

Savannah Economic Development Authority (SEDA): An Analysis of SEDA's
Property Tax Abatements Between 1996 and 2007

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Introduction

The Savannah Economic Development Authority (SEDA) has requested that the Bureau of Business Research and Economic Development (BBRED) at Georgia Southern University conduct an analysis of property tax abatements given to companies locating in Chatham County. This report shows that the tax abatements given to companies continue to provide a positive net benefit to Chatham County. This report will in part rely on the previously prepared “Savannah Economic Development Authority (SEDA): Findings of Its Economic Impact on Chatham County and the Coastal Region of Georgia,” August 2008.

Methodology and Data

SEDA of course maintains an on-going record of all recipients of abatements and provided a list of the qualifying companies along with property identification numbers, PINs. The PIN codes were crucial for searching Chatham County Tax Records¹ to build the necessary data on the specific tax abated properties, and to find the assessed value for each of the properties.

The tax abatement program applies only to certain types of project. For specifics, see the attached “Savannah Economic Development Authority: Lease Phase-In Guidelines” in Appendix A. In general, for a project to qualify it must produce a significant number of jobs and involve significant increases in capital investment. There is an emphasis in the program geared to support the expansion of the Port of Savannah. Table 1 below summarized the abatement criteria by classification by types of business to include: Port Related and Distribution (PRD), Manufacturing and Assembly Plants (MPA) and Headquarters.

Table 1
SEDA Rules for Awarding Tax Abatements

Type of Business	Minimum Dollars Amounts Invested*	Minimum Number Jobs Created	First Five Years	Second Five Years
			Major or Minor Tax Abatement	Major or Miner Tax Abatement
Major Port Related	25.0	150	40%	20%
Minor Port Related	4.0	35	40%	0
Major Manufacturing	40.0	75	50%	25%
Minor Manufacturing	2.0	15	50%	0
Major Headquarters	5.0	250	75%	25%
Minor Headquarters	N/A	25	75%	0

*All Dollar are in Million

As displayed in Table 1 the rules for minor tax abatements are: the abatement lasts for a term of five years, and different types of business receive different amounts of tax abatement, 40% on PRD, 50 % on MAP and 75 % on Headquarters. For example, a minor manufacturing facility

¹ Chatham County Tax Commissioner, <http://www.chathamtax.org/home.aspx>

and/or assembly plant will receive at 50% tax abatement per year for the first five years with the abatements being leveled against the estimated total tax liability. If a company will have paid \$10,000 per year for five years then the SEDA tax abatement will cut that bill in half to \$5,000 per year for five years.

Also displayed in Table 1 are the major tax abatements offered by SEDA. A major tax abatement lasts for a term of ten years. The abatement rates for the first five years of a major tax abatement are the same as the minor tax abatement; however these businesses receive an additional five year abatement at the following rates: 20% for PRD and 25% for MPA and Headquarters. For example, a major manufacturing facility and/or assembly plant will receive at 50% tax abatement per year for the first five years. Then the business will qualify for an additional 25% abatement for the next five years with both abatements being leveled against the estimated total tax liability. If a company will have paid \$10,000 per year for their first five years then the SEDA tax abatement will cut that bill in half to \$5,000 per year for five years. In the second five year period, assuming this company still has an estimated tax liability of \$10,000 per year for the second five years, the tax abatement will cut that bill by \$2,500 and the company will pay \$7,500 per year until the abatement ends at the end of the second five year term.

BBRED used above rules to estimate total amount of property tax abated by SEDA over the span of the projects attracted to Savannah between 1996 and 2007. To illustrate the impact of the abatement BBRED had to make some simplifying assumptions. The first was that all abatements started in 2007. This assumption is a companion assumption to the analysis of the economic impact of SEDA in that to determine the economic impact of the businesses attracted or retained by SEDA between 1996 and 2007, BBRED modeled the analysis by asking the question in the REMI model, "what if none of those businesses were present in the region's economy today." By making the assumption that all abatements began in 2007 and looking forward in the same way that REMI does, BBRED was able to compare this impact of the abatement to the REMI analysis measuring the positive impact of actually attracting or retaining the jobs supported by SEDA. As shown below this report compares the abatement costs to the growth in total business capital stock that was induced by the investments attracted by the abatement.

