

Fiscal Impact Analysis

Impact DataSource



Today

- Tell you about Impact DataSource
- Discuss economic impact analysis
- Answer any questions



Impact DataSource

- Jerry Walker, economist and principal of Impact DataSource
- Impact DataSource is a sixteen-year-old Austin, Texas economic consulting, research and analysis firm
- Specialize in economic and fiscal impact analysis and models
- Performed analyses of numerous firms, projects and activities in New Mexico and 25 other states
- Do analyses for the NM EDD of projects around the state



Names of Analyses

- Fiscal impact analysis
- Economic impact analysis
- Cost-benefit analysis
- Rate of return on investment (ROI) analysis



What Is An Economic Impact Analysis

- An economic impact analysis is the calculation of the worth of a project, firm or activity to a community or state
- A 30+ page report



What an Analysis Does

- Calculates the economic impact of a firm or project for a period of time, such as 10 years
- Produces “Chamber of Commerce” type numbers, such as total investment, direct and indirect jobs, direct and indirect worker salaries
- The analysis translates these economic impacts into costs and benefits for the state and local taxing districts over 10 years

What an Analysis Does - continued

- Calculates the amount of taxes to be exempt
- Calculates the rate of return on the investment of incentives
- Calculates payback period -- length of time that it will take for net benefits for the state or local taxing districts to accumulate for the city or state to get their money back



Steps in an Analysis

- Prospect firm or site location consultant contacts the community
- The community collects information from the prospect and provides that information to Impact DataSource
- Impact DataSource produces a report and emails that report to the community



Sources of Economic Impacts from a Firm

- During construction of a firm's facility
- During the firm's operation
- From direct and indirect workers
- From out-of-town visitors to a firm
- Spending by out-of-town truckers loading and unloading at a facility



Some Data Needed for an Analysis

- The amount of the firm's investment in:
 - Land and buildings
 - Furniture, fixtures and equipment
 - Inventories
- Number of new jobs
- Amount of worker salaries
- Number of workers moving to the community



Some Key Variables or Assumptions

- Whether or not the facility is located in the city limits
- Number of new workers that will move to the community
- Percent of workers moving to the community who will build a new home or require that a new residential property be built for them



Key Variables - continued

- Percent of taxable shopping by a typical worker in the community
- The number of school age children in a typical new resident worker household
- Percent of out-of-town visitors that stay at a motel in the community



Direct Impacts

- Direct economic impacts are impacts from the firm and its workers
- The firm's investment in property
- Workers at the firm spending money in the community
- Workers buying or building new residential property



Indirect or Spin-off Benefits

- New and existing businesses that will supply goods and services to the facility
- New and existing businesses that will supply goods and services to new workers, their families and to workers in new indirect jobs and their families



Spin-off Benefits - continued

- Indirect jobs and salaries determined by RIMS II regional economic multipliers
- For every direct job created, one spin-off job may be created, for example
- For every \$1 in salaries paid by a new firm, a \$1 in salaries may be paid to worker in a spin-off job created in the community



•The Economic Impacts Calculated in an Economic Analysis Report

- New direct and indirect jobs
- New direct and indirect salaries to be paid
- Number of new residents
- Number of new school children
- Additional gross receipts
- Hotel/motel spending by visitors
- New residential properties to be built
- Additional residential and commercial property added to tax rolls.



Public Benefits Calculated

- State corporate and personal income taxes
- Gross receipts taxes
- Property taxes
- Utilities
- Utility franchise fees
- Lodgers' taxes
- Miscellaneous taxes and user fees



Public Costs Calculated

- Municipal services provided to new residents in a community
- Educating new students in the school district
- Providing monthly utilities to new residents and the firm.



Net Benefits

- Net benefits (additional benefits minus additional costs) are calculated
- Rates of return on investment on incentives
- Payback period for incentives



Uses of the Economic Impact Analysis

- Allow communities to prepare proposals for a firm
- Allow ED officials to show the economic impact of a firm to cities and government officials that may approve incentives
- Allow incentive packages to be fashioned using objective data and analysis
- Allow incentives to be offered based on expected benefits



Possible Methods of Determining Incentives to Offer a Firm

- Give the firm or project what it asks for
- Guess on incentives
- \$4,000 a job
- \$2 million is a good round number
- Best to use an objective approach
- Conduct an economic impact analysis



How Incentives Should be Viewed

- Incentives may be considered as an investment that a community or state is making in a firm or project
- The returns on that investment are the additional net benefits that the city or state may receive from the firm over ten years



Evaluating Incentives

- Average annual rates of return on the investment of incentives can be calculated, as with any other investment.
- Payback period can be calculated – How long will it take the city to get its money back



How Incentives May be Evaluated

- Net benefits from a firm or project over 10 years should be positive
- Rate of return on investment of incentives should be greater than 6% annually
- Payback of investment of incentives should be in less than 10 years.



Questions?

