



## **Analyzing the Benefits of Economic Development Projects (2010)(CEDCP) (new)**

**Background.** State, provincial and local jurisdictions utilizing incentives defined by an economic development policy do so to promote and grow the local economy through job creation, wage and compensation growth, and tax base expansion. To reach the goals identified in the policy, local jurisdictions need to measure the benefits of projects receiving economic development incentives against the cost of the public expenditure, or willingness to forgo future revenue. While there is no single best method for conducting analysis and it is impossible to predict all impacts a project will have on a community, providing a thorough and rigorous analysis of each project is critical for the purposes of government accountability and long-term revenue impacts.

**Recommendation.** The Government Finance Officers Association (GFOA) urges state, provincial and local government officials to examine the benefits and costs associated with economic development projects, programs, and policies. Jurisdictions should analyze each project and its ability to achieve stated goals as identified in the economic development policy and generate sufficient benefits to justify the cost and risk.

### ***Benefit Elements:***

**Growth and Diversification of Revenue Base.** Jurisdictions have a vested interest in realizing expected direct benefits of economic development through revenues from development activity. An analysis should include estimates of income, sales, property, and transactional taxes based, in part, on the jurisdiction identifying where new employees will live and spend money. For example, estimates of income tax revenue assumptions should include the percent of employment that will be filled by residents of the jurisdiction vs. commuters and the total portion of personal income that will become part of the jurisdiction's economy. Additionally, sales taxes can be estimated on the projected portion of disposable income that will be spent by a new employee in the jurisdiction.

As a result of increased economic activity within a state, provincial or local jurisdiction, there will be a number of indirect economic effects through employment and income multipliers. Multiplier impacts can be direct, indirect, or induced. Increase in final demand (sales) in a jurisdiction requires inputs into the production process plus the need for further inputs (jobs) and other inputs of production (direct and indirect).

Assumptions about impacts to business (commercial, industrial, etc.) and residential property tax should take into consideration additional demand for new or remodeled business properties as a result of economic activity and the ability for existing house stock to accommodate new resident workers. Other transactional taxes or fees the jurisdiction will receive from development may be estimated on a per-household or new employee basis. An analysis should include assumptions about other development-related fees, whether one-time, ongoing business taxes or payment in lieu of taxes (PILOT) where they apply.

It is important that the revenue analysis measure the impacts from business displacement and the "new" revenue generated within a jurisdiction rather than the result of business activity that is moved from one existing business to another.

**Multi-jurisdictional Benefits.** The full benefit of the economic development project may not be captured solely by the local jurisdiction. An analysis of project benefits should take into account other jurisdictions and the project impact.

**Assessing Intangible Benefits.** Other project benefits may be incurred by the local jurisdiction that, while not exactly quantifiable, can be estimated for the purpose of providing the jurisdiction's decision makers with the most thorough information. Examples of these intangible benefits include donated facilities or infrastructure, quality of life amenities, community prestige or pride, and corporate citizenship.

***Benefit Analysis:***

**Net Present Value Consideration.** Determining the benefit of a project requires assumptions about the timing of benefit streams that will take place in the future and are based on conditions like employment, occupancy, etc. These benefits will most likely be received in a period other than the one in which the costs are incurred, requiring the calculation of the net present value of the project. For example, a public investment may be required at the onset of a project with annual commitments to operational costs. To make appropriate comparisons between the costs and benefit streams, a net present value analysis should be performed. The analysis should contain a clear description of the adjusted impact for the jurisdiction, the constructed methodology, and the assumptions employed. It is important to acknowledge the strengths, weaknesses, and limitations of results so that decision makers are fully informed.

**References.**

- Mike Mucha, *Fiscal Impact Analysis: How to Use It and What to Look Out for*, Government Finance Review, October 2007.
- GFOA Best Practice, *Developing an Economic Development Incentive Policy*, 2008.
- Paul Harris and Ronald Berkebile, *A Financial Analyst's Toolkit: Analyzing the Fiscal Impacts of Economic Development Projects*, Government Finance Review, June 2008.
- ICMA Report, *Preparing a Local Fiscal Benefit-Cost Analysis*, Volume 37, Number 3, 2005.

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