

“Giving Away the Farm?”

Using A Cost/Benefit Approach to Evaluate Local Economic Development Incentives

Tennessee Certified Economic Developer Capstone

Jonathon Connell

Spring 2019

“Giving Away the Farm?”

Using A Cost/Benefit Approach to Evaluate Economic Development Incentives

We often hear discussions about “giving away the farm” to describe the provision of local economic incentives to companies who are engaged in the process of selecting a site for relocation or expansion. While this sentiment may not be totally accurate, we often hear of situations where communities have made very aggressive incentive offers in hopes of landing the next company, often to the community’s detriment. This paper intends to explore a method of evaluating local incentives to keep local decision makers informed of the costs and benefits being undertaken when making the next incentive offer.

Economic incentives play an important role for state and local governments in developing their position for capital investment and job creation. Economic Incentives are components of a government’s toolkit designed to address various business needs in a competitive environment with the intent of promoting job creation, job retention, and capital investment. These incentives influence business location decisions by improving the relative profitability of businesses investing at a site. Tax incentive programs affect competition, which gives communities an opportunity to be more effective in their effort toward improving their economic conditions.¹

Economic development incentives come in many different forms depending on the state, town, and municipality administering them. Incentives can be provided via cash grants, property tax abatements, sales tax exemptions, utility rate reductions, infrastructure grants, fee waivers, port tax credits, state tax credits, building reuse/redevelopment grants, and fee waivers. What distinguishes incentives from broader economic development efforts is that governments selectively provide these

¹ Economic Development Incentives 101, State Chamber of Oklahoma (Thomas P. Miller & Associates)

incentives to individual businesses, arguing that their investment or expansion would not occur but for the incentive. ²

Why Incentivize Business?

Since the 1980's, incentives have become an increasingly more prevalent tool used in economic development. About 95 percent of localities and states in the U.S. offer at least one incentive for economic development.³ Estimates suggest that these policies contribute to significant public expenditures, ranging between \$45 and \$90 billion per year depending on the definition and estimation method.⁴

Proponents of Incentives stress that they expand local employment opportunities and provide a competitive edge toward business attraction in locations that otherwise wouldn't be competitive. Traditionally, businesses seek to maximize full profit potential in site selection. To realize full profit potential, businesses evaluate alternative sites based on product demand and the cost of production. The argument from states and localities is that incentive programs reduce the cost structure of operation and meeting product demand, thereby inducing attractive alternative locations.⁵

Local economies benefit most from incentives due to results in employment expansion, personal income expansion, community income expansion, and expansion of community output (business revenues or sales). Once a new business facility has landed and become operational, money will be spent directly on certain items, including (1) payroll; (2) service contracts with local vendors; and (3) local purchases of supplies and equipment. After the new business has made such expenditures, it sets in motion a series of spending flows that affect many areas of a local economy. For example, purchasing of goods and services from local suppliers supports hiring of workers at those businesses and enables those

² The True Value of Economic Development Incentives, Area Development 2014 (Miller, Moss)

³ Elizabeth Kneebone and Alan Berube, *Confronting Suburban Poverty in America* (Washington: Brookings Institution, 2013).

⁴ "Examining the Local Value of Economic Development Incentives" Parilla & Liu (Brookings Institute, 2018)

⁵ Economic Development Incentives 101, State Chamber of Oklahoma (Thomas P. Miller & Associates)

businesses to make additional purchases from suppliers. In this cycle, employees of local businesses begin to earn salaries and wages that will be spent on local goods and services from other businesses.⁶

It is not easy to determine which incentives are successful in shaping corporate behavior, because companies try to keep their location decisions protected from competitors. Firms hire site selectors when they are contemplating a new expansion or relocation. Selectors compile the firm's workforce, land, energy, and real estate requirements and then provide those to local and state economic development offices. Governments may have no direct interaction with the company they are courting until the very end of the deal. Companies and site selectors have disproportionate advantage in these interactions. It is nearly impossible for cities and states to determine whether firms need the incentive, but they are competing in a non-transparent market with other jurisdictions for the jobs and tax revenue corporate relocations provide.

