Economic Development: An Economic Impact Analysis of Tax Incentives on a Local Economy

by

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Abstract

*Purpose:* The purpose of this project is explanatory. The research describes economic development incentives, consequences and benefits for cities and businesses as well as what type of development incentives are used. *Method:* This project uses regression analysis to test the impact of a single business on a small community. The research evaluates trends before and after the opening of Cabela’s. This project compares the trend of sales tax revenue for Buda and two comparison cities in order to determine the impact Cabela’s had on the City of Buda.

*Results:* The City of Buda showed a significantly higher spike in sales tax revenue before Cabela’s opened when compared to two neighboring cities. However, the results also show that both comparison cities had a significantly higher trend of sales tax revenue than Buda after Cabela’s opened. Cabela’s did not have a significant impact on the growth of population in Buda. The data for the impact of Cabela’s on business growth did not lend itself to inferential analysis. *Discussion:* Overall, the research indicates that the construction and opening of Cabela’s had a significant impact on the immediate surge in sales tax revenue. Although, minus the secondary benefits to quality of life and stronger business presence, the presence of Cabela’s did not lead to a significant increase in the trend of sales tax revenue after Cabela’s opened.
About the Author

Joe E. De La Cerda was born and raised in Kingsville, TX for an early portion of his life. He attended school in south San Antonio until his high school years where he began attending Smithson Valley high school. In high school, Joe was part of the first group of peer educators for the Texas Association Against Sexual Assault (TAASA). From the age of 16 until 22, Joe traveled across the state and participated in workshops that trained youth educators on how to give public presentations on sexual assault awareness. At Texas State, Joe spent 5 years throughout both undergraduate and graduate study as a member of Men Against Violence, a peer education group. He was also an active member of the College Republican chapter at Texas State, serving as an officer for two years, Chairman for one year and as the staff advisor for one year. He also served one year as an ASG Supreme Court Justice while in graduate school.

During the 2008 election, Joe co-managed a 527©3 political action committee to assist local candidates. His passion for politics coupled with his work for TAASA inspired his decision to pursue the Masters in Public Administration at Texas State University. He believed that public policy training would enable him to advance his advocacy to new levels for the work he did in late high school and early college years. Joe developed an interest for finance and statistics while in the MPA program and looks forward to taking his newly learned skills to new levels in the public and private sector.

If you have any questions or concerns regarding this research, please contact me at jdelacerda43@gmail.com.
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This project would have never happened without the love and support of my family and the big man upstairs. I would like to thank my mother and my best friend Andrea Cherry for helping me proofread and edit my project. I would like to thank Dr. Hassan Tajalli for all of the patience and effort he put into making sure I made it out of this program successfully. His guidance and confidence in me gave me the boost I needed to succeed in the MPA program. I would like to thank all makers of Bluegrass music for providing me the best concentration tempo that I have used throughout this project. Lastly but surely not least, the biggest thank you goes to my loving fiancée, and soon to-be wife, Shannon McKay. Without her love, support, constant edits and ability to help me remain calm during stressful times, this project would have been much tougher to complete. Thank you!
Chapter 1: Introduction

As the United States maintains its global economic dominance, cities take the lead by working to maintain competition and economic stability in the marketplace. To compete across county and state lines, cities and counties attract business by offering tax incentives to locate to a particular area. These include tax abatements, loan guarantees, municipal bonds and tax increment incentives. For a company to open its doors in a particular city, it must have a reason to take the risk of practicing business there and not elsewhere. Cities use economic development incentives to attract new business in the hopes of spurring the production of new goods or services for export. Exports are what drive a local economy to prosper.

However, much of the research indicates economic development incentives do not bring prosperity to local economies; rather, using incentives results in unfair competition among businesses. Businesses begin pitting cities and counties against each other in battles of who can provide the better development incentive. Additionally, research is lacking in verifiable evidence that tax incentives lead to positive impacts in small cities. This study isolates a single city in northern Hays County that recently used economic development incentives to attract a major company in the hopes of spurring a massive development of jobs, income and above all, new tax revenue. This city is Buda, TX and the company is Cabela’s Incorporated.

The City of Buda is situated on the outskirts of Austin and functions like its suburb. Because of the city’s proximity to Austin, Buda will see the spillover in population and spending patterns. In regards to this experiment, Buda is a town of less
than 10,000 citizens, and therefore gives a good indication of the effect of the presence of one single development project over a small local economy. If the Cabela’s development project proves to have a positive impact over the city, it will provide one example of economic development incentives successfully spurring growth in a community. Because this project focuses on only one city, replication of the study should be limited to cities of equal size with similar development situations using economic incentives to bring in a major nationwide company.

**Research Purpose**

The purpose of this project is explanatory. This project uses regression analysis to test the impact of a single business on a small community. To put this question to test, this project uses Cabela’s as a point of impact in the City of Buda. Using an interrupted time-series analysis, this project compares sales tax and single-family housing permits before and after Cabela’s became operational. To control for impact of neighboring economies, this research tests Buda sales taxes individually against Kyle and Dripping Springs sales tax revenues. By using single-family permits, this study controls for national economic condition by testing single-family permits against national unemployment rate. The results will indicate whether using economic development incentives to bring Cabela’s to Buda, TX had a positive influence on the local economy of the city.

This project uses Cabela’s as the point of impact since it represents the first major nationwide company given economic tax incentives for locating to this community. Chapter Three examines various theories on the benefits and consequences of local
governments using tax incentives to bring business to their community. By using Cabela’s as a point of impact, this research is testing the theory that tax incentives used to spur business development bring benefits to the community, specifically, increased sales taxes, which go to fund more city services.

Chapter Summaries

In Chapter Two, this applied research project presents the setting information. This includes the history of the City of Buda, its economic climate as well as the entire transactional account of the construction and opening of Cabela’s. Chapter Two also discusses the structure of the entire development incentive Buda offered Cabela’s. Chapter Three forms a theoretical background over economic development. Additionally, the chapter presents the history and purposes of using economic development incentives. Lastly, chapter three also discusses four popular types of development incentives cities use to attract new business and includes a theoretical framework. Chapter Four operationalizes the hypotheses and describes the methodologies used to test the hypotheses. An interrupted time-series regression analysis is used to test the hypothesis. This project takes existing sales tax revenue data from the Texas Comptroller’s Office and compare trends before and after the construction and opening of Cabela’s. Chapter Five presents the results of the study in tabular form. Time-series charts also provide an indication of the trends on the regression lines. Chapter Six analyzes the results from chapter five. This chapter also discusses the limitations of the research as well as potential for future study.
Chapter 2: Setting

Buda, TX sits in the corridor between Austin and San Antonio. Situated on the southern border of Austin, Buda is a small town that deals with similar problems of Austin, such as traffic congestion, and commercial development, just to name a few. This chapter discusses the history, demographics and the business climate of Buda, TX. Additionally, this chapter examines the changes before and after June 2005 when the Cabela’s Incorporated Sports Outfitters opened its doors.

