

# Incentives: Knowing What to Give and When

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- Tell you about our consulting firm Impact DataSource
- Provide some information on incentives
- Discuss economic impact analysis – a tool to use to determine appropriate levels of incentives

# Who We Are

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Impact DataSource, a 25-year old, 7-person Austin economic consulting, research and analysis firm

Jerry Walker, Founding Partner and an economist

Specialize:

- In economic and fiscal impact analyses
- Developed and license an online economic impact model for our clients to do their own in-house economic impact analyses

Typical public clients are economic development organizations, cities, counties and states

# Goal of Economic Development

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- Goal of economic development is to have thriving communities with good quality of life for their residents
- Economic development organizations do this by:
  - Maintaining and growing businesses in the community
  - Maintaining and creating jobs and salaries for local workers
  - Attracting investment to expand a community's tax base and revenues

# Incentives to Attract Business

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- Why are incentives used for economic development?
- Since many businesses can locate or expand anywhere, incentives are used by communities throughout the US to attract, retain and expand businesses
- Incentives make a firm feel wanted in a community

# Location Decisions and Incentives

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- Location decisions by companies involve many factors:
  - Availability of sites
  - Access to markets
  - Adequate labor force
  - Adequate infrastructure
  - Good quality of life
  - Reasonable cost of doing business
  - Incentives
- Incentives, in many cases, become an oversized part of a company's location decision
- This is because incentive demands are largely handled by site location consultants who get paid by firms based on the amount of incentives they obtain from a community

# Three Types of Incentives

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- Tax incentives, including:
  - Property tax abatement and rebates
  - Sales tax rebates
- Cash or near cash incentives:
  - Cash
  - Job creation grants
  - Land grants
  - Infrastructure improvements
- Other incentives:
  - Loans
  - Tax increment financing

# Tax Abatement and Rebates – What to Give

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- Policies on the length and percent of tax abatement and rebates could be based on the level of a firm's investment and specific industries
- Greater investments by a firm justify longer periods and larger percentages of abatement or rebates
- Grant larger percentage of abatement or rebates in first years, if possible
- Net revenues, after the amount of taxes abated are deducted for a taxing district, should be positive over a period of time, such as ten years

# Tax Abatement and Rebates – What to Give, Continued

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- Determine if the value of the firm's taxable property will be large or small after tax abatement ends:
  - For example, is all their property depreciable business personal property which will have less value after the tax abatement period ends?
  - Generally, as long as business personal property is being used, it will have some “percent good” or positive value on tax rolls
  - Run this by the appraisal district
  - Also, most businesses will need to replace equipment and this new replacement equipment will be added to tax rolls
- Be somewhat consistent with previous abatements
- Conduct an economic impact analysis to calculate costs and benefits from a firm including the amount of taxes abated and taxes retained after abatement

# Cash and Like Cash Incentives – What to Give

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- How should cash or like incentives be viewed?
- These incentives are an investment that a city is making in a firm or project.
- The city's returns on that investment are net tax revenues from a firm receiving incentives.
- By comparing the investment -- the amount of incentives offered -- to returns on investment -- net tax revenues that the city will receive over ten years, for example --, we can determine:
  - The average annual rate of return on this investment and
  - The payback period for these incentives given by the city

# Cash and Like Cash Incentives – What to Give, Continued

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- Rate of return and payback period, in particular rate or return on investment, are how businesses, as well as most individuals, make investment decisions
- Developing policies on minimum average annual rate of return on investment and payback period can make incentive decisions objective and consistent
- Use an economic impact analysis to make these calculations and to make good decisions on incentives

# What is an Economic Impact Analysis

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- An economic impact is a report that calculates the worth of a project, firm or activity to a community or state
- It's a tool may be used to determine appropriate levels of incentives
- Forty-page or so report

# Types of Economic Impacts

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- Economic impacts calculated in an economic impact report include:
  - **Direct Impacts** – economic activities generated by a new or expanding firm and its workers
  - **Indirect Impacts** – economic activities that occur in other businesses in a community that supply goods and services to the direct firm
  - **Induced Impacts** – economic activities generated by direct and indirect workers spending money in the community at grocery stores, convenience stores, restaurants, apartment complexes and other businesses
- RIMS II regional multipliers produced by the US Bureau of Economic Analysis may be used to calculate indirect and induced:
  - Economic output – amount of money that a firm will pump into the local economy
  - Jobs
  - Salaries