Evaluating Incentives

The challenge for Economic Development Organizations and local governments providing incentive programs is understanding how to make the most informed decisions about which program best applies to a specific business; however, the decision of where businesses decide to locate relies solely on how they can maximize their income and/or profitability. These themes are often in conflict, as the most beneficial incentive programs to a government may not always be the most beneficial to business locations decisions. As states have provided their local governments with the ability to grant economic development incentives, local tax revenue is often foregone to attract business capital and employment. Success in the use of development incentives could be defined as directing economic development to areas where it would not otherwise have occurred. If local incentives achieve this goal, the foregone

⁶ The True Value of Economic Development Incentives, Area Development 2014 (Miller, Moss)

revenue may well be justified. If not, communities have simply given away tax revenue to the benefit of the business recipients' bottom line and at the expense of public services.⁷

Figuring out if an incentives package is a good deal for a community is not always easy. Typically, local governments undertake an analysis to determine whether an incentive deal is likely to generate net benefits for their community. A Return on Incentives (ROI) can be calculated using several methodologies or combinations of methodologies and is used by economic developers and local leaders to maximize the efficiency of their incentive offers as well as provide transparency to the public when making the case as for their usage. There are typically 3 steps used to undertake a Cost Benefit Analysis for ROI – Project Benefits, Fiscal Impact and Economic Impact. Each type varies in complexity and accuracy, but when used appropriately can give a greater picture of the return for a proposed amount of public investment. These approaches are summarized below.

Project Benefits- In addition to explaining what the project is, the typical project benefits include number of jobs, quality of jobs and expected wages, total investment, and location (where the project will be and where the benefits will occur). Other important factors include the project's timing (when it will begin, when the investment and hiring will occur, and the expected lifespan) as well as the level of risk/likelihood of success.

Fiscal Impact Analysis- The tax and budgetary implications of incentive decisions for state and local governments should be analyzed to determine how taxes anticipated to be generated will compare to the expected cost of the incentive and any additional costs of service required by the proposed project. The output of an FIA is a dollar figure, representing the net difference between costs and revenues associated with the project targeted by an incentive over a given timeframe (which typically leads looks forward 30 years.) A positive output indicates that an incentive and

⁷ "Examining the value of local incentives" Parilla & Liu (Brookings Institute)

the private investment it spurs will create net revenue, allowing service quality to be enhanced, reserves to be generated, or taxes to be reduced; a negative output indicates that as a result of a project, taxes will need to be raised, reserves used, or services cut.

Economic Impact Analysis - Many communities run economic impact models to trace the flow of money throughout the economy after the initial investment and estimate the contribution of that investment to the wider economy. This input-output method allows the user to see economic impacts in the form of multipliers as additional cash flow is circulated throughout the local economy. Unfortunately, model output is often presented as fact and may even be the only data shared with the public and elected officials on the “performance” of the incentive agreement. Economic impact reports should be used carefully as a decision-making tool, with clear delineation of direct versus indirect and induced effects. It should be made clear that these are modeled impacts, not actual impacts. It is also important to note that most EIA models do not account for market, price and competition effects. As such, literature suggests that EIAs are thus best suited for analysis of small and medium-scale projects that closely resemble facilities already present in the community.⁸

One objective of a cost benefit analysis is to determine whether an incentive deal can generate net benefits for a community. Whether it will or not is another matter and depends on the company’s ability to achieve its goals, the performance agreement, and many market and economic factors beyond the control of either party. A second objective is to be able to explain why a deal is good (or not good) for the community. Establishing a clear, consistent process with solid analysis to guide decision-making makes

⁸ Seeding Growth: Maximizing Return on Incentives, IEDC EDRP 2014

it easier to communicate with stakeholders and build support for promising projects — and to steer away from bad ones.⁹

Case Study

For the purpose of this paper, an actual project was selected as a case study and tested under the various frameworks mentioned above. Project and community names have been changed to preserve anonymity of the actual project. All incentive offers are exact to the project. Using this analysis, the evaluator seeks to interpret if the investment made by the local government was prudent given the economic benefits generated.