History of Buda, TX

On April 1, 1881, a local farmer by the name of Cornelia Trimble donated some land at a town site that would function as a rail depot for the International Great Northern Railroad. Before Mrs. Trimble donated land for the town site of modern-day Buda, the northern portion of Hays County’s population was concentrated in Mountain City. Data is scarce on further demographics of Hays County during that time. After the site of modern-day Buda was founded in 1881, a new rail depot named Du Pre was established. The name Du Pre is thought to have come from a folklore story in which the postmaster in Mountain City approached a railroad official and said “Do Pray, give us a depot.” The Du Pre rail depot began attracting business to the area. Du Pre became the unofficial name of the town that the rail depot inhabited. Du Pre developed a reputation as a popular eating stop for rail passengers heading north or south. The town name was officially changed to Buda in 1887 at the request of the post office. The name Buda derives from the Spanish word viuda or widow. This name is believed to originate from
a popular pair of widows who cooked for a local Buda hotel called the Carrington Hotel in the 1880s.

Buda became an active commercial center supporting a lumberyard, a mill, a cheese factory, two newspapers, hotels, banks and a movie theatre. The local businesses organized a chamber of commerce in 1928. The town gained home-rule status for the first time in 1948 but lost its status in 1998. A Home-rule city has the constitutional right to govern itself as an independent city of the state of Texas. A city can apply for home-rule status once the population reaches 5,000 citizens (US Legal.com 2010). Buda would not gain its home-rule status again until 2005 when the population once again surpassed 5,000. Today, people from across the country already flock to Buda during the summer for its annual Weiner-dog races. Already a tourist destination, the City of Buda began a new development project in 2005 to boost its already growing economy.

Demographics

With population growth in Austin beginning to spill over into surrounding cities, the City of Buda is slowly becoming a suburb for Austin. In 2000, the city population
was 2,404 with 38% growth by 2002. Local research estimates the population grew by 51% from 2002 to 2009 and by 15% in 2008 and 2009 alone. Data shows that between the years 2000 to 2008, Buda was the 59th fastest growing city in the United States, but between 2008 and 2009, Buda was the fifth fastest growing city in Texas. In 2008, data also showed that the median household income for Buda citizens was 26% higher than the median state family income in Texas. Two-thirds of Buda residents are white with the nearly one-third Hispanic (City Data.com 2010).

In 2003, national unemployment fell at dramatic levels leading to a surge in the number of jobs available in the Austin area. As more jobs came to Austin, more people began moving to the Buda area. People who worked in the city could still enjoy the freedom of living in the hill country, which made Buda very attractive. The hill country is small area of Texas that extends from northern San Antonio, west on highway 90 towards Uvalde, up towards the little town of Junction, east towards Llano, southeast to Austin and back south towards San Antonio. Buda sits in the northeast section of the hill country; a tour of the surrounding area will show ranches, farms and a lot of open space. With more people moving to this suburban city, commercial developers have had good reason to consider investing in Buda.

**The Addition of Cabela’s**

Buda wanted to create a new retail center in order to take advantage of the tourism already generated by regional tourist attractions, such as Schlitterbahn, the San Marcos Outlets and the rivers. Tourists across the country already flock to the Interstate-35 corridor during the summer to visit Schlitterbahn and the rivers. Throughout the year,
tourists also visit the San Marcos outlets. In the spring of 2004, Buda began construction on a new plot of land, once used for farmland, which would serve as a new commercial hub for retail businesses. The main company in the driver-seat of the entire development project was Cabela’s. This location would be the second built in Texas, making it one of five states in the nation to have two or more giant Cabela’s retail stores. The first store is located in Ft. Worth, TX and a third location is under construction in Allen, TX. The Buda city council began the process by creating an economic development corporation appropriately named the Du Pre Development Corporation, which was an allusion to the city’s original name. This development corporation was established specifically to manage the Cabela’s development project.

To begin the process, the Du Pre Corporation approached Don Rylander, a rancher who owned 126 acres of ranch and farmland adjacent to Interstate 35, and offered to buy his land. Don Rylander had been using the land for raising and auctioning cattle
and horses. Since he had the land appraised under agricultural use, the taxes on his land value were much lower than taxes for land under a commercial appraisal. When Mr. Rylander agreed to sell, the state of Texas re-appraised the land as commercial property. This reappraisal increased the market value of the land by over $300,000. The State then tabulated five years of back-taxes and sent the bill to Mr. Rylander. The State refers to this practice as the rollback tax. In addition to a 7% interest penalty charged for the re-appraisal, Mr. Rylander owed over $300,000 in new unpaid taxes. After several attempts to fight the new appraisal, Cabela’s decided to inherit the bill and pay the taxes for Mr. Rylander.

Once the Du Pre Corporation purchased the land, the Buda City Council and Hays County Commissioners’ Court decided the costs for re-developing the old farmland for commercial use would not exceed $36 million. After the city installed water and sewage lines, new roads and the building foundation, the total costs came to $31,752,922. Table 2.1 shows a tabular list of all projected costs.
Table 2.1: Estimates Project Costs for Rylander plot  
*Source:* DuPre Corporation Revenue Bonds Transcript Proceedings