# Examples of Indirect and Induced Multipliers

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- For every dollar of revenue generated by a new company in a community, there may be 50¢ in revenues spun off or generated in other businesses in the community
- For every 1 job created at a new business, there may be a half of a spin-off job created in other local businesses
- For every dollar paid to a worker at a new business, there may be 50¢ paid to workers in other local businesses

# Components of an Economic Impact Analysis

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- Two components of an impact analysis:
  - Economic impacts and
  - Fiscal impacts or net revenues for local governments
- Economic impacts:
  - A firm's investment,
  - Jobs and salaries,
  - Taxable sales,
  - Number of out-of-town visitors and their spending,
  - Etc.

# Components of an Economic Impact Analysis, Continued

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- Fiscal impacts are:
  - Additional revenues for local governments
  - Additional costs for these governments
  - Net benefits for local governments which are additional revenues minus additional costs
- Examples of additional revenues are:
  - Property taxes collected on a firm's facility and any new homes that may be built for new workers moving to the community
  - Sales taxes collected on workers' spending
  - Sales taxes collected from the firm, in some cases

# Components of an Economic Impact Analysis, Continued

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- Examples of additional costs are:
  - Cost for the city to provide municipal services to the households of new workers moving to town
  - School district's cost of educating new students in the households of these new workers that move to the community
- Also, the following is calculated in an economic impact analysis:
  - Amount of taxes abated or rebated
  - Rate of return on investment and payback period for any cash or cash like incentives

# An Example of the Results of an Economic Impact Analysis

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- A farm machinery and equipment manufacturing company
- 50 employees earning \$45,000 a year on average
- Investment
  - \$2 million to construct a building
  - \$1 million in business personal property

# An Example of the Results of an Economic Impact Analysis, Continued

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- An economic impact analysis may show net benefits for a typical city from this firm over ten years are
  - \$200,071
- Incentive objectives could be:
  - Payback period of 10 years
  - 10% average annual rate of return
- Therefore, maximum possible incentives:
  - \$200,071

# Impact DashBoard, Our Online Economic Impact Model

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- We do economic impact reports on a project by project basis
- Impact DashBoard is our online economic impact model that we customize and license to communities, including Rockdale, to do their own in-house analysis
- Some screen shots of what the users of the model might see as they enter data and see results for our sample firm

# Data Input Page

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DESCRIPTION

LOCATION

INDUSTRY

CITY

MUNICIPAL DEVELOPMENT DISTRICT

COUNTY

SCHOOL

JOBS

YEAR	NEW JOBS ADDED
1	40.0
2	5.0
3	5.0
4	0.0
5	0.0
⌵	
TOTAL	50.0



Continue ▶

WORKERS RELOCATING +

SALARIES +

CAPITAL INVESTMENT +

BUILDING PERMITS & FEES - CITY +

TAXABLE INVENTORIES +

TAXABLE PURCHASES +

CITY OF ROCKDALE

JOBS



60.4 Total  
50.0 Direct  
10.4 Spin-off

SALARIES



\$43,799 Avg  
\$45,000 Direct  
\$37,998 Spin-off

CAPITAL INVEST.