Project Garment

Project Garment is a textile warehouse/distribution project that is proposed to create 400 jobs with wages between \$13-15/ hr. and capital investment of \$60 million. They are seeking to build/lease a 1 million square foot facility with appropriate utilities. The site in question must be within 15 miles from an interstate and 50 miles from a rail loading/ offloading facility. The facility plans to open in second quarter of 2021.

After the first site visit, Connell County was immediately shortlisted, and a return visit was scheduled. This was very exciting for the Mayor as there had been very little project activity in the county since he took office. The County is a rural, Tier 4 “distressed” community, having some of the lowest economic indicators in the state. The company has short listed the Connell County site and another site in Georgia. The Georgia site has slightly higher wages in its labor shed, but the company will save on transportation costs due to its proximity Atlanta and the Port of Savannah. To offset those costs, the company proposes to reduce starting wages to \$12.00/ hr.

The consultant has asked for incentive offers from both finalist’s communities. As the Community has no set Incentive schedule, the Mayor presented a letter that revealed the following incentives approved by his commission:

- *\$1 million toward the acquisition and/or development of property.*
- *A 20-year PILOT agreement for 0% tax liability*

**This proposal totals \$11.7 million dollars in local incentives. The State of Tennessee and TVA committed an undisclosed amount for site development and utility infrastructure through grants, utility rebates and Fastrack Funds, though it was revealed that the cost of site prep was at estimated to be \$7 million. It can be inferred for the purposes of this study that the estimated amount was provided as an incentive. **

⁹ 3 Steps to Effective Incentive Cost-Benefit Analysis, Harpel 2018

Using a Cost-Benefit Analysis, which takes in to consideration fiscal impacts and economic impacts, one can begin to evaluate the efficiency of the incentives that will be offered. One objective of these different levels of review is to determine whether the incentives offered will generate net benefits for a community. A second objective is to be able to explain why a deal is good (or not good) for the community.

The Southeast Tennessee Development District (SETDD) provides county-level Economic/Fiscal Analysis tools for communities throughout its region in an effort assist local leadership in developing appropriate incentive offers. One of these tools is a PILOT analysis, which analyzes the costs associated with implementing a PILOT program for a prospective industry. The following PILOT scenario was created based on the following assumptions: a real property (land and building) investment of \$50,000,000 and a personal property (machinery & equipment) of \$11,000,000. The model also makes takes into consideration the number of jobs created (400) and the value of the payroll (\$9,600,000) for the wages proposed.

Figure 1: PILOT Dashboard

PROJECT GARMENT CONNELL COUNTY, TENNESSEE Payment-In-Lieu-of-Tax (PILOT) Benefit Analysis				
	Year 1	Year 2	Year 3	Total
New Jobs	400	0	0	400
Average Wage	\$12.00	\$0.00	\$0.00	\$0.00
Annual Payroll (2000 Hrs.)	\$9,600,000	\$0	\$0	\$0
Total Payroll & Benefits	\$9,600,000	\$0	\$0	\$0
New Investment				
Land & Building	\$50,000,000	\$0	\$0	\$50,000,000
Machinery & Equipment	\$8,000,000	\$2,000,000	\$0	\$10,000,000
Total Capital Investment	\$58,000,000	\$2,000,000	\$0	\$60,000,000
EDC Investment Formula				
Total Investment and Payroll X 2.5% (.025)	\$67,600,000	\$2,000,000	\$0	\$69,600,000
Total Possible Tax Abatement	\$1,690,000	\$50,000	\$0	\$1,740,000

Based on the information applied to the model, the PILOT analysis tool, the recommended tax abatement for this project is \$1,740,000. However, the community asked SETDD to run the scenario in which a 20-

year PILOT to the company. The figures on the next page shows the results of this PILOT offering for both real and personal property tax.

