



Business Recruitment and Tax Exemption

Jeremy Hill

- **Economic valuation**

- Business recruitment
- Business tax exemptions

- **Ex-Post versus Ex-Ante**

- Business recruitment
 - Market influences/conditions
 - Project parameters vary widely
- Business tax exemptions
 - Need access to new business filings (employer and nonemployer)

- **Fiscal model simulation, quantitative analyses, and regional economic perspective**

- Only a framework for evaluating the public benefits and costs

Business Recruitment

- **Fiscal Model**
 - Substitution and multiplier
 - Local/state tax structure
 - Benefits and costs
- **2014 FY – Business Recruitment**
 - 11 large projects, 88 total
 - 30-1,020 jobs, \$3.6 – 86.0 million in capital investments
- **“Optimal projects”**
 - Base industry – exports goods or services
 - New economic activity
 - Cluster
- **Scenarios**
 - Aircraft 1 – 300 jobs, \$35.0 million in capital investments
 - Aircraft 2 – 100 jobs, \$80.0 million in capital investments
 - Insurance 3 – 175 jobs, \$16.0 million in capital investment

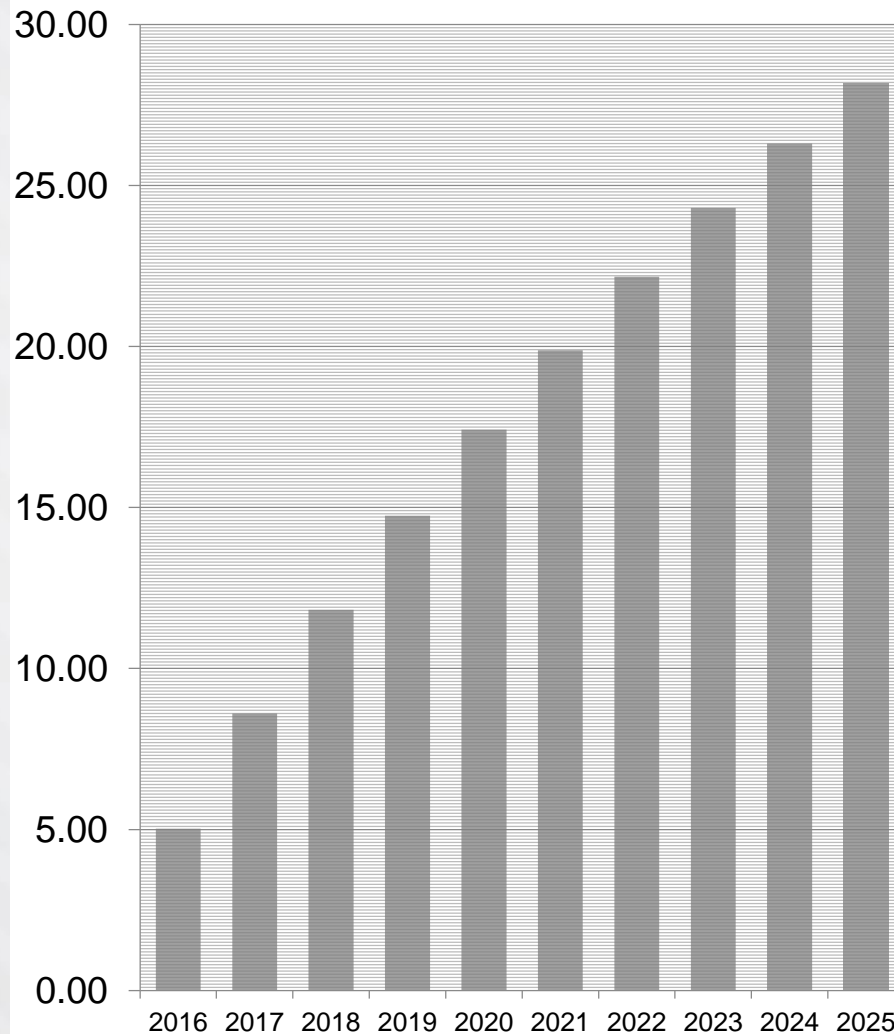
PROJECT SUMMARY (no multipliers, no substitution)			
Company Name	Aircraft Sample 1	Aircraft Sample 2	Insurance Sample 3
Number of new jobs for 10-year period	300	100	175
Amount of payroll for 10-year period	\$251,819,012	\$83,939,671	\$134,413,985
Amount of capital investment for 10-year period	\$35,000,000	\$80,000,000	\$16,000,000
Buildings	\$10,000,000	\$30,000,000	\$11,000,000
Machinery and Equipment	\$25,000,000	\$50,000,000	\$5,000,000
INCENTIVE SUMMARY			
City Incentives - Wichita	\$836,376	\$2,509,128	\$920,014
Tax abatement	\$807,267	\$2,421,801	\$887,994
Sales tax exemption	\$29,109	\$87,327	\$32,020
State Incentives	\$1,462,500	\$2,787,500	\$1,298,750
Tax abatement	\$537,500	\$1,612,500	\$591,250
Sales tax exemption	\$325,000	\$975,000	\$357,500
Training dollars	\$600,000	\$200,000	\$350,000
FISCAL IMPACT			
City Fiscal Impacts - Wichita	Discounted	Discounted	Discounted
Present value of net benefits	\$1,440,318	\$547,253	\$369,475
<i>Benefit-Cost Ratio</i>			
Public benefits 10-year period	\$2,140,799	\$2,648,696	\$1,139,986
Public costs 10-year period	\$700,481	\$2,101,443	\$770,529
Benefit-Cost Ratio	3.06	1.26	1.48
State Fiscal Impacts	Discounted	Discounted	Discounted
Present value of net benefits	\$36,742,914	\$13,788,226	\$8,673,236
<i>Benefit-Cost Ratio</i>			
Public benefits 10-year period	\$38,094,642	\$16,297,516	\$9,860,620
Public costs 10-year period	\$1,351,728	\$2,509,289	\$1,187,384
Benefit-Cost Ratio	28.18	6.49	8.30