To help understand this part of the analysis, recall that REMI calculates as part of the impact of growth an estimate of gain in the total value of business. The REMI variable Actual Value of Business Capital Stock is a measure of the appreciation in the value of business. So, for example, like the companion variable home value when the economy grows the real property value of businesses grows. The property tax base increases as a result of economic growth. Growth in the property tax base has the effect of providing more public services without increasing the rate burden on property owners.

The second assumption made is that the tax rates remain constant from 2007 forward to the end of each abatement schedule. In other words, there was no forecast of possible increases in tax rates. The third, and final assumption, was to aggregate all individual businesses into the categories described previously. Table 2 displays the number of tax abatements by SEDA by type of business and rated by major or minor from 1996 to 2007.

Table 2
Total Number of Abatements

Type of Business	Companies Receiving Tax Abatement
Major Port Related	9
Minor Port Related	8
Major Manufacturing	5
Minor Manufacturing	1
Major Headquarters	0
Minor Headquarters	1

Findings

Table 3 shows the estimated growth in actual business capital stock caused by all of the business attracted by SEDA between 1996 and 2007. This result was taken from the REMI forecast reported in “Savannah Economic Development Authority (SEDA): Findings of Impact on the Chatham County and Coastal Region of Georgia.” The Business Capital Stock represents value of all the land and buildings in a region. While, not all of the calculated value of business capital stock may be the actual taxable value of business, the growth in the value is the growth in the taxable value of business.

Table 3 shows the growth in value of business capital stock that resulted directly from the impact of the businesses attracted to Savannah/Chatham County between 1996 and 2007. SEDA’s efforts between 1996 and 2007 resulted in an increase of \$1,718 million the value of business capital stock in Chatham County. This growth in the value of business capital stock was obtained at a cost of about \$18.8 million in abated taxes.

To emphasize the magnitude of the return as measured by the region’s growth a Period Return on Abatement was calculated. The period return on the abatement in new economic growth is about 90. In other words for every \$1.0 million in taxes abated over a ten year period to total value of business capital stock grew by \$90.0 million. The total return on abatement for over the full ten year is \$91.166 million. A complete look at the impact of the abatements granted on actual capital stock and the return on abatement is display in Table 3.

Table 3
Capital Stock Compared to Total Taxes Abated

	2007	2012	2017	Total Paid
Act Capital Stock	5,459.000	6,302.000	7,177.000	1,718.000
Adatemented Granted Taxes	2.724	13.624	5.221	18.845
Annual Return on Abatement	2,004.038	462.566	1,374.726	91.166

*All Dollar are in Millions

In addition to the macroeconomic perspective of the returns to the abatement shown above, there is also a positive return from the non-abated portion of the estimated tax liability. First, it should be noted that through inter-agency agreement, SEDA collects from the businesses in the abatement program the non-abated portion of their taxes. First, SEDA collects non-abated portion of the tax for the period of the abatement in lieu of the direct payment of these revenues to the County and City governments. The non-abated taxes collected are use to support additional land acquisition and the economic development program managed by SEDA on behalf of the City and County. So in some sense the non-abated portion of the tax is a fiscal benefit.

However, absent the abatement program both city and county government for the first five years of the abatement program would have collected \$31.4 million, if the companies had come without the abatement program. The actual abatements cost \$13.6 million, but SEDA, on behalf of the city and county still collected about \$17.8 million to further the economic development programs managed by SEDA.