Figure 2: Real Property PILOT Abatement Proposal

Payment-In-Lieu-of-Tax (PILOT) Graduated Tax Abatement Personal Property Proposal For PROJECT GARMENT												
Assumptions:						Location: CONNELL COUNTY, TENNESSEE						
Personal Property Estimate: \$10,000,000						Current Tax Rates:						
Property Assessment Rate: 30.00%						County Rate per \$100 <u> </u> \$2.54						
Total Estimated Tax Deferred: \$471,678						City Rate per \$100 <u> </u> \$0.00						
	Personal Property Value	Depreciation Rate	Depreciated Value	Assessed Value	Existing County Tax Liability	Existing City Tax Liability	PILOT Rate	Estimated County Tax Abatement		Estimated City Tax Abatement		Total City/County Tax Deferred
								Estimated County Tax Liability	Estimated County Tax Deferred	Estimated City Tax Liability	Estimated City Tax Deferred	
Year 1	\$10,000,000	0.88	\$8,800,000	\$2,640,000	\$67,056	\$0	0.0	\$0	\$67,056	\$0	\$0	\$67,056
Year 2	\$10,000,000	0.75	\$7,500,000	\$2,250,000	\$57,150	\$0	0.0	\$0	\$57,150	\$0	\$0	\$57,150
Year 3	\$10,000,000	0.63	\$6,300,000	\$1,890,000	\$48,006	\$0	0.0	\$0	\$48,006	\$0	\$0	\$48,006
Year 4	\$10,000,000	0.5	\$5,000,000	\$1,500,000	\$38,100	\$0	0.0	\$0	\$38,100	\$0	\$0	\$38,100
Year 5	\$10,000,000	0.38	\$3,800,000	\$1,140,000	\$28,956	\$0	0.0	\$0	\$28,956	\$0	\$0	\$28,956
Year 6	\$10,000,000	0.25	\$2,500,000	\$750,000	\$19,050	\$0	0.0	\$0	\$19,050	\$0	\$0	\$19,050
Year 7	\$10,000,000	0.2	\$2,000,000	\$600,000	\$15,240	\$0	0.0	\$0	\$15,240	\$0	\$0	\$15,240
Year 8	\$10,000,000		\$2,000,000	\$600,000	\$15,240	\$0	0.0	\$0	\$15,240	\$0	\$0	\$15,240
Year 9	\$10,000,000		\$2,000,000	\$600,000	\$15,240	\$0	0.0	\$0	\$15,240	\$0	\$0	\$15,240
Year 10	\$10,000,000		\$2,000,000	\$600,000	\$15,240	\$0	0.0	\$0	\$15,240	\$0	\$0	\$15,240
Year 11	\$10,000,000		\$2,000,000	\$600,000	\$15,240	\$0	0.0	\$0	\$15,240	\$0	\$0	\$15,240
Year 12	\$10,000,000		\$2,000,000	\$600,000	\$15,240	\$0	0.0	\$0	\$15,240	\$0	\$0	\$15,240
Year 13	\$10,000,000		\$2,000,000	\$600,000	\$15,240	\$0	0.0	\$0	\$15,240	\$0	\$0	\$15,240
Year 14	\$10,000,000		\$2,000,000	\$600,000	\$15,240	\$0	0.0	\$0	\$15,240	\$0	\$0	\$15,240
Year 15	\$10,000,000		\$2,000,000	\$600,000	\$15,240	\$0	0.0	\$0	\$15,240	\$0	\$0	\$15,240
Year 16	\$10,000,000		\$2,000,000	\$600,000	\$15,240	\$0	0.0	\$0	\$15,240	\$0	\$0	\$15,240
Year 17	\$10,000,000		\$2,000,000	\$600,000	\$15,240	\$0	0.0	\$0	\$15,240	\$0	\$0	\$15,240
Year 18	\$10,000,000		\$2,000,000	\$600,000	\$15,240	\$0	0.0	\$0	\$15,240	\$0	\$0	\$15,240
Year 19	\$10,000,000		\$2,000,000	\$600,000	\$15,240	\$0	0.0	\$0	\$15,240	\$0	\$0	\$15,240
Year 20	\$10,000,000		\$2,000,000	\$600,000	\$15,240	\$0	0.0	\$0	\$15,240	\$0	\$0	\$15,240
Totals					\$471,678	\$0		\$0	\$471,678	\$0	\$0	\$471,678