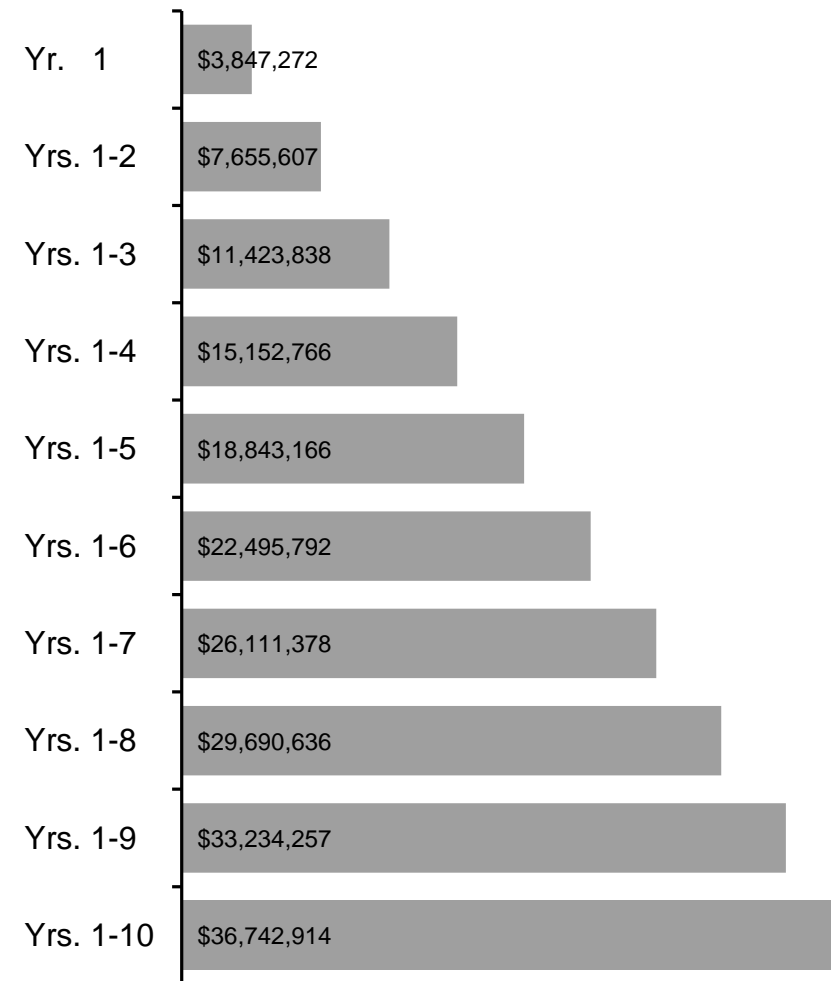
Center for Economic Development and Business Research
Wichita State University
1845 Fairmount St.
Wichita, Kansas 67260-0121
(316) 978-3225

Project or Company Name: Aircraft Sample 1
Date of Analysis: 3/14/2016
Version of Analysis: V1
State Fiscal Impacts

