivers
- Expedited permits
- Expedited plan review
- Custom training
- Revolving loan funds
- Tax abatements

When?

- Traditionally, industrial jobs
- Job retention
- Capital investment
- Redevelopment

How?

- Depends on the incentive
- Local government ordinance
- Via local technical college
- Via other govt. agencies
- Development Authority
  - policies
  - legal (bonds for title)

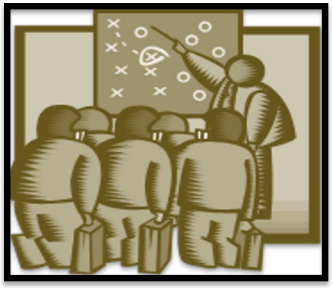
Comprehensive Economic Development Strategy

Incentive Strategy

When will you offer tax abatements or any other local incentive? What is your strategy?

First Rule: Make sure the project is competitive!!

HAVE ONE!

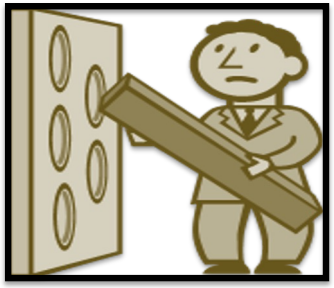


Put your strategy in place BEFORE a project comes looking at your community

SPECIFIC GOALS

- What does your community want to be?
- Target industries?
- Target areas?

UNIQUENESS



- One size does not fit all
- Your strategy needs to fit your goals
- Every company has different needs …ASK!!

AFFORDABILITY

- Understand the FISCAL impact of your offer
- Don't get pulled into paying too much.

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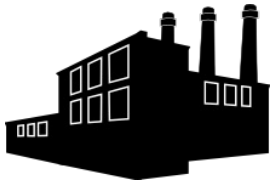
Project Examples – Data Center #1

110 new jobs

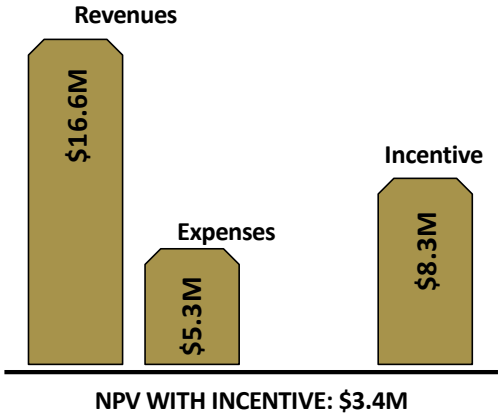


$250M CAP EX

Incentives:

- 10-year phased in abatement on real property
- 4-year phased in abatement on personal property
- All abatements included the school tax

10-year fiscal analysis:



NPV WITH INCENTIVE: $3.4M

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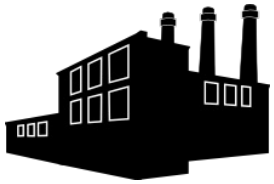
Project Examples – Data Center #2

19 new jobs
@$83,000/yr.



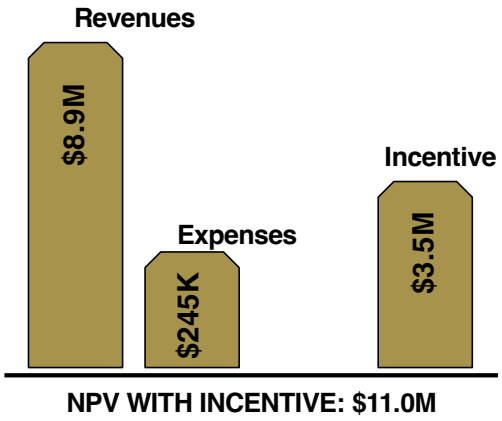
$250M CAP EX

$1B initial estimate
$600M revised
$250M final

Incentives:

- 10-year phased in abatement on real property
- 4-year phased in abatement on personal property
- All abatements included the school tax
- $174K in system development charge waiver

10-year fiscal analysis:



NPV WITH INCENTIVE: $11.0M

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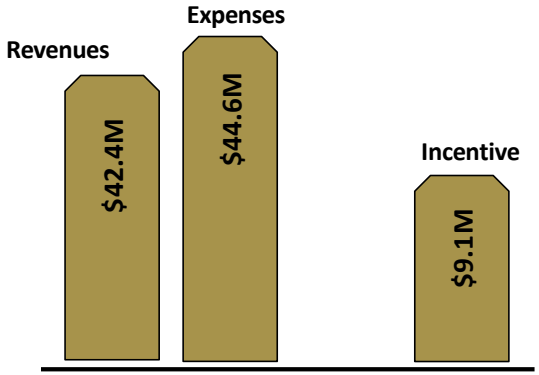
Project Examples – Corporate HQ

1,250 new jobs
@$80,000/yr.

$0 Real Property CAP EX

$18M Personal Property
CAP EX

20-year fiscal analysis:



NPV WITHOUT INCENTIVE: $-1.1M

NPV WITH INCENTIVE: $-7.6M

Incentives:

- 20-year phased in abatement on real property
- All abatements included the school tax

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RECOMMENDATION:

LETTER OF TRANSMITTAL SHOULD INCLUDE:

1. COST BENEFIT ANALYSIS (FISCAL IMPACT ANALYSIS)
2. EXPLAINATION OF HOW TAX ABATEMENTS ARE ACCOUNTED FOR AND INCORPORATED INTO THE BUDGET PROCESS
3. DESCRIPTION OF THE POLICIES GOVERNING TAX ABATEMENTS AND METHODOLOGIES USED TO DETERMING RETURN ON INVESTMENT
4. IDENTIFICATION OF THOSE RESPONSIBLE FOR MONITORING COMPLIANCE AND ABATEMENT AGREEMENTS
5. RELATIONSHIP BETWEEN TAX ABATEMENTS AND GOVERNMENTS GOALS
6. FIVE-YEAR CHART OF BENEFITS ANTICIPATED
   - FINANCIAL
   - NONFINANCIAL

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Questions?

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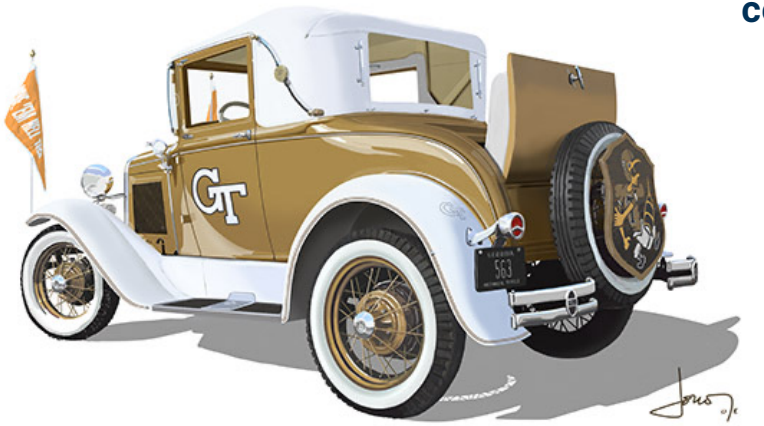

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Home

The **Center for Economic Development Research (CEDR)** is a collaborative team of economists, city planners, and economic development practitioners. Our talented economic development professionals have the research and implementation experience needed to help economic developers, community leaders, and industries alike understand the **opportunities and challenges** in fostering local economic development.

The **Center for Economic Development Research** is a unit of the **Enterprise Innovation Institute**,

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- [ ] Economic and Fiscal Impact Analysis
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- [ ] Workforce & Housing Analysis
- [ ] Cost of Community Services
- [ ] Economic Development Research Program (EDRP)

Providing Communities Affordable Economic Development Research

edrp
ECONOMIC DEVELOPMENT | RESEARCH PROGRAM

EDRP strives to inform policy decision-making and to help local governments and economic development organizations improve their community.

Communities or economic development organizations in **Georgia**, **Kentucky**, **Tennessee**, **North Carolina**, **South Carolina**, **Mississippi**, **Alabama**, and **Florida** are eligible for the program. Registration is open throughout the year.

Visit **cedr.gatech.edu/edrp** for more details.

CONTACT US & APPLY TODAY!
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