The PILOT calculations above are estimates based on jobs and capital investments assumptions provided by the company for the project. Actual tax liabilities and tax abatements will be calculated on actual assessed value of real and personal property.

Figure 3: Personal Property PILOT Abatement Proposal

**Payment-In-Lieu-of-Tax (PILOT)
Graduated Real Property
Tax Abatement Proposal
For
PROJECT GARMENT**

Assumptions:
 Real Property Estimates: \$50,000,000
 Assessment Rate: 40.00%
 Total Estimated Tax Deferred: \$10,153,200

Location: CONNELL COUNTY, TENNESSEE
 Current Tax Rates: County Rate per \$100 \$2.54
 City Rate per \$100 \$0.00

	Property Value	Assessed Value	County Property Tax Liability	City Property Tax Liability	PILOT Rate	County Tax Abatement		City Tax Abatement		Total City/County Tax Deferred
						Estimated County Tax Liability	Estimated County Tax Deferred	Estimated City Tax Liability	Estimated City Tax Deferred	
Year 1	\$50,000,000	\$20,000,000	\$507,660	\$0	0.0	\$0	\$507,660	\$0	\$0	\$507,660
Year 2	\$50,000,000	\$20,000,000	\$507,660	\$0	0.0	\$0	\$507,660	\$0	\$0	\$507,660
Year 3	\$50,000,000	\$20,000,000	\$507,660	\$0	0.0	\$0	\$507,660	\$0	\$0	\$507,660
Year 4	\$50,000,000	\$20,000,000	\$507,660	\$0	0.0	\$0	\$507,660	\$0	\$0	\$507,660
Year 5	\$50,000,000	\$20,000,000	\$507,660	\$0	0.0	\$0	\$507,660	\$0	\$0	\$507,660
Year 6	\$50,000,000	\$20,000,000	\$507,660	\$0	0.0	\$0	\$507,660	\$0	\$0	\$507,660
Year 7	\$50,000,000	\$20,000,000	\$507,660	\$0	0.0	\$0	\$507,660	\$0	\$0	\$507,660
Year 8	\$50,000,000	\$20,000,000	\$507,660	\$0	0.0	\$0	\$507,660	\$0	\$0	\$507,660
Year 9	\$50,000,000	\$20,000,000	\$507,660	\$0	0.0	\$0	\$507,660	\$0	\$0	\$507,660
Year 10	\$50,000,000	\$20,000,000	\$507,660	\$0	0.0	\$0	\$507,660	\$0	\$0	\$507,660
Year 11	\$50,000,000	\$20,000,000	\$507,660	\$0	0.0	\$0	\$507,660	\$0	\$0	\$507,660
Year 12	\$50,000,000	\$20,000,000	\$507,660	\$0	0.0	\$0	\$507,660	\$0	\$0	\$507,660
Year 13	\$50,000,000	\$20,000,000	\$507,660	\$0	0.0	\$0	\$507,660	\$0	\$0	\$507,660
Year 14	\$50,000,000	\$20,000,000	\$507,660	\$0	0.0	\$0	\$507,660	\$0	\$0	\$507,660
Year 15	\$50,000,000	\$20,000,000	\$507,660	\$0	0.0	\$0	\$507,660	\$0	\$0	\$507,660
Year 16	\$50,000,000	\$20,000,000	\$507,660	\$0	0.0	\$0	\$507,660	\$0	\$0	\$507,660
Year 17	\$50,000,000	\$20,000,000	\$507,660	\$0	0.0	\$0	\$507,660	\$0	\$0	\$507,660
Year 18	\$50,000,000	\$20,000,000	\$507,660	\$0	0.0	\$0	\$507,660	\$0	\$0	\$507,660
Year 19	\$50,000,000	\$20,000,000	\$507,660	\$0	0.0	\$0	\$507,660	\$0	\$0	\$507,660
Year 20	\$50,000,000	\$20,000,000	\$507,660	\$0	0.0	\$0	\$507,660	\$0	\$0	\$507,660
Totals			\$10,153,200	\$0		\$0	\$10,153,200	\$0	\$0	\$10,153,200

