

# ANALYZING ECONOMIC DEVELOPMENT OPPORTUNITIES

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**C2ER State Economic Researchers' Roundtable  
Research for State Economic Development Initiatives**

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**Presented by:**



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# Types of Economic Development Projects



Business relocation



Start up business



Expansion of existing location

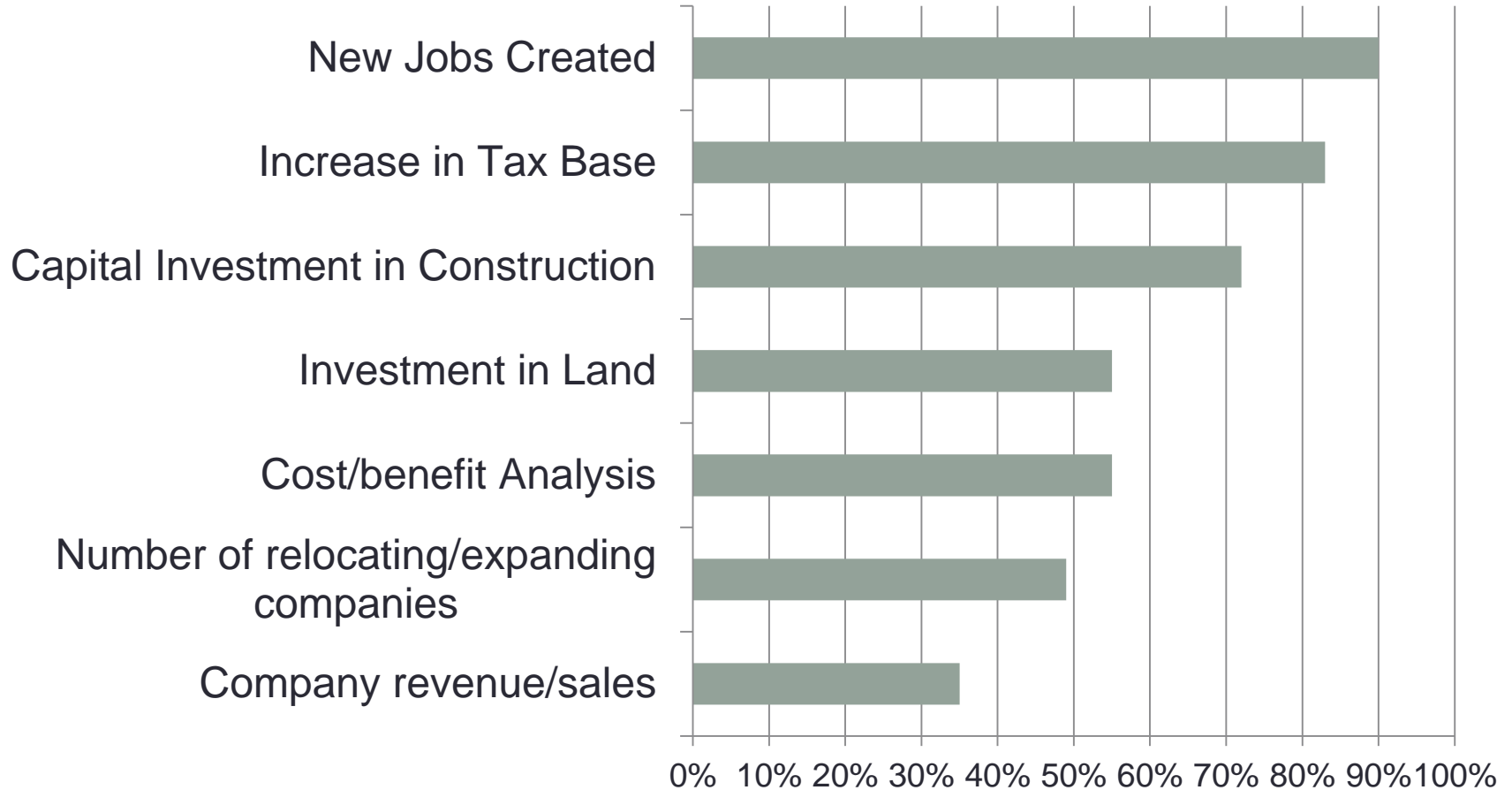


Retention of existing location



Combination of retention and expansion

# How are Local Governments Evaluating Projects?



Source: ICMA Economic Development Survey, 2014.