<table>
<thead>
<tr>
<th>Improvement/Facilities</th>
<th>Estimated Costs</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>I.) Public Infrastructure (inside TIF zone)</strong></td>
<td></td>
</tr>
<tr>
<td>A) Streets/Roads (includes streets within 126 acres, Loop 4, City/County Road 117, FM 2001 and rights-of-way)</td>
<td>$11,231,015</td>
</tr>
<tr>
<td>B) Water</td>
<td></td>
</tr>
<tr>
<td>i) Water lines</td>
<td>$437,400</td>
</tr>
<tr>
<td>ii) Water Tower/Storage</td>
<td>$2,054,351</td>
</tr>
<tr>
<td>C) Storm Sewer</td>
<td>$300,000</td>
</tr>
<tr>
<td>D) Wet Pond/Stormwater Management</td>
<td>$1,559,858</td>
</tr>
<tr>
<td>E) Traffic Signalization</td>
<td>$800,000</td>
</tr>
<tr>
<td>F) Sanitary Sewer includes relocation and upgrade of line within Loop 4</td>
<td>$983,500</td>
</tr>
<tr>
<td>G) Earthwork/Grading</td>
<td>$472,500</td>
</tr>
<tr>
<td>H) Street Lighting</td>
<td>$800,000</td>
</tr>
<tr>
<td><strong>II.) Public Museum Facilities</strong></td>
<td>$13,114,298</td>
</tr>
<tr>
<td>(Includes museum/display space and related parking, equipment, special features, engineering/architecture and land costs)</td>
<td></td>
</tr>
<tr>
<td><strong>TOTAL PUBLIC INFRASTRUCTURE AND PUBLIC MUSEUM FACILITIES</strong></td>
<td><strong>$31,752,922</strong></td>
</tr>
</tbody>
</table>

The City of Buda used revenue bonds to finance the development costs for each of the above items. Once the infrastructure development had completed, Buda sold the land to Cabela’s in a similar fashion as the City of Greenwood, IN. The City of Greenwood, IN offered an $18 million dollar incentive using bonds to build the
infrastructure. Greenwood then sold the land to Cabela’s in the hopes of spurring new retail development (Holtkamp-Frye 2007). According to the legal agreement established by the Du Pre Corporation, Cabela’s not only owns the land but also is responsible for future development of the 126-acre plot of land the store and other businesses currently occupy.

Buda offered to help Cabela’s pay off the debt on the land if the company met certain standards. Cabela’s promised to maintain 400 full-time positions between the store in Ft. Worth and Buda with 225 positions coming from the Buda store (Biundo 2007). To help Cabela’s with payments, Buda established a tax-increment finance zone or “TIF” zone, which encompasses the entire 126-acre commercial plot. This means that the collected property taxes from the value of the appraised land before development began would automatically go to the city for operations. As the property value rises through the years, any taxes collected from the increased property value will be deposited into an account the city could potentially use to assist Cabela’s with debt payments. The city essentially assists by potentially paying off up to 100% of the debt payments twice a year. The city may not always make 100% of the debt payment because Cabela’s is under contract to adhere to specific benchmarks of jobs maintained in the Buda store. If the 126-acre lot does not meet its benchmarks, the city will then reduce its portion of the debt payment and Cabela’s will be responsible for paying the difference.

For example, if one bi-annual payment equals $100,000, Buda will pay off the entire payment as long as Cabela’s meets its benchmarks. If Cabela’s does not meet the sales tax revenue or employment benchmarks, the city may deduct 20% to 40% of its bi-annual payment, leaving the company in charge of covering the remainder. According to
the Du Pre Corporation, Cabela’s has forfeited $10 million in prospective payments from Buda from the time the store opened through October of 2010. This means that Cabela’s has had to cover $10 million in payments off the debt because it fell short of the required number of jobs it promised to maintain. If the company had met its specific benchmarks, the city would have covered those payments. In January of 2007, Cabela’s employed less than 210 full-time employees. By June of the same year, Cabela’s was 126 full-time positions short of its promised benchmark of 400 in the state (Biundo 2007).

The Texas Enterprise Fund, which is a state-fund designed to assist companies that provide a certain number of jobs per year, also contributed money to the Cabela’s development project. However, the state of Texas ended up receiving $70,384 in returned funds as of 2007. Cabela’s also forfeited a $200,000 state grant for missing its benchmark of 400 full-time positions by 86 jobs at the end of 2006 (Reinlie 2007). Ultimately, Cabela’s did not fulfill its promise to the State of Texas, the City of Buda and the Du Pre Corporation. As Buda Economic Development Corporation Director Warren Ketterman stated, “Incentives are a two-way street”, meaning that both the state and the company have to live up to promises. Because Cabela’s did not live up to its contractual obligations, it did not receive the full subsidy that was expected.

As of December 2010, only Cabela’s, a HEB, a Wal-Mart along with several hotels, restaurants and service businesses occupy the 126-acre property. The city expected the lot to be almost full; however, a quick tour of the acreage will show more than half of the lot remains empty. For Cabela’s to meet benchmarks on sales tax revenue, they need to assist in the attraction of “spillover” business to the acreage. Spillover businesses are those that will benefit from Buda customers, such as hotels to
house the travelling customers or restaurants to feed them. Buda measures Cabela’s adherence to each established benchmark by computing the total sales tax from every business in addition to the number of jobs that come from the 126-acre lot.

Today, the City of Buda is becoming more proactive in assisting Cabela’s with further development on the Rylander lot, as it is in the city’s best interest to see the Cabela’s project succeed. However, the widespread economic downturn in 2007 had its effect on businesses and jobs all across the country. Buda recognizes that the recession played in integral part in a downward trend of revenue from the Rylander lot. The next chapter forms a theoretical framework on the history and use of tax incentives. The following section also develops consequences and benefits of economic development.
Chapter 3: Literature Review

Introduction

Generally, people from small towns are used to heckling by others about being from an area with such limited resources. One joke this author has heard is “you know you are from a small town when the yellow pages have only one page.” Depending on the town, that statement is sadly not far from the truth. The lack of business development keeps some towns small; some are so small that no development occurs outside of the centralized town square. These towns grow larger through the expansion of the business sector. Sometimes governments of these small towns pro-actively get involved in attracting businesses to their community. This chapter focuses on how and why cities engage in expansion of the business sector or economic development.

Often, cities offer a business an incentive to setup shop or open additional locations in their community. These incentives fall under the cloak of the term “Economic Development”. Economic development incentives come in the form of tax abatements, tax incremental incentives, loan guarantees and industrial revenue bonds. Ultimately, city governments and the taxpayers finance these incentives. If a city uses public money on the mentioned tax incentives, it places city taxpayers in the same risk pool as a business. Therefore, it is only appropriate to understand how and why the process of economic development works. This literature review first examines what economic development is as well as why cities pursue particular economic development
incentives. Next, it explains what the above incentives are and how they are structured. This literature review also examines consequences and restrictions of economic development incentives. Lastly, this project discusses the benefits of these incentives along with a conceptual framework of variables and hypotheses.