\$3,000,000  
Buildings + FF&E

BENEFITS

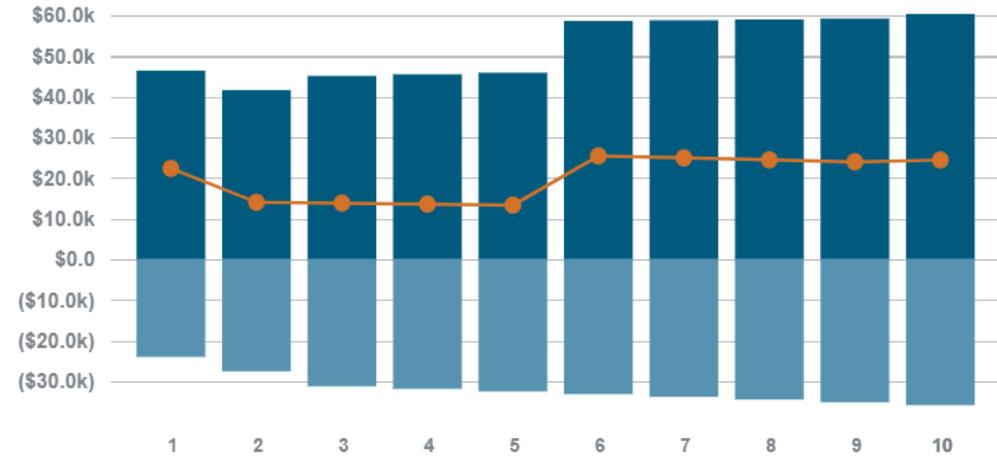
\$520,325

COSTS

(\$320,254)

NET BENEFITS

\$200,071



# Entering Incentives

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PROPERTY TAX ABATEMENT ▾



Identify the types of the project's new property on which taxes may be abated and the percent of taxes abated.

YEAR	✓ LAND	✓ BUILDINGS...	✓ FF&E	✓ INVENTORIES
1	0.0%	50.0%	50.0%	0.0%
2	0.0%	50.0%	50.0%	0.0%
3	0.0%	50.0%	50.0%	0.0%
4	0.0%	50.0%	50.0%	0.0%
5	0.0%	50.0%	50.0%	0.0%
6	0.0%	0.0%	0.0%	0.0%
7	0.0%	0.0%	0.0%	0.0%
8	0.0%	0.0%	0.0%	0.0%
9	0.0%	0.0%	0.0%	0.0%
10	0.0%	0.0%	0.0%	0.0%



PROPERTY TAX ANALYSIS FOR CITY OF ROCKDALE

PROPERTY TAXES

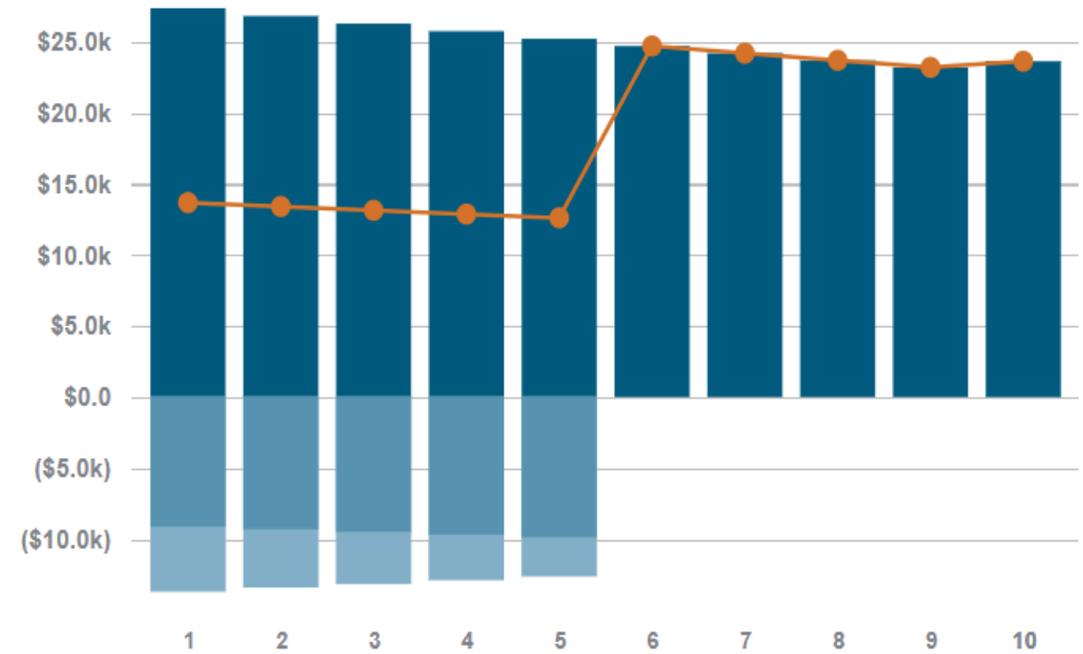
\$250,740

ABATEMENT

(\$65,686)