The PILOT calculations above are estimates based on jobs and capital investments assumptions provided by the company for the project. Actual tax liabilities and tax abatements will be calculated on actual assessed value of real and personal property.

The tax abatement for the twenty-year PILOT on the real property will result in the deferment of \$10,153,200 and on personal property \$471,678 for a total savings of \$10,624,878. While this represents significant cost savings to the company, it also represents monies that the county will not be collecting for the duration of the PILOT. It is important to note that under the current conditions of the PILOT, tax collection will resume in the 21st year of the company’s operation at 100%. This will bring \$507,660 in real property tax collection and \$15,240 in personal property annually.

To show benefits of a proposed project, SETDD typically runs an Economic Impact Analysis. The summary shown on the following page show the results of the same inputs used for the PILOT analysis: a real property (land and building) investment of \$50,000,000, personal property (machinery & equipment) of \$10,000,000 and the creation of 400 jobs at \$12/ hr. This tool takes into consideration job multipliers,

census data and tax rates to approximate impacts that are estimated to occur as a result of the proposed project.

Figure 4: Summary of Economic/Fiscal Impacts

<u>Summary Economic/Fiscal Impacts</u>	
Connell County Project Garment	
Economic Impacts	
Direct Employment	400
Indirect Employment	188
Total Employment	588
Direct Payroll	\$9,984,000
Indirect Payroll	\$4,392,432
Total Payroll	\$14,376,432
Retail Spending	\$3,898,724
Fiscal Impacts	
Sales Tax Collected	
State	\$272,911
County	\$99,028
Total	\$371,938
Residential Property Tax Collected	
County+City	\$188,334
Commerical & Industrial Property Tax Collected	
County	\$444,000
City	\$0

(All estimates are on an annual basis)

1. multipliers based on an county level apportionment algorithm applied to subregional REMI multiplier
2. average wage based on county data from BEA- QCEW2015
3. estimate of County resident workers based on U.S. Census commuting pattern data
4. retail spending:income ratio based on county level U.S. Economic Census retail spending data & BEA income data, 2015
5. households estimate based on county ownership % from U.S. Census applied to county resident workers
 - median house value from U.S. Census county data
 - collections based on weighted average millage rate for county and all incorporated areas within
6. annual collections will decline as property depreciates; assumes no tax abatement
7. total of 9.54% will consist of state +county or state+ city tax

From this analysis, it can be seen that in terms of benefits, Connell County is estimated to obtain a net gain of indirect employment (job creation and business growth in the local economy as a result of demand created by the project) of 188 employees with an annual increase in local payroll of roughly \$4.3 million dollars. As a result of the increased payroll, retail spending will increase, thereby allowing for an additional \$371,938 in sales tax collection (state and local.) Through resettling opportunities created, the County could gain an additional \$188,334 in residential property tax. There is an estimated additional industrial commercial & industrial property tax of \$444,000, which will not occur because of the PILOT program offered.