# Types of Assessments

## Economic impact

- Multiplier effects on jobs, income and output for a specific study area



## Revenue impact

- Major revenues like sales, property and income tax
- Can include company and employee revenues
- May cover multiple jurisdictions



## Fiscal impact

- Revenues and expenditures-typically operations and maintenance only
- Generally for a single jurisdiction



## Cost/benefit analysis

- May incorporate opportunity cost, not just direct cost
- Benefits may include a wide range of qualitative and quantitative impacts such as consumer or safety benefits
- Not limited by geography



# Fiscal Impacts

## Third Party Models

- FedFIT
- WebLOCI
- Both require significant set up
- Impact DataSource

## Custom Models

- Align to state or local annual budget
- May include O&M plus capital
- Can use local revenue structure and rates
- May include multiple jurisdictions

## Cost Methods

- Marginal cost vs average cost
- Per unit rates versus service standards or proportional valuation

# How Does Timing Factor In?

## Economic impacts

Do not incorporate inflation or structural change

Proportional to number of jobs and payroll in a given year

May only show single or multiple years

## Revenue and fiscal impacts

May include both recurring and non-recurring revenues or costs

Impacts in early year have cumulative effects

## Cost benefit analysis

Incorporates timing and discount rates

Costs and benefits may not occur simultaneously



# Timing of Incentives

Abatements will be naturally timed to align with revenues

Other incentives may align with conditions that are not directly related to revenue generation such as number of jobs created

Always measure revenues over entire term of the agreement, even if they are the same every year

Payback period is a policy decision, but 5 to 7 years is standard in many parts of the country



# When to Consider Multi-Jurisdictional Impacts



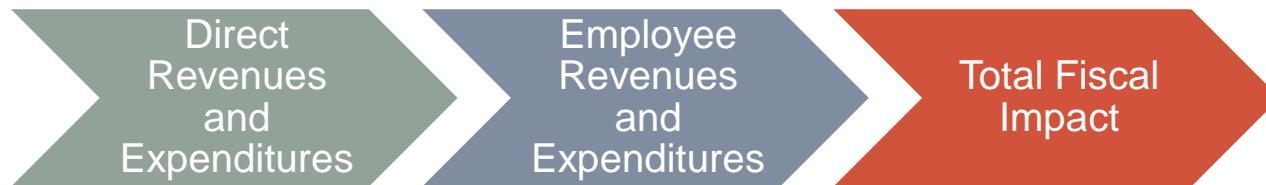
Should align to jurisdictions incurring costs or providing incentives

May still want to include total revenues to all jurisdictions, even those not bearing costs

Be wary of studies that show impacts to other jurisdictions that are not providing incentives



# Direct and Indirect Impacts



Important to consider if a project will generate additional indirect activity at other local businesses or seed future development in a particular location

New employees may generate economic and revenue impacts

Important to consider “net new”, not just re-directing existing impacts

# Uncertainty

Can be addressed in development agreements with conditions that must be met for incentives to be paid

Can apply a percentage to benefits to adjust for the likelihood they will occur, but may be hard to estimate

It is also important to look at the “worst case scenario”