NET COLLECTIONS

\$185,053



## NON-TAX INCENTIVE

INCENTIVE APPROACH

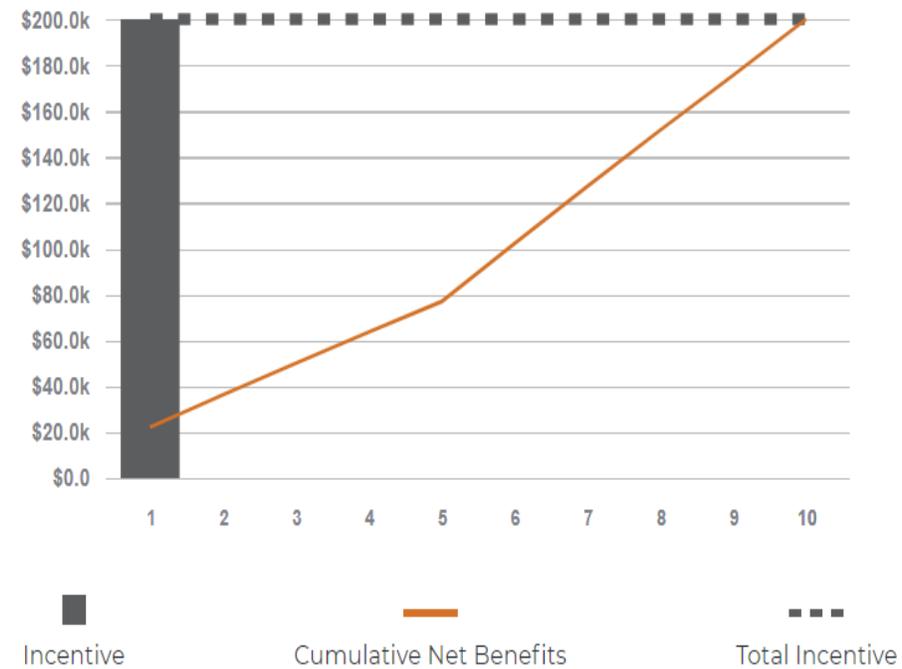
Payback Period (years) ▼

PAYBACK PERIOD (YEARS)

10.0

### NON-TAX INCENTIVES VS. NET BENEFITS FOR CITY OF ROCKDALE

**\$200,071** Non-Tax Incentive  
**\$4,001** Per Job  
**10.0%** Rate of Return  
**10.0 Yrs** Payback Period



## NON-TAX INCENTIVE

INCENTIVE APPROACH

Payback Period (years) ▼

PAYBACK PERIOD (YEARS)

3.0

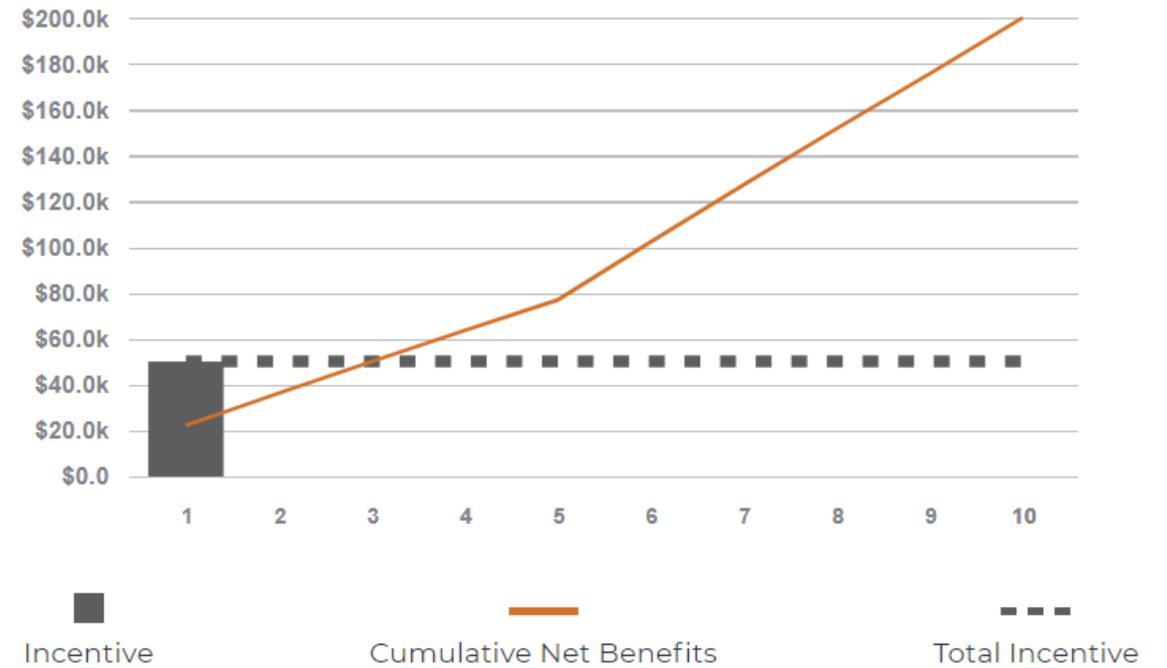
## NON-TAX INCENTIVES VS. NET BENEFITS FOR CITY OF ROCKDALE