Conclusion

While a project may offer several economic benefits, Local Governments must look at the return on investment in terms of tax dollars. In performing a cost-benefit analysis for this project, we identify costs being the cost of the incentives, including the PILOT and any other financial incentive granted to the project. From the benefits side, we look to the sales and property tax generated from the hiring of new workers and new dollars circulating throughout the economy. When compared, the costs and benefits are measured together to determine if there is a net benefit. If that number is positive, then a net benefit of the investment was realized. If negative, then there has been essentially no return on investment. As the costs are to be incurred over a period of time, benefits must also be compared in the same manner. The figure on the following page shows the cost benefit in terms of tax dollars for project being studied.

Figure 4: Net Benefit Projections

Year	Cost	Benefit	Net Benefit
1	\$ 1,574,716.00	\$ 287,362.00	\$ (1,287,354.00)
2	\$564,810	\$ 287,362.00	\$ (277,448.00)
3	\$555,666	\$ 287,362.00	\$ (268,304.00)
4	\$545,760	\$ 287,362.00	\$ (258,398.00)
5	\$536,616	\$ 287,362.00	\$ (249,254.00)
6	\$526,710	\$ 287,362.00	\$ (239,348.00)
7	\$522,900	\$ 287,362.00	\$ (235,538.00)
8	\$522,900	\$ 287,362.00	\$ (235,538.00)
9	\$522,900	\$ 287,362.00	\$ (235,538.00)
10	\$522,900	\$ 287,362.00	\$ (235,538.00)
11	\$522,900	\$ 287,362.00	\$ (235,538.00)
12	\$522,900	\$ 287,362.00	\$ (235,538.00)
13	\$522,900	\$ 287,362.00	\$ (235,538.00)
14	\$522,900	\$ 287,362.00	\$ (235,538.00)
15	\$522,900	\$ 287,362.00	\$ (235,538.00)
16	\$522,900	\$ 287,362.00	\$ (235,538.00)
17	\$522,900	\$ 287,362.00	\$ (235,538.00)
18	\$522,900	\$ 287,362.00	\$ (235,538.00)
19	\$522,900	\$ 287,362.00	\$ (235,538.00)
20	\$522,900	\$ 287,362.00	\$ (235,538.00)
21	\$522,900	\$ 810,262.00	\$ 287,362.00

The results of this analysis show that in terms of tax dollars, the cost of the incentives provided to the company outweigh the tax benefits generated. The highest “loss” is year one because of the \$1 million grant for land acquisition provided to the company. There is some fluctuation in years 2-6 as the assessed value of personal property depreciates, however the tax benefits remain flat for the duration of the project. It is not until year 21 (highlighted green) that any net benefits for the community are realized, which also happens to be the year that the PILOT agreement expires. In light of this analysis, it can be offered that the incentives proposed are not suitable for this project and should have been evaluated further before being proposed.

The intent of this paper was to explain the importance of evaluating incentive offering before making a proposal to a perspective company. For better or worse, incentives play a necessary role in recruitment (and expansion) of new industry and allows local EDO’s and governments a way to increase

private investment and tax generation to improve their citizens' quality of life. This case study was offered to explore a few of the techniques commonly used to evaluate local investments. It is important, however, that local decision makers evaluate their incentive offerings to maximize effective return on investment and avoid "giving away the farm."

Works Cited

Economic Development Incentives 101, State Chamber of Oklahoma (Thomas P. Miller & Associates)

The True Value of Economic Development Incentives, Area Development 2014 (Miller, Moss)

Elizabeth Kneebone and Alan Berube, *Confronting Suburban Poverty in America* (Washington: Brookings Institution, 2013).

“Examining the Local Value of Economic Development Incentives” Parilla & Liu (Brookings Institute, 2018)

Economic Development Incentives 101, State Chamber of Oklahoma (Thomas P. Miller & Associates)

Seeding Growth: Maximizing Return on Incentives, IEDC EDRP 2014

3 Steps to Effective Incentive Cost-Benefit Analysis, Harpel 2018

Project File, PILOT Analysis and Economic Analysis Tools – Southeast Tennessee Development District