What is Economic Development?

Economic Development Defined

Economic development is plainly defined by Business Dictionary.com as an “adoption of new technologies, transition from agriculture-based to industry-based economy, and general improvement in living standards.” (Business Dictionary.com 2010). Another definition calls it “the use of development (such as businesses or infrastructure) that will better the surrounding economy” (Lester 2005, 4). For example, cities practice economic development when they widen a road in order to allow better flow of traffic, which speeds up trade and commerce. A city may build a complex that can house several small businesses or one large corporation. Ultimately, the city that decides to engage in economic development understands that there must be tangible results to justify its efforts (Black 1991, 5).

History and Trend of Economic Development

Since the 1940s, cities of all sizes have used various economic incentives to promote economic development. The 1895 ruling of Pollock v. Farmer’s Loan and Trust
Company prohibited the federal government from taxing state-owned land. This ruling allowed states to divert money previously used for federal taxes to new economic development projects. It was not long until states and local governments began exempting private land from taxation by issuing industrial revenue bonds (Bland and Chen 1990, 43). This meant that a city could offer tax-exempt revenue bonds as an incentive to businesses to open their doors in the city. Revenue bonds work by the city purchasing land and material at tax-exempt status and allowing private businesses to use the land and/or material for commercial purposes. These municipal bonds saw major expansion during the 1970s and 1980s but slowed down after the passage of the Tax Reform Act of 1986. The Tax Reform Act stated that revenue bonds would lose their tax-exempt status if a private investor (Bland and Chen 1990, 43) owned more than 25% of the principal and interest paid.

The Tax Reform Act opened a door for cities to use new incentives for the purposes of economic development. Shortly after revenue bonds saw a major decline, local governments began using loan guarantees. Cities use loan guarantees by acting as a co-signer on a start-up loan for new or relocating businesses. Private companies appreciate this extra assurance because if they default on a loan, the city would pay off the remaining note. Loan guarantees grew in popularity during the 1970s. However, through the 1980s, the savings and loan industry saw a significant number of companies default on their loans, especially during the 1982 recession (Mody and Patro 1996, 120). Cities had to make up for these revenue losses without sacrificing economic development projects. Local governments began looking into other avenues for business development.
The 1980s brought a new wave of fiscal incentives for economic development. These incentives focused more on tax abatements, loans and land give-away (Lester 2005, 5). Cities began competing against each other to provide the best incentive package for luring businesses into their communities. As a result, private firms began computing these incentives along with new variables such as labor market and resource availability when deciding on relocating to the cities offering incentives (Feiock 1991, 643). The lure of economic development encouraged many cities and counties to compete with each other to bring in as many new businesses as possible. Corporate elites saw it beneficial to become involved in local politics (Horan 1990, 491), which gave companies access and power over local government spending. It became easier to divert revenue to economic development projects that benefited their business or other businesses in other industries.

**Economic Development Today**

State and local governments needed a new and safer way to attract business to their community. The use of loan guarantees and municipal bonds quickly became too risky to justify to the taxpayers. Tax abatements became the new form of tax incentive to draw new business into cities and counties. Cities use tax abatements by exempting private firms from paying property taxes for a specific length of time ranging from five to twenty-five years. Companies use the cost-savings to become operational much quicker or they may use it for further investment. Governments now seek out firms that only employ high wageworkers, use high-end technology, and do not overuse local resources. In addition, cities prefer firms that can control pollution (Beaumont and
Hovey 1985, 327). Horan (1990) found that land is the biggest commodity that private companies seek. Businesses can buy land cheap and lease property to other businesses in order to make a profit. Cities are also more willing to distribute land since it is the economic resource they have most direct control over. Land transactions often entail regulation limitations, assembly of resources and development of roads, construction of sidewalks and green-space in order to provide some sort of benefit to the business (Horan 1990, 490). This type of development can “sweeten” the deal for most businesses, especially if they are looking for a low-cost way to develop some aesthetic scenery to compliment their commercial presence.

With such limited resources, local governments have to choose carefully when offering incentive packages to private companies. City officials consider supply and demand when choosing which companies or industries to approach. For example, a city competing with many larger and more attractive cities is more likely to offer development incentives to a business that is not dependant on the local resources of the community (Garcia-Mila, et al. 2002, 120). In other words, a business that can only find the materials it needs to provide its goods and/or services from the local community is not as high of a priority as a business that can easily find resources elsewhere. A company that is dependent on the labor supply of the community does not require an incentive to stay or expand. On the other hand, a business that does not require resources from the community to survive can easily pack its bags and leave. If such a business or industry is vital to the local economy, the city will offer more attractive development incentives so that business will stay.
By focusing on businesses that are not dependent on the resources of the community, cities can spend their limited resources on industries and businesses that can have an individual impact on the local economy. Private companies understand the benefit of development incentives and they know what they have to do to qualify for them. Up to now, this section focused on how cities approach businesses for development incentives but private companies also approach cities for development projects. A business can claim that it will bring in new industry and commerce as well as new jobs for the city’s citizens. These businesses involve themselves in the development process so they can look out for their interests when money is spent (Cox and Mair 1988, 309).

The most effective way for businesses to intervene in local economic development is to start a development corporation. Often, businesses in a similar industry form a private proprietary economic development corporation. This type of group becomes more of a political pressure group that lobbies on behalf of its collective interest. Another type of development coalition is a public-private economic development corporation. This type of development corporation is more of a coalition of business representatives and government employees that have the authority to make development decisions (Black 1991, 6-7). They calculate the geographic parameters as well as resource availability when deciding on where money is to be spent (Horan 1990, 491). It is common now for cities to place more focus on subsidized job training programs. A small to average city may have an individual company that offers hundreds of jobs willing to relocate to its community. These cities cover the cost of training future employees for the company willing to relocate (Beaumont and Hovey 1985, 328). Both
the city and company save money since the city covers the cost of training and creates a new supply of skilled labor. Even if a target company decides not to re-locate in the city, the job-training program still opens the door for competitors to locate in the community because of their demand for the newly learned skill.

For example, the city of Buda may establish a training facility for autoworkers while simultaneously trying to attract a Ford Motor manufacturing plant to the city. The training program benefits the company and gets workers “on the line” faster than if there was no training program. This also benefits the city since production would move faster. If production moves fast, then the city’s export market will grow and attract more business. Thus, the city can grow much faster with job training programs. The future will reveal more changes in what cities will do in order to attract businesses. The next section focuses on the incentives for cities and businesses to engage in development practices.