**\$50,125**  
Non-Tax Incentive

**\$1,002**  
Per Job

**39.9%**  
Rate of Return

**3.0 Yrs**  
Payback Period



# One-Page Summary

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# IMPACT REPORT DEMO PROJECT

August 13, 2019

## City of Rockdale



### JOBS

**60.4 Total**  
50.0 Direct  
10.4 Spin-off

### SALARIES

**\$43,799 Avg**  
\$45,000 Direct  
\$37,998 Spin-off

### CAPITAL INVEST.

**\$3,000,000**  
Buildings + FF&E

### RESIDENTIAL DEV.

**0.7 Homes**  
4.5 Relocations

### NET BENEFITS \$200,071

Present Value \$151,065

### BENEFITS

Sales Taxes	\$25,716
Real Property Taxes*	\$152,229
FF&E Property Taxes*	\$32,825
Inventory Property Taxes	\$0
New Residential Property Taxes	\$5,550
Building Permits and Fees	\$0
Utility Revenue	\$235,766
Utility Franchise Fees	\$21,424
Miscellaneous Taxes and User Fees	\$46,814

**Benefits Subtotal \$520,325**

### COSTS

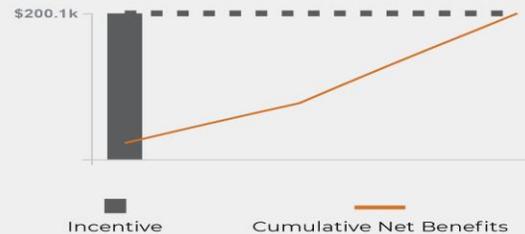
Cost of Government Services	(\$84,489)
Cost of Utility Services	(\$235,766)

**Costs Subtotal (\$320,254)**

\*Above values exclude  
Property Tax Abatement \$65,686

### INCENTIVE ANALYSIS

<b>\$200,071</b> Total Incentive	<b>\$4,001</b> Per Job
<b>10.0%</b> Rate of Return	<b>10.0 Yrs</b> Payback Period



### NET BENEFITS OVER 10 YEARS

CITY	\$200,071
MUNICIPAL DEVELOPMENT DISTRICT	\$12,858
COUNTY	\$216,247
OTHER	\$54,568

# Some Rules of Thumb on Incentives

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- Tax abatement and rebates are incentives that a firm have to earn that carries less downside for local taxing districts and may be preferred types of incentives to offer
- On cash or cash like incentives:
  - Do due diligence on the firm
  - Try to make incentives performance based rather than all upfront, if possible
  - Incentives should provide an an acceptable average annual rate of return on investment and payback period – that the community feels comfortable or can afford
  - The city's net benefits from a firm offered incentives over a period of time should be positive.
  - Average annual rate of return on investment should be greater than a city's cost of capital or a city's desired target
  - Payback period may be ten years or less

# Some Rules of Thumb on Incentives, Continued

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- If the firm is leasing a building, consider the lease term as the minimum payback period for cash or like cash incentives – the city should get its money back before the lease expires
- Go outside the box on community-changing deals if you can afford it
- Incentives should be provided to projects that improve the quality of life for residents which may exclude polluting firms, for example
- Make incentives available equally to existing local businesses and to businesses recruited from outside the community
- It is more efficient and less costly to retain existing local businesses and assist local businesses to expand than to recruit a business from outside the community
- Have target industries that have the potential to cluster

# Questions?

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Questions?