Benefit-Cost Ratio



Present Value of Net Benefits

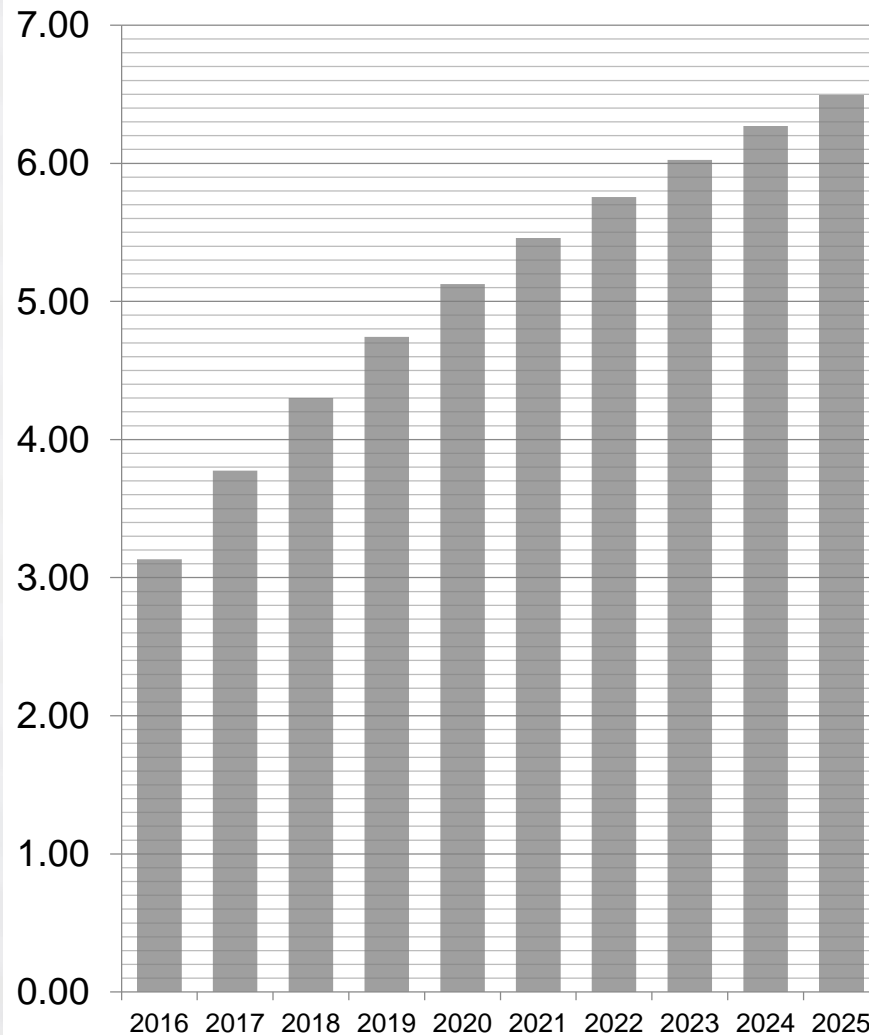




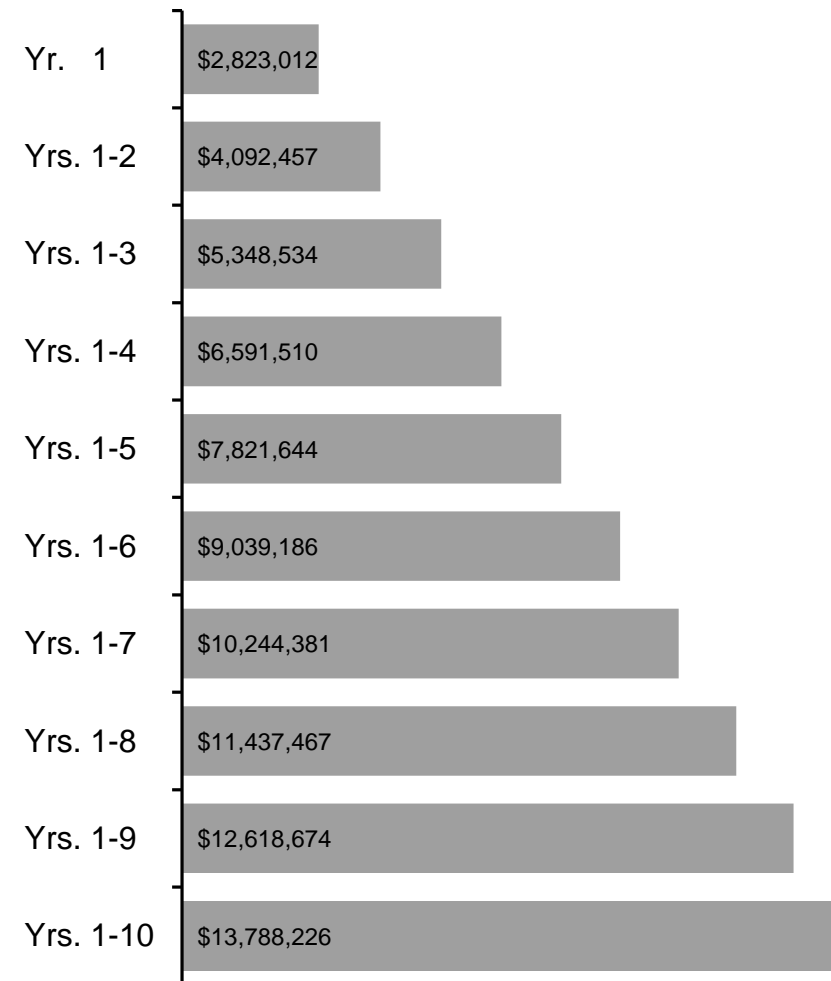
Center for Economic Development and Business Research
Wichita State University
1845 Fairmount St.
Wichita, Kansas 67260-0121
(316) 978-3225