**Motivation for Cities and Businesses to pursue Economic Development**

**Incentives for Cities**

With the demand for jobs and economic viability growing in many cities within Texas, local governments are heavily engaging in economic development practices in order to increase the community’s prosperity and improve the quality of life (Lester 2005, 7). Politicians are generally under enormous pressure to create and maintain jobs within their cities (Brunori 1997, 59). Hofer found that local governments want to project a favorable business environment to other firms so they decide to locate in the community
Local governments also understand that competitiveness remains the preferred strategy of economic development (Lester 2005, 7). Overall, cities can only survive with tax revenue, which comes out of property taxes from business and homeowners or sales tax. Either way, revenue growth depends on business development.

Garcia-Mila and McGuire offer an example in which a mayor, acting as a social planner, recognizes that an increase in aggregate private capital will make all businesses productive in the region. It is easier to justify a tax incentive to a company that can guarantee that it will bring in new capital and revenue to the city. In the end, the city still sees an increase in revenue (Garcia-Mila, et al. 2002, 103). Ultimately, local governments have the right to be selective about to which companies they offer incentive packages. Cities only present an incentive to relocating firms that have the potential to improve the productivity of other existing industries. City planners determine if a specific firm’s type of business fits into the city’s economic model so other businesses may benefit from this specific firm. If this occurs, the business community and the taxpayers are easier to “win-over” and the city gets another addition to the tax roll (Garcia-Mila, et al. 2002, 108,114).

Cities can also generate revenue from specific tax incentives given to prospective businesses. First, cities use company-specific tax incentives based on the premise that the company will eventually generate enough revenue in the future to offset the cost of the incentive (Brunori 1997, 53). Second, communities can charge businesses fees for the loan guarantees the city signs for these businesses. Many times, these fees can reach 15% of the total value of the loan. The higher the risk of the credit, the higher the fee the
business will be required to pay to the city (Mody and Patro 1996, 132). The fees collected from the loan guarantees add to the city budget and can pay off city debt. Fees and charges help create incentives for cities to issue more loan guarantees versus direct investment loans in which costs to investing cities are immediate (Mody and Patro 1996, 132).

Cities also offer partial loan guarantees to particular firms. Partial loan guarantees create a greater motive for the lender to monitor the performance of the borrower. This additional oversight also encourages the company to run an efficient business. In addition, partial guarantees filter out bad borrowers and make room for companies who are more stable and better able to manage risks (Mody and Patro 1996, 122). Partial loan guarantees reduce the risk of cities actually having to cover the cost of a business defaulting on a loan. Though this type of incentive does not add directly to future revenue growth, it is a much safer development practice cities use for growth of the business sector.

Immergluck found that higher skilled workers tend to have a farther commute to work than lower-skilled workers do (Immergluck 1998, 171). Cities with dense populations of low-skilled workers have a greater incentive to attract more retail such as Wal-Mart, Home-Depot, etc. This is because retail is one industry that seeks low-skilled labor. Overall, a city’s desirability of tax incentives solely depends on the goals of the local economy and the circumstances of the contract (D. N. Baum 1987, 358). The next section focuses on what motivates individuals to accept tax incentives and what
encourages individual taxpayers to get involved in the attraction of new business to a city.

**Incentives to Business**

In the 1980s, tax benefits were increasing in popularity. This was especially true for restoration projects in cities. This encouraged developers and entrepreneurs to engage in high-risk rehabilitation and restoration projects since income-tax credits and local tax incentives were available to complete these projects (Klutznick 1983, 75). As stated before, cities generally dismiss businesses that do not appear to be a good investment for both the city and other businesses (Garcia-Mila, et al. 2002, 108,114). This allows cities to spend tax incentives on businesses that cannot only take the risk but can also properly manage it. Furthermore, if a company is able to produce what Garcia-Mila calls the spillover effect, then these companies receive higher tax incentives than firms who do not meet these standards. The spillover effect is when neighboring communities feel the economic benefits of development from targeted jurisdictions (Garcia-Mila, et al. 2002, 110).

Cities also reward firms that are able to take their tax abatements, bonds or loans and use them properly; proper use dictates that the expenditure or activity does not negatively affect the allocation of public goods and services (Bourassa 1990, 103). Furthermore, cities will reward firms who are willing to relocate in order for the city to complete a project, whether it is for beautification, widening of a road, construction for a new school, etc (Garcia-Mila, et al. 2002, 111).
For example, the city of Buda may want to build a preserve for a local species of deer. One obstacle could be to have a major company, already located in the city and established on a piece of property, to move their business across town so the city can use the property for a preserve. In order for the company to relocate, it would require the city to incur the costs of construction, widening of new roads, water and sewage systems, etc. In addition, the city may have to provide extra incentives to the company in order to convince it that relocating will be worthwhile. This company understands the benefit of relocating and may have been waiting for the city to encourage them to move in the first place. This way the firm could relocate to an ideal profitable location while complying with the city’s needs (Klutznick 1983, 77). If there is a high demand for the service or product from this company, the city will be more willing to offer attractive tax incentives (Garcia-Mila, et al. 2002, 117).

Although some businesses compete for tax incentives equitably, other businesses gain quicker and easier access to incentives through corruptive practices. Some research suggests that cities do not award subsidies and tax incentives based on merit but on the firm’s ability to coerce or bribe government officials. This does not exclude the possibility of government officials initiating corruptive practices (Garcia-Mila, et al. 2002, 120). Research further suggests that a firm considers location specifically on where they can get the most attractive tax incentive (Garcia-Mila, et al. 2002, 122). Ultimately, the company chooses the path that maximizes their profits and viability in the marketplace.
Businesses depend on the exchange of certain raw materials and labor resources. It is usually not in a company’s best interest to tie themselves to a specific region in regards to the acquisition of resources. In a capitalist system, localized linkages are very unstable. Businesses change suppliers and creditors regularly. Therefore, a company that is less dependent on a local economy is better able to maximize its resources (Cox and Mair 1988, 308). In addition, businesses that can add value, revenue and future growth to a city are more likely offered development incentives. The next section focuses on the types of tax incentives offered by cities to companies for the purpose of economic development.

