

REMI Policy Analysis of DevCo

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18 December 2007

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Co-editor with Erik Dietzenbacher, *Wassily Leontief and Input-Output Economics* (Cambridge, United Kingdom: Cambridge University Press, 2004); co-author, chapter 12.

INTRODUCTION

This response document is an analysis of the report, “REMI Policy Analysis of DevCo 12-12-07,” produced by Laird Graeser, Chief Economist, Department of Finance and Administration, State of New Mexico. As far as the simulations of the scenarios are concerned, it appears that a very competent analysis has been performed. Indeed, the multiplier effects were larger than one would think they might be for a project of this nature in central New Mexico. As stated in the analysis, the DevCo Development produces jobs at 25 percent (construction jobs, 1.87 versus 1.5) and 40 percent (all other jobs, 1.87 versus 1.33) greater levels than its own analysts predicted. Hence, from this perspective, the findings are quite robust in their predictions of the future job-producing effects of the DevCo Upper Petroglyphs Development.

The issues with the State analysis lie in its fundamental assumptions related to hypotheses. There are three. The first, which really encompasses all of the others, is that the DevCo Development’s job projections may already be in the State’s revenue estimate. This leads to the second assumption, which focuses on the State’s concern with making sure the establishments are focused on economic-base activities (without really defining what precisely is meant by “economic base”). The third is the State’s efforts in offering subsidy incentives to developments that induce workers to migrate to the State. Each is dealt with in turn.

The Assumptions

The second full paragraph of the State analysis discusses the no-subsidy, no-project argument of developers and mentions two fallacies related to it. The first fallacy is that such projects impose costs; the second fallacy (and first assumption of the analysis) is that the project “may already be in the [State’s] revenue estimate.” It appears that DevCo’s fiscal team from Rutgers University (Robert W. Burchell and William Dolphin) have handled the aspect of project costs very well. So, the first part of the State’s argument is nullified. Clearly, the Upper Petroglyphs Development, regardless of where workers come from, produces State revenues that exceed the State’s cost of its residents. If a category of employment revenue is scaled back, so should costs related to residents. As a result, the fiscal impact remains positive regardless of whether new employees come from in-state or out-of-state.

First Assumption

This leaves the second fallacy (first assumption) to discuss. The idea that a project should not get a subsidy because it might already be included in the budget revenue forecast is circular reasoning. It almost ensures that the State will never release subsidies to new developments. This is especially true if the development is in the center of the State compared with one that is at the State's perimeter. The former may not attract nearly as many out-of-state workers. Moreover, it fundamentally suggests that all projects will happen whether or not they get a State subsidy. While this suggestion may or may not be true, the State's dismissal of the possibility of a subsidy on these grounds without further analysis assumes that money received next year (or further into the future) is worth the same as money now. Indeed, as the State reports, "Anything that affects short-term revenues or expenditures is vastly more important than the equilibrium effects in the long term." Given the effects of inflation, this is an inaccurate statement. Thus, there seems to be some confusion in their analysis. That is, a delay would seem to have significant costs inherent to it.

Further, and more pointedly, analysts who take the tack of assuming that a specific project would simply be delayed if a subsidy or tax abatement is not procured usually calculate the net time value of the stream of tax revenues and transfers forgone by the state if it opts not to provide the subsidy. Clearly, all operations in the intervening period would produce income tax revenues for the state and also mitigate some state unemployment compensation claims that the state would not otherwise receive. If the forgone alternatives can be identified, the difference in the income streams between the two alternatives is measured. Generally, the government's cost of securing the funds for the subsidy is used (typically, the government's bond rate). In sum, following its own logic, the State would not necessarily be "foolish" (the State analyst's word) if it invests in a project that would happen anyway. This is because there is value in making the project happen sooner than it might, because State GRT revenues and, in addition, recurring fiscal revenues exceeding costs that could accrue between now and when they would come "naturally" to fruition may significantly outweigh the cost of the State subsidy. Without further time and analysis, this factor will never be known because such an investigation has not been produced as part of the State report.

Second Assumption

In the course of the analysis—namely hypothesis 3—the State notes that it prefers jobs that have an economic-base character. This is standard fare for economic

development objectives, since making sure jobs are in the economic base reinforces a preference that the jobs receiving State subsidy would not be ones that would be gained in the absence of the subsidy. Nonetheless, one could make a strong case for subsidizing jobs not traditionally considered economic base as well. That is, if the businesses in the State of New Mexico rely heavily upon certain support services from establishments outside of the state (i.e., they "import" services from out of state), it would be a worthy policy to subsidize such new establishments within the State so that the State businesses would no longer have to rely on those imported services. In this way, the State could capture the tax revenues of an array of these services (essentially amounting to import substitution of the services) as well as all of their support linkages.

The last paragraph should be restated to ensure that there is no confusion. States tend not to subsidize proposed developments that extol retail or personal-service jobs (except perhaps near state lines) because people generally do not travel far for the services connected with them. Due to this, a new retail or personal service establishment will either replace an existing one or will enter the market place naturally because of a rising demand. Hence, governments never should subsidize establishments that emphasize the creation of such core nonbase jobs. The jobs in the Upper Petroglyphs Development, however, are largely manufacturing and business service jobs. Manufacturing jobs are clearly core economic-base jobs, as are a share of business services, depending on the nature of the establishments themselves. Thus, it is incumbent upon the State in its analysis to demonstrate that new establishments in the Upper Petroglyphs Development will not replace existing ones. In this case, it may be sufficient to demonstrate (using location quotients) that the state is not deficient in the producer and distributive services that will be part of the development. This has not been done in the State analysis.