Project or Company Name: Aircraft Sample 2
Date of Analysis: 3/14/2016
Version of Analysis: V1
State Fiscal Impacts

Benefit-Cost Ratio



Present Value of Net Benefits

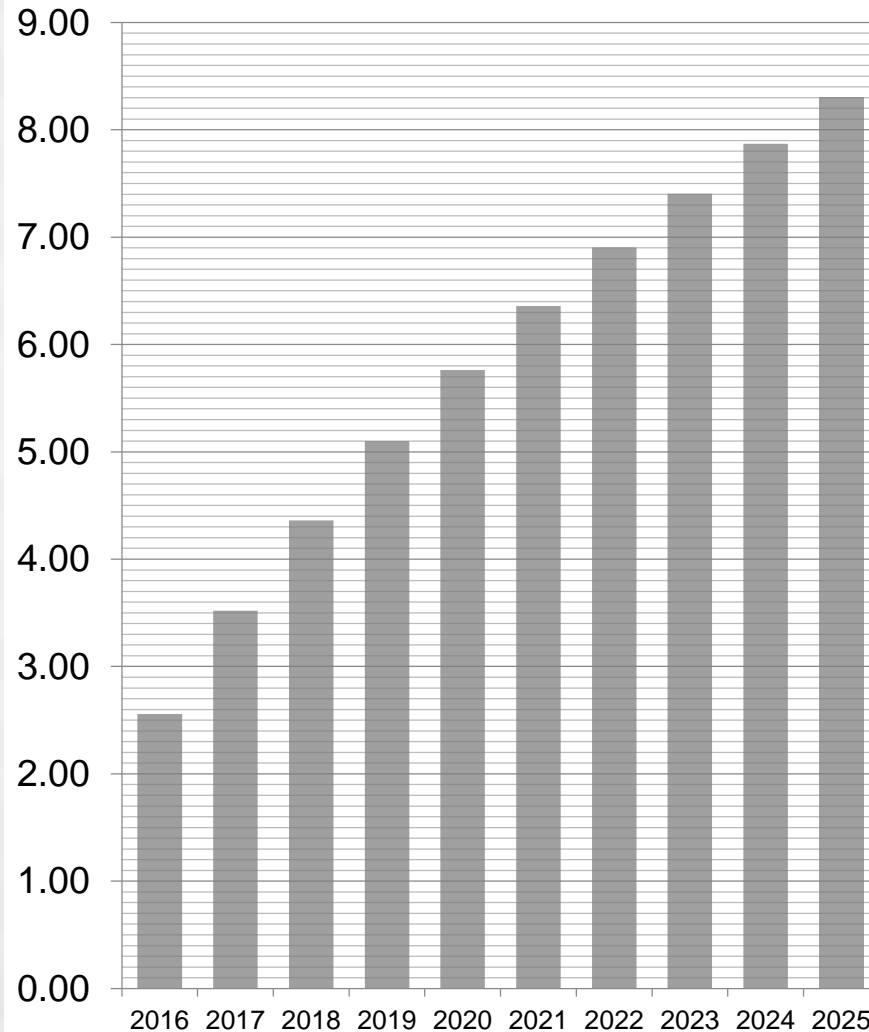




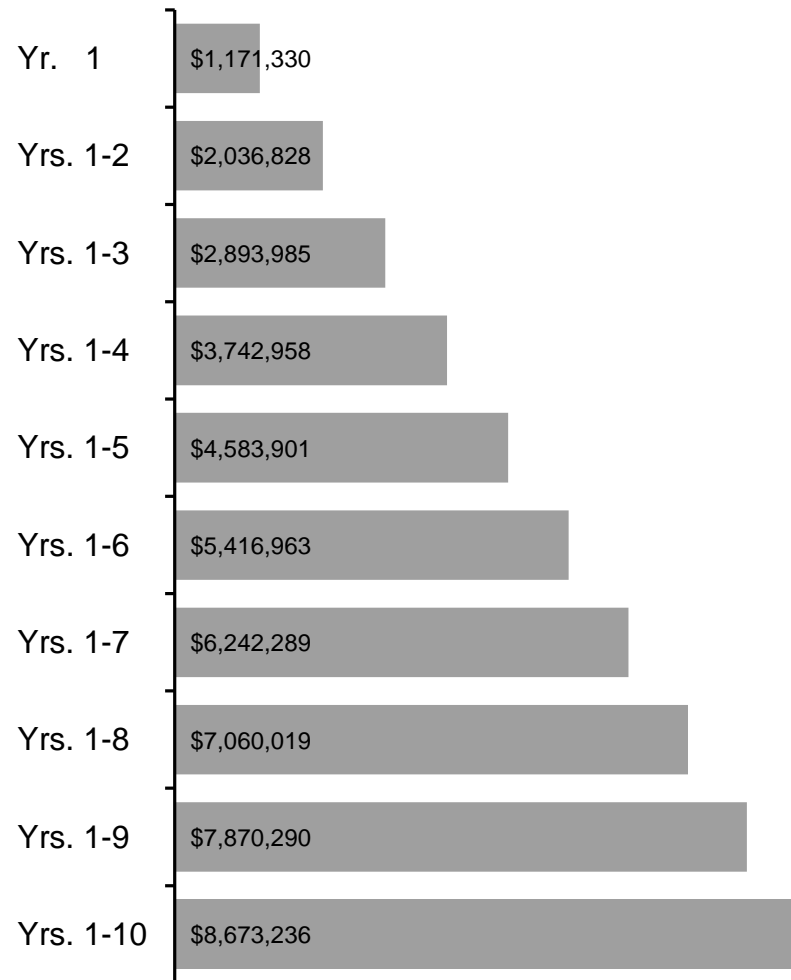
Center for Economic Development and Business Research
Wichita State University
1845 Fairmount St.
Wichita, Kansas 67260-0121
(316) 978-3225

Project or Company Name: Service Sample 3
Date of Analysis: 3/15/2016
Version of Analysis: V1
State Fiscal Impacts

Benefit-Cost Ratio



Present Value of Net Benefits



Impact

- **“Optimal projects”**

- Benefit-Cost Ratio
 - Kansas 6.49 to 28.18
 - Local 1.26 to 3.06

- **Risk and analysis**

- State public benefits and employment vary widely between projects and can be negative
- Businesses may not fulfill agreement
- Political pressures may override economic evaluation
- Opportunity costs are not usually factored in most calculations

- **Other values**

- Other exiguousness benefits
- New product lines

Kansas Employer Statistics - Share

	Establishments	Payroll
C-Corporations	30%	56%
Other Business		
Base Industry	7%	8%
Local Serving	63%	33%
Non Disclosed		3%
Total	100%	100%

Simplifying assumption

- **Other Enterprises:** proprietorships, partnerships, S-Corporations
- **Base Industry:** agriculture, mining, manufacturing...
- **Local Serving:** construction, retail, finance, education, health...

Note: there are local serving C-Corporations (e.g. utilities) and there are “export” companies within service sectors (e.g. specialty architectural firm)

Source: 2013 County Business Patterns, Employer Statistics

Impact

- **C-Corporations** (Base industry)
 - Tax savings tend to increase economic competitiveness
 - Note – there is disagreement in academic literature on the economic values
- **Other Enterprises**
 - **Base industry sectors** ~ 7% of Kansas establishments
 - Employment, investment, savings, or increased dividends
 - Economic conditions determine growth
 - Regional political uncertainty can prevent investments
 - Entrepreneur - temporal impacts
 - Innovation, product development, commercialization, and then market expansion
 - **Local support serving sectors** ~ 63% of Kansas establishments
 - Short term benefits to businesses
 - Windfall tax – long term there will be a new market equilibrium
 - Indirect benefits?