**Common Types of Economic Development Tax Incentives**

**Tax Abatements**

Tax abatements are temporary reductions in taxes (usually property taxes) for a specific period of time (Severn 1992, 237). When businesses are developing or re-developing, cities suspend the company’s obligation to pay property taxes for time-periods ranging from five to twenty-five years. Once the abatement time ends, the city appraiser re-assesses the property and the business begins paying property taxes at the original tax rate from the time the abatement began. The “grace-period” increases the company’s profits that would normally be spent on taxes during the initial years of development (Black 1991, 63). In the early 2000s, tax abatements were the most commonly utilized economic development tool (Hofer 2003, 748). Cities use tax abatements more often than states because property taxes fall under the control of cities (Lester 2005, 17). Some restrictions include capping the maximum abatement
period, setting a minimum of job positions that a business is required to bring to the city, or setting a minimum amount of investment in property improvements (Hofer 2003, 751). Many of the restrictions on abatements, such as allotted time-period vary within a state and across the country (Severn 1992, 238).

Tax abatements offer a sharp reduction in the tax burden for businesses that normally pay income and property taxes. This lowers the risk of starting a business for owners who use commercial property. Certain contracting services such as plumbers, developers and various contractors work from home and are usually exempt from commercial property taxes (Severn 1992, 242). Many local governments create tax abatements in order to encourage development of new buildings for the purpose of new capital creation. Cities also offer tax abatements for business owners to renovate abandoned buildings into new commercial centers. By offering abatements for renovation, cities give business owners a new incentive to expand their businesses into new areas of the city (Severn 1992, 237,242).

Often times, major cities have various blighted or “run-down” regions of the city. Blighted regions have many abandoned warehouses, empty commercial lots, and other various empty buildings. Not only do these areas reduce property value but they also are not aesthetically pleasing. Cities use tax abatements to entice businesses to relocate to or open a second location in the blighted area. The city hopes that the new revived commercial presence will spur further investment in the area, turning the blighted area into a lucrative commercial zone.
The benefits of tax abatements must exceed the benefits of not granting the abatement in terms of net revenue change to the city (Hofer 2003, 755). Even though there is an initial loss of revenue during the abatement period, the investment may generate new job opportunities that produce greater long-term benefits to the community (Lester 2005, 18). Above all, communities need to determine their needs before granting property tax abatements. If local governments neglect to plan properly, they may weaken the community’s attractiveness to firms who originally considered locating in the community (Wassmer 1992, 279). In a study of property tax abatements in San Marcos, TX, Hofer found that tax abatements are more effective when used in conjunction with other economic development incentives (Hofer 2003, 759). This is most likely true for most communities similar in size and structure to San Marcos.

**Tax Increment Financing**

Like tax abatements, cities use tax increment incentives at the beginning stages of the development process (Lester 2005, 19). In order to begin collecting revenue, cities setup tax-increment finance zones or “TIF” zones that are zoned-off regions from which the city receives revenue. Generally, the formula for tax increment financing takes the difference between the total property value of the pre-development stage, (that is, the value of the property in the TIF zone before it became a zone) and the total property value after redevelopment of the TIF zone (Black 1991, 63; Dye and Merriman 1999, 309). Cities deposit the difference into the fund used for infrastructure development, such as road expansions, streetlights, water and sewer lines (Black 1991, 63).
Because of timing differences between expenditures and receipts, cities often use TIF districts to borrow money for developmental expenditures in the early years of expansion (Dye and Merriman 1999, 309). Instead of waiting for the money to trickle in, the city borrows the money and uses the post-development revenue in the TIF district to fund the re-payment of the loan (Lester 2005, 18). A community must qualify for TIF designation and they usually must have some sort of “blighted” status, meaning that there is a significant lower level of property value in the area (Dye and Merriman 1999, 309).

In his book, *Achieving Economic Development Success: Tools that Work* (1991), Black touches on Robert Bland’s considerations for cities when deciding to use tax increment financing. The city must have at least one non-property tax revenue source, such as sales or income tax, so it can claim future revenue growth from development. Additionally, cities should not use tax incentives to attract too many companies in a similar industry. This means that a city should not try to attract ten grocery stores but limit the number to only one or two; this will encourage competition to emerge from the marketplace.

Above all, tax increment incentives are a way for local governments to redistribute revenue to improve infrastructure without having to invest additional government spending (Dye and Merriman 1999, 309,317). The city can create a more attractive environment for future business development (Lester 2005, 18). In addition to tax increment incentives, local governments have other options to consider which do not require a raise in taxes or an increase in government spending. The next category of incentives is local loan guarantees.
Loan Guarantees

A loan guarantee occurs when a municipality “co-signs” on a business start-up loan. Functionally, loan guarantees are insurance policies for the business taking out the loan. If the business were to default on payments, the city would make the promised payment to the lender in the company’s stead (Merton and Bodie 1992, 90). The purpose of a loan guarantee is to convert a risky loan into a risk-free loan. This is valuable to the lender because the city will assume responsibility in case the borrowing company is unable to repay its debt (Mody and Patro 1996, 121). Loan guarantees allow a much safer transaction for companies to gather the necessary funds to begin a business in the community. Additionally, guarantees allow banks to lower interest rates on loans since the city guarantees banks that they will receive payment for the debt (Lester 2005, 20). Banks enjoy this arrangement because cities are more creditworthy than private borrowers (Mody and Patro 1996, 121).

Guarantees provide a sense of comfort to the company, especially when the risk and term of the loan increase. However, guarantees pose a substantial risk to the municipality (Mody and Patro 1996, 119-120). Although no direct payment is necessary in the beginning of the transaction, the city incurs contingent liability. Simply put, the city is responsible for re-paying the lender in case the firm defaults. This can have significant impact on the city budget and expenditures in the future (Mody and Patro 1996, 120). One way cities avoid negative outcomes is to require the borrower to purchase default-free, fixed income securities; these could make up for some losses in case the company defaults (Merton and Bodie 1992, 96). Governments also charge fees
for loan guarantees. Fees help mitigate future financial risk. By charging fees on loan guarantees, cities can reduce a potential budget deficit, especially if the fee is residual (Mody and Patro 1996, 132).

Above all, loan guarantees pose the greatest risk of all types of financial incentives because of the future risk of unintended costs. However, loan guarantees offer businesses an incentive to bring their company to a community with the city putting no money down at the beginning of the transaction. The final type of tax incentive discussed in this section is industrial development revenue bonds.