Third Assumption

Finally, the State analysis suggests that only projects that will lure substantial numbers of workers from outside of New Mexico warrant TIDD subsidies. Indeed, this is where the totality of the effort of the REMI Policy Analysis is placed. The analysis focuses on answering the question, "Does the project induce a sufficient share of its workers to migrate into the State?" This is a dubious State policy objective. For certain, the federal government has no similar policy. Indeed, there is doubt whether many economic development specialists for the region/nation in which they work share this view. It is strange that any state would reward establishments that hire in-migrants as opposed to firms that either hire the state's own unemployed (who may well have paid

state taxes in the past) or that provide positions with better compensation and benefit packages to state residents who are already gainfully employed. Simply put, this latter alternative improves the lot of state residents who state elected officials and other state workers represent. Indeed, a subsidy that relies only on in-migration of workers does little for the people who paid the taxes that enabled the subsidy program to exist. Moreover, given that the people already live in New Mexico, infrastructure costs supporting their residence within the state would be substantially lower than they would for out-of-staters for whom new sewer lines, schools, and so on most certainly would need to be built.

These extra costs, borne by the State due to an influx of in-migrants, should be accounted for in the State's analysis. They are not. One might suspect that relationships exist between expected costs and expected levels of State subsidy. Subsidy should not just be given for high-cost, out-of-state residents after their costs are met. Some lower-cost existing state residents might be given jobs through these state subsidies because they are New Mexicans looking either for a new job or to improve their existing job situation.

Knowing the structure of the REMI Model's equations, there is certainty that differential infrastructure requirements of existing workers versus incoming workers is not something readily accommodated within the REMI Model's framework. Hence, even if one agrees that it is better for New Mexico to secure more out-of-state workers at the expense of its own residents, the impacts derived do not adequately include the cost side of such a policy decision.

CONCLUSIONS

The State analysis uses formidable techniques to reach a conclusion that is based on critical assumptions. These assumptions rely on interpretations of statutory language that may infer Legislative objectives not found in the original statutory language.

The language of the statute says TIDDs must:

- (1) "stimulate the creation of jobs, economic opportunities, and general revenue for the State through the addition of new businesses to the State and the expansion of existing businesses within the State; and
- (2) [be] in the best interest of the State."

This cannot be translated solely to mean that TIDDS must:

- (1) stimulate the creation of jobs, economic opportunities, and general revenue for the State *in excess of what might happen in the absence of TIDD financing*; and
- (2) be in the best interest of the State to devote General Fund dollars to the TIDD if that revenue is well-spent and critical to the project actually happening. *If the project would happen anyway in the absence of TIDD structures, then the State would be literally “foolish” to invest in such a project.*

The above language changes occasion economic tests on developments that serve to exclude purposeful, job-creating projects for the State and may even prevent significant existing businesses from leaving the State. The above language changes ignore the powerful role of existing residents both employed and to be employed on in the State’s economy. The State analysis employs a strong economic technique in its efforts, but the changes in basic wording that form the assumptions of the Model dictate results and benchmarks that are contrary to the original statute’s language.

Finally, DevCo is the only development to which these language changes and resulting tests have been applied. TIDD applicants to date have met the literal language of the State statute and have tailored their developments and analyses to this language. So too has the DevCo Upper Petroglyphs Development, which has performed on original language criteria as well or better than any development applicant thus far and additionally has volunteered a “No Negative Impact” criterion to protect the State of New Mexico from additional State costs relative to new residents in the form of development occupants.

AFTERWORD: CLARIFYING A POINT OF CONFUSION

At the presentation of the State Analysis, it was indicated that the State should not be in the position of providing resources at multiple times the level of the local jurisdiction. In other words, it should not be in a position of providing approximately \$690 million in TIDD financing when Bernalillo County is providing approximately \$150 million in similar financing. This is about a 4.6:1 ratio:

$$(\$840 \text{ million minus } \$150 \text{ million} = \$690 \text{ million} \div \$150 \text{ million} = 4.6$$

and reflects not capacity that will not be drawn upon, but actual dollars available for bonding infrastructure projects—approximately \$840 million.

In reality, the State of New Mexico is potentially allowing 50 percent of its unrestricted GRT for the TIDD and none of its restricted property tax. Bernalillo County is allowing 50 percent of its unrestricted GRT and 50 percent of its unrestricted property tax. The County is actually tendering more of what is available to be released than the State is. The State of New Mexico has an unrestricted GRT of 20 times the unrestricted GRT of Bernalillo County (5.0 percent [State] versus 0.25 percent [County]). Notwithstanding, the County is making available twice the amount of its available GRT revenues in the form of property tax revenues. From an available-resources perspective, Bernalillo County is actually giving more relatively available revenues than is the State of New Mexico. It should further be mentioned that the above revenue percentages, at 50 percent each from the County and the State, are significantly less than is going to be received by the Mesa Del Sol Development from the City of Albuquerque (67 percent of GRT and property tax revenues) and from the State of New Mexico (75 percent of GRT revenues).