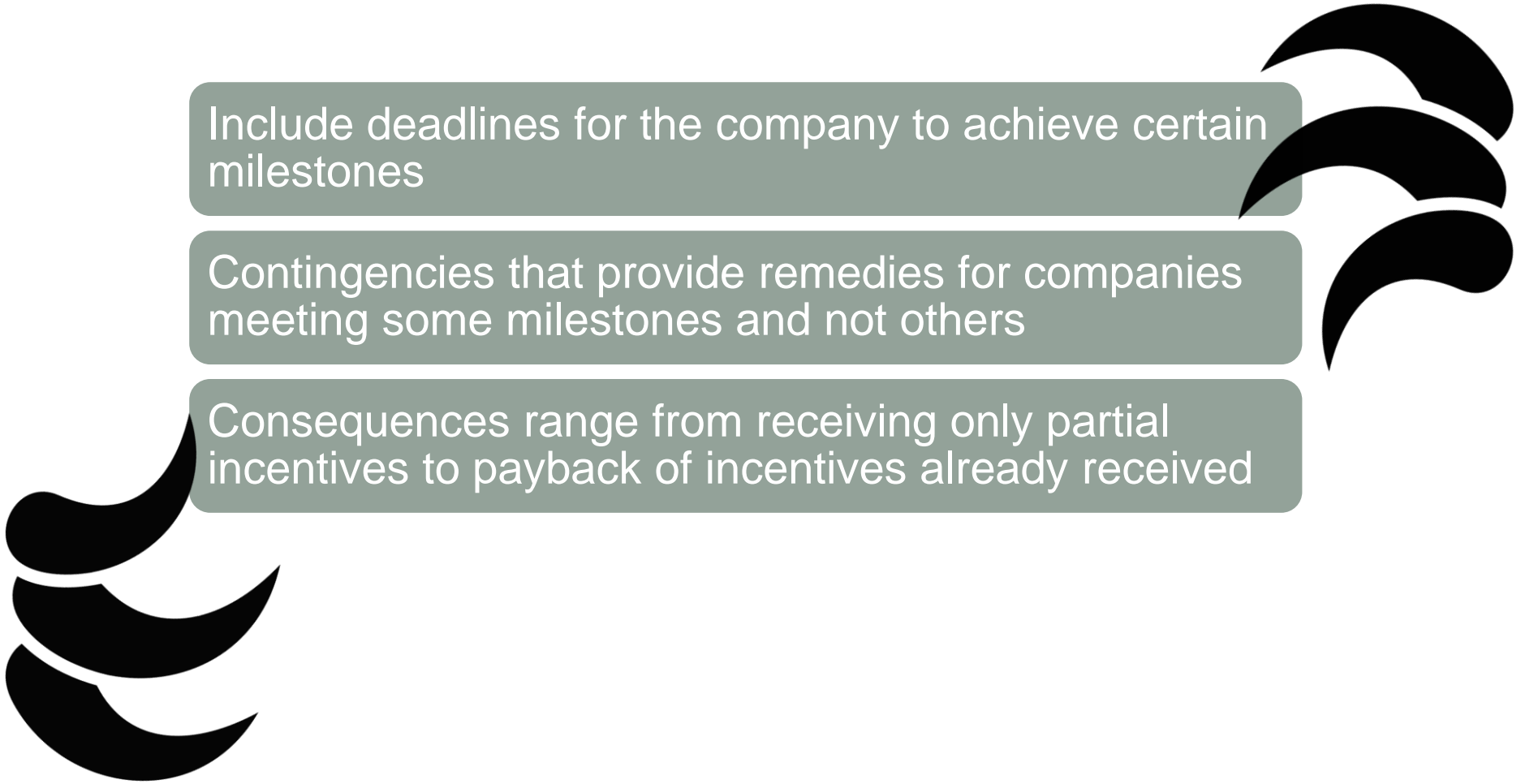


# Claw Backs

Include deadlines for the company to achieve certain milestones

Contingencies that provide remedies for companies meeting some milestones and not others

Consequences range from receiving only partial incentives to payback of incentives already received



# Tips for Evaluating Impact Analyses

## Economic impacts

- What is the study area-are multipliers specific to that area?
- What is the source of the multipliers (IMPLAN, REMI, RIMS, EMSI)?
- Are the impacts increasing over time, and if so why (inflation vs real productivity growth)?
- What industry was chosen for the multipliers?

## Revenue and fiscal impacts

- Is it clear what revenues are generated by the company versus employees?
- For employees, is there an adjustment for share of employees living in the community or state?
- Does an adjustment need to be made for net new activity (esp. sales tax)?
- Does the study show revenues net of incentives for an appropriate time period?
- What jurisdictions are included?
- Are one-time revenues and expenditures clearly delineated from on-going impacts?



# When Economic and Revenue Impacts Diverge

## Industrial Projects



- Large economic impact, lesser revenue impact
- Generate property tax, but usually no sales tax
- Making the case for higher paying, basic jobs

## Tourism Projects



- One example of larger revenue impact lower economic impacts
- Lower quality jobs
- More market driven

## Incentive Policy



- What are your economic development objectives?
- Balancing job creation versus tax revenues
- Balancing state impacts versus local impacts



# Return on Investment

Compare value of incentives to \_\_\_\_\_?

- Job creation and wage levels
- Economic impact
- Capital investment
- Tax revenues
- Other cost/benefit measures

## Metrics

- Need consistent and clear metrics
- Applicable across all types of econ dev projects