Calculating economic development benefit return on the abatements, for every dollar abated over the first five years time frame for both the major and minor category of abatement \$1.31 return was generated. The rate of return by category is shown in Table 4. In the second five years of the tax abatement program the abated cost was \$5.2 million and non-abated revenues were \$20.4 million. The returns for the second period of the abatements, Table 5, show that for every dollar abated the return in tax revenue for the economic development program was approximately \$3.00

Table 4
Total Tax Abatement Active in 2007-2012

Type of Business	Tax without Abatement	Abated Taxes	Total Paid	Return on Abatement
Major Port Related	21,506,862	8,997,900	12,508,962	1.39
Minor Port Related	5,374,194	2,206,271	3,167,922	1.44
Major Manufacturing	4,131,068	2,065,534	2,065,534	1.00
Minor Manufacturing	35,100	17,550	17,550	1.00
Minor Headquarters	449,139	336,854	112,285	0.33
Total	31,496,361	13,624,109	17,872,252	1.31

Table 5
Total Tax Abatement Active in 2013-2017

Type of Business	Tax without Abatement	Abated Taxes	Total Paid	Return on Abatement
Major Port Related	21,506,862	4,301,372	17,205,489	4.00
Major Manufacturing	4,131,068	919,303	3,211,765	3.49
Total	25,637,929	5,220,675	20,417,255	3.91

Conclusions

The ultimate purpose of all tax abatement programs is to attract new economic growth that would not otherwise locate in the region and particularly in the case of SEDA the abatement program is heavily oriented to stimulate and support at the region's major economic center, the Port of Savannah. By the measure of the growth stimulus the returns to the abatements are about \$90.0 million to \$1.0 million. By the return the impact of the abatements on local revenues for further economic development the return on investment is also significantly positive. During the highest abatement phase, the first five years of the projects, the return is \$1.31 to \$1.00. In the second phase, where abatements are lower, the return is raised to approximately \$3.00 for every \$1.00.

Appendix A

SAVANNAH ECONOMIC DEVELOPMENT AUTHORITY: LEASE PHASE-IN GUIDELINES

The following are *guidelines* for determining eligibility and scope of tax abatement provided by SEDA.

	Investment ¹	Job Creation ²	Wage Rate ³	Abatement %	Terms ⁴
Port Related Distribution	Minor: 4 Major: 25	Minor: 35 Major: 150	Minor: 1.1 Major: 1.1	Minor: 40 Major: 40,20	Minor: 5 Major: 10
Manufacturing and Assembly	Minor: 2 Major: 40	Minor: 15 Major: 75	Minor: .8 Major: 1	Minor: 50 Major: 50,25	Minor: 5 Major: 10
Headquarters/KBB	Minor: N/A Major: 5	Minor: 25 Major: 250	Minor: 1.1 Major: 1.1	Minor: 75 Major: 75,25	Minor: 5 Major: 10

Port Related Distribution Eligibility:

Minor

Minimum Investment--\$4,000,000

Job Creation -- 35

Wage Rate -- 1.1

Major

Minimum Investment -- \$25,000,000

Job Creation -- 150

Wage Rate -- 1.1

Manufacturing and Assembly Eligibility:

Minor

Minimum Investment -- \$2,000,000

Job Creation -- 15

Wage Rate -- .8

Major

Minimum Investment -- \$40,000,000

Job Creation -- 75

Wage Rate -- 1

Headquarters/KBB

Minor

Minimum Investment – N/A

Job Creation -- 25

Wage Rate -- 1.1

Major

Minimum Investment -- \$5,000,000

Job Creation -- 250

Wage Rate -- 1.1

¹ Investment in millions of dollars

² Full time or full time equivalent

³ Wage rate given as a multiplier where 1 equals industry average as determined by DoL information

⁴ Terms in years

SAVANNAH ECONOMIC DEVELOPMENT AUTHORITY LEASE PHASE-IN GUIDELINES

Competitive Project:

To qualify for SEDA's tax phase-in agreement a project must be deemed to be competitive using at least one of the following criteria:

- The project has been deemed competitive by one of the state-wide development agencies; i.e. DEcD
- An official with the requesting company must write on company stationary that they are seriously considering another city or state for this project.
- The tax phase-in program is for the benefit of end users only and will not be extended to speculative developers.

Final Determination:

SEDA, with support from its legal counsel, will be the final determining body for any tax phase-in agreements. This determination will be based upon both the competitive nature of the project and/or the impact and significance to the community's economy.