**Industrial Development Revenue Bonds**

As early as 1936, cities would commission economic development boards, typically comprised of businesspersons, to sell revenue bonds in order to build industrial facilities. Buyers would usually be banks or private investors. In order to recoup some costs to pay off the debt from the bonds, the city would charge rent to the users of the facility constructed with the bond proceeds (Watson and Vocino 1990, 428). Economic development boards would then lease out space to private companies. Revenue from the rent paid by the inhabitants would offset the cost of the principal and interest on the bonds. Once the company paid off their debt, which the city determined, the business would own the facility. This is similar to many “rent-to-own” businesses where consumers pay rent on goods until they eventually pay off the entire cost of the product. While the company resided in the public facility, they generally paid no property or a sales tax since the land is public. Additionally, the economic development board could
buy materials tax-free where the business would not be able to on its own (Watson and Vocino 1990, 428).

With growing competition among municipalities for business development, the use of revenue bonds greatly increased in the 1970s (Bland and Chen 1990, 43). The purpose of these bonds was for municipalities to create incentives for firms to locate to their community (Bland and Chen 1990, 44, Lester 2005, 20). Until the passage of the 1986 Tax Reform Act, which limited tax-exempt status for public land transferred to private firms, cities relied heavily on the use of bonds to help finance firms of all types. This included product and service companies. The 1986 Act limited bond use to water and sewage facilities, airport docks, electric and gas systems as well as mass transportation facilities (Black 1991, 63). Cities recognize that growing the private business sector is vital to bringing employment opportunities to citizens as well as creating future sales and income tax revenue. All types of development incentives have their own positive and negative impacts on communities. The next section of this literature review focuses on positive and negative impacts of economic development. Each section discusses individual factors contributing to impacts on citizens and revenue growth.

**Positive and Negative Impacts of Economic Development Incentives**

This section begins by exploring the impact tax incentives have on local communities. This section also highlights positive and negative consequences from using
development incentives. The discussion on consequences begins with the concept of “boosterism” in local government (Gendzel 1995, 531).

**Bidding War**

The most common complaint levied towards economic tax incentives is that they are simply the result of “boosterism” or a bidding war amongst several cities and counties (Dye and Merriman 1999, 307). Recently, there has been an increase in the number of tax incentives dispersed by developing cities and counties to prospective businesses (Brunori 1997, 54). As more cities offer tax incentives, interested companies play cities and counties against each other in order to extract the most attractive subsidy package. A large company can capitalize from the desperation of a city that will suffer without the addition of the company. This advantage allows a business to manipulate local governments in order to maximize its profits (Dye and Merriman 1999, 308).

**Effect on City Service Allocation**

Tax incentive debates often overlook the immediate reduction in available revenue, especially revenue designated for city services, once the local government grants the incentive (Brunori 1997, 54). Immediate reductions in revenue are not only the result from tax abatements. Industrial revenue bonds also exempt the occupying business of a public facility from paying property taxes. Additionally, loan guarantees have no up-front cost, but can have a negative effect on future available revenue for city services since a default from the borrower of a loan is always a possibility (Mody and Patro 1996, 120). A city’s need for infrastructure renovation becomes greater after awarding
subsidies. A large company employing thousands of people needs road expansions, water towers, sewage lines, extra police and fire protection, etc. If the immediate loss of revenue prevents a city from meeting its needs, it may have to raise additional revenue by borrowing money, increasing taxes or attempting to attract investors to buy additional revenue bonds (Brunori 1997, 54, 56).

**Property Value Sensitivity**

Some forms of development incentives such as tax abatements may require an initial increase in property taxes to make up for expected revenue from the business. In these scenarios, the local government ends up exploiting a specific region of citizens by imposing tax rates that exceed the cost of providing services to that region (Baum and Jamison 2006, 354). For example, if a city brings in a new shopping mall to a specific jurisdiction, taxes are raised in those communities in order to fund the development of the shopping area. The same community may also see a rise in traffic congestion, trash, theft, etc which all had an effect on property value. (Peterson 1981, 32).

Similarly, a new highway may split a community in half, which may disrupt commerce or lead to a decline in property values. Airports cause noise pollution and sewage plants result in unpleasant odors for the surrounding neighborhoods (Cox and Mair 1988, 313). These and other factors associated with infrastructure development have negative effects on property value.

Cities also use enterprise zones that are setup to attract business in a particular area of a community. Communities are able to zone out unpleasant commercial activities
or infrastructure in order to maintain a “clean” look (Peterson 1981, 104). Cities offer other tax incentives in conjunction with enterprise zones in order to foster development of certain industries. Different industries have different effects on property value (Black 1991, 34-35). Therefore, for a community to grow through infrastructure and business, the city should pair enterprise zones with proper forecasting of any consequences from the increased development.

**Lack of Equity**

Equity of tax incentives is a major complaint levied against cities. Many tax incentives offered by municipalities are company specific. Company-specific incentives are fundamentally unfair since the majority of companies that receive tax incentives are companies well connected to local governments (Brunori 1997, 55). One possibility is that an established interest group can influence local officials so they grant incentives to companies friendly to local developers (Cox and Mair 1988, 309). This is the pure definition of economic development corruption. Research on municipal government corruption, in regards to development, suggests that governments award incentives to companies based on their ability to coerce, force, or bribe local government decision makers (Garcia-Mila, et al. 2002, 120). Although this point was touched on earlier, it is important to note that this type of behavior usually leads to an unstable local economy.

For example, a city may offer different tax incentive packages to two companies selling the same product. Cities are known to attract large companies with development incentives at the expense of local competitors. While the new incoming business is free from property taxes for several years, the local company that sells the same product is
paying their share of taxes. When looked at on the grand scheme, the local company’s tax dollars are being used to fund the development of their competitor. This creates a moral hazard where one business receives a market advantage at the expense of the local competitor. The company at a disadvantage may have to cut necessary costs and dip into profits in order to level out the playing field (Brunori 1997, 55). They may also decide to leave the region or simply shut down.

*Special Interest Groups*

Another complaint against tax incentives is that they become unintentional catalysts of the formation of special interest groups. Citizens repeatedly hear political candidates rail against opponents because of their relationship with local special interests. Local companies align themselves with other companies who share a common business interest. Businesses form coalitions to lobby on behalf of various causes such as keeping a specific commercial lot exclusive to the businesses in the coalition, expanding a road or zoning new property for commercial use (Cox and Mair 1988, 310).