## Incentive policy

- Who is your constituency?
- What is reasonable payback period



# Example Project: Tesla Gigafactory



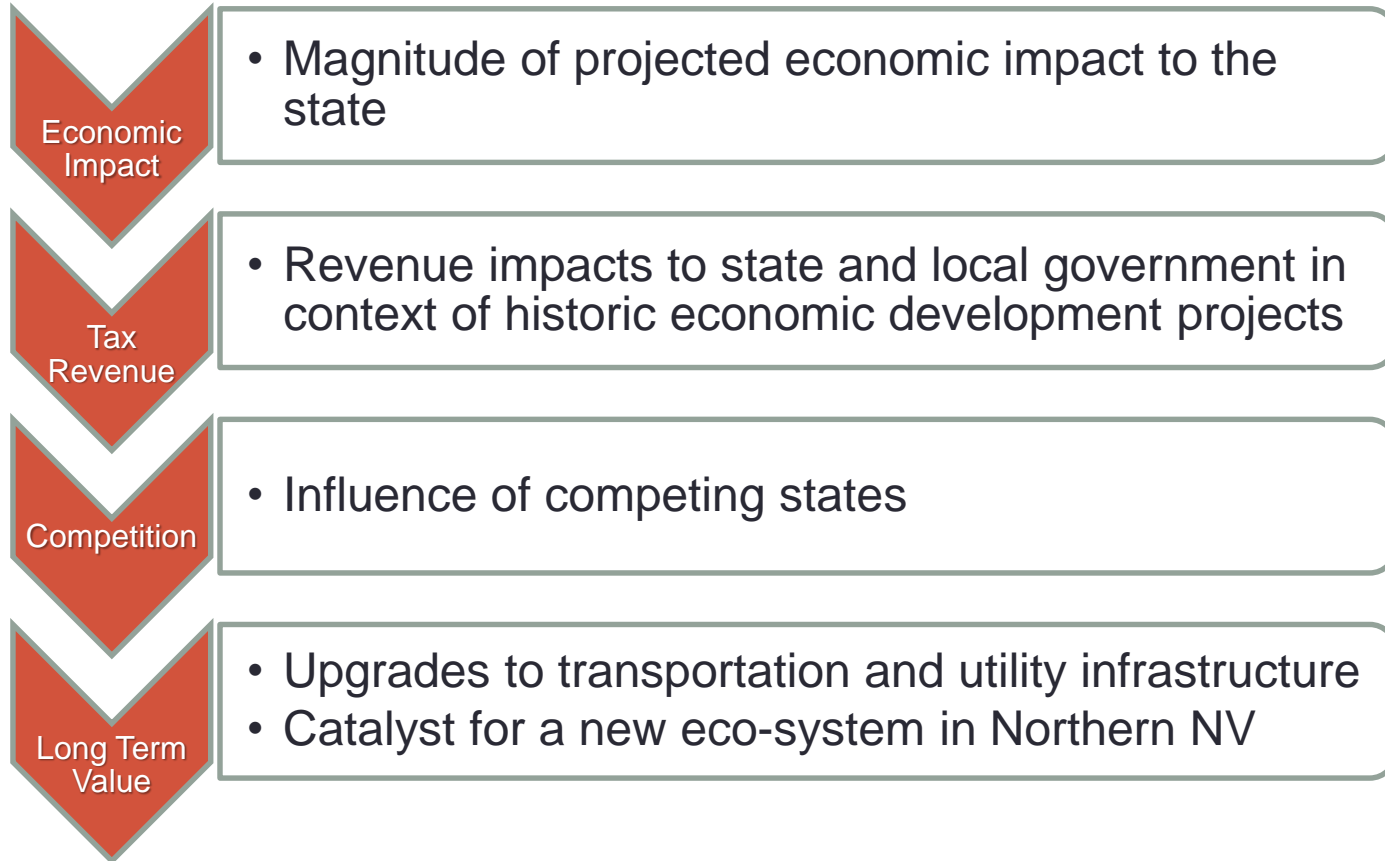
6,500 jobs in 4 years  
\$1.0 billion construction (3 yrs)  
\$10.3 billion equipment (14 yrs)

\$1.95 billion in direct and employee  
tax revenues over 20 years



Proposed incentive \$1.3 billion  
10 yr property tax abatement  
10 yr payroll tax abatement  
20 yr sales tax abatement  
\$195M transferrable tax credits

# Rationale for Proposed Tesla Incentive







# Comparison of Third Party Models

|                      | IMPLAN                             | RIMS II                   | REMI                                   | FedFIT                                       | WebLOCI                                    | Custom Model                                            |
|----------------------|------------------------------------|---------------------------|----------------------------------------|----------------------------------------------|--------------------------------------------|---------------------------------------------------------|
| <b>Type of Model</b> | Economic impacts                   | Economic multipliers only | Dynamic economic/policy impacts        | Fiscal calculator                            | Fiscal impact                              | Economic and fiscal impact                              |
| <b>Geography</b>     | ZIP codes, county, region, state   | County, state             | County, region, state                  | County, city                                 | County, city                               | County, city, state                                     |
| <b>Format</b>        | Web-based                          | Spreadsheet               | Desktop application                    | Excel                                        | Web-based                                  | Excel or Access                                         |
| <b>Strengths</b>     | Industry detail, geography options | Affordable and accessible | Robust forecasting and policy analysis | Easy to use and accessible                   | Detailed cost estimates                    | Specific to your location, custom outputs, ready to use |
| <b>Weakness</b>      | Static                             | No modeling capability    | Expensive and complex                  | Default values may not produce valid results | Large amount of setup/ data input required | Development time, cost                                  |