Businesses even get involved in local government politics in order to pressure city councils to pass laws that benefit their ability to increase profits. Eventually some business coalitions put enough pressure on local government to pass ordinances that place other groups of businesses at a disadvantage (Brunori 1997, 54). City officials can establish zoning requirements that make it almost impossible for specific companies to comply. Some laws require that a particular company use specific square footage in their commercial space among other requirements. Such requirements are designed to force the competition out and allow the benefiting businesses to monopolize a regional market.
As reprehensible as these behaviors sound, some interest groups would not be able to accomplish a competition-free environment without local government. Cox and Mair found that smaller cities run into the problem of powerful special interest corruption more so than larger cities (Cox and Mair 1988, 310).

_Gentrification_

Gentrification is the substantial replacement of low-income neighborhood residents with higher-income residents. When political leaders discuss various directions of growth, they often treat individuals and their communities as separate entities while discounting the effects that development has on an established community (Immergluck 1998, 173-174). Some policies encourage people to leave communities due to investments from higher income individuals. Many low-income residents leave gentrified communities because as property value increases, so does the property tax rate. This type of development practice isolates communities and creates hostility between neighborhoods.

In a study of the Detroit metropolitan area, Wassmer found that as tax abatements increase, home values outside the development zone decrease. Crime rate in Detroit also increased significantly as tax abatements increased (Wassmer 1992, 279). In regards to gentrification, if wealthy pro-development citizens target a low-income community, tensions may eventually lead to spikes in crime rates. Essentially, gentrification has the potential to create a class divide between communities, which leads to an imbalance in local economic development. The next section explores the benefits of tax
incentives. The conclusion of the literature review includes a conceptual framework table with hypotheses.

**Primary Benefits of Economic Development Incentives**

*Benefits to Tax Revenue*

Evidence on the general benefits of development incentives is inconclusive. The following topics are benefits derived from current research findings. The obvious benefit of tax incentives is increased sales tax revenue from the addition of new businesses into the community (Blair 1995, 169 as cited by Lester 2005, 11). Another rationale for tax incentives is that they lead to a total increase of a community’s economic welfare (D. N. Baum 1987, 353). If there are more businesses paying into sales tax revenue then logic dictates that revenue should increase.

Another argument is that tax incentives have long-term economic benefits as opposed to short-term benefits. The creation of new jobs is a desired short-term benefit but the need to keep capital accumulation and commerce growing is a much higher priority. However, the highest priority is for cities to find ways to increase the future flow of sales tax revenue. In a study on the benefits of the development of sports stadiums on sales tax revenue, Greenberg found that the justification for property tax incentives is that future sales tax revenue offsets the lost property tax revenue. Greenberg’s research also found that local governments receive tax revenue from sales of food, tickets, and concessions. The development of restaurants, hotels, car rental
facilities also tie in with the expected benefit of future sales tax revenue (Greenberg 1997, 15-18).

In other research, Baum found that cities with low unemployment rates tend to use more tax incentives for expansion of local capital and goods as opposed to using incentives to attract new industry (D. N. Baum 1987, 354). This finding suggests that some cities do not use tax incentives to attract new business but rather they use them to retain and expand the current economic base (Klutznick 1983, 78). By expanding the current business sector, local governments create jobs while simultaneously increasing exports.

In 1992, Severn found that tax abatements offered a power stimulant to industrial development, more so than a graduated (or progressive) tax system (Severn 1992, 242). Industrial businesses could use savings from tax payments to invest in further production of export goods, which would bring in additional revenue from outside of the city. However, research has yet to prove the effectiveness of tax abatements as sole contributors to economic prosperity. Hofer found that tax abatements are more effective when used in conjunction with other tax incentives (Hofer 2003, 759). Effectiveness of tax incentives combinations depends on the location of the city and the type of goods and resources the city is working with. If tax abatements are expected to generate sales tax revenue, cities need to be cautious that the costs of the subsidy do not outweigh the benefits of future revenue.
Expansion of City Services

One beneficial by-product of tax incentives is the allocation of city services. When cities use tax incentives to bring new business into the community, one can assume that cities can provide more public services to residents as sales tax revenue increases. During deliberations of whether or not to offer tax incentives to businesses, communities must take quality of life of the community members into account (Galambos and Schreiber 1978, 101). Some considerations include maintaining a park, maintaining a community center or even re-routing a road that would direct traffic away from hometown businesses.

As new business and sales tax come into the community, the city allocates new revenue to particular public services as part of its operational costs. However, not all city departments receive funding directly from revenues. Some city service departments, such as gas and electric services, are able to operate off gas and utility fees paid by residents. For example, money used for road or bridge expansion generally comes from gasoline taxes and toll fees. Cities use utility fees to fund sanitation, electric and water costs (Galambos and Schreiber 1978, 108). Above all, research has yet to determine a definitive impact between economic development and city services. It can only be speculated that as sales tax revenues see a positive trend from economic development, the same trend will occur with the allocation of public services.

Benefits to Businesses
City governments are not the only entities that benefit from revenue increases
gained from sales and property taxes. Citizens of developing communities have new
opportunities for jobs. With more people employed per capita, there is a potential for
increases in property tax revenue from single-family homes. However, governments and
individual citizens are not the only beneficiaries of tax incentives. Businesses not
receiving subsidies also see a variety of benefits associated with tax incentives targeted to
specific companies.

Cities have the potential to create an attractive climate to companies wanting to
start-up a new business or re-locate to a new community. Cities do this through
infrastructure development as well as targeted tax incentives to firms that open a new
market in the community. Targeted tax incentives are directed towards a specific
company versus several businesses in a specific industry. Research shows that the
number of tax incentives, offered by cities, influences businesses’ perception on the
desirability of a specific location to open a business (Feiock 1991, 645). Cities that have
a high local demand for a specific firm’s product or service tend to offer more tax
incentives to lure said business (Garcia-Mila, et al. 2002, 117). Companies interested in
expanding their business to new cities tend to look for regions of steady business growth.

While companies are drawn to business-friendly environments, the benefits from
tax incentives play an equal role in a company’s decision of whether or not to
relocate. Tax abatements provide an initial reduction in property taxes that the company
can use to reinvest in more capital or jobs. This is beneficial since businesses pay
property taxes along with corporate taxes, sales taxes and licensing fees (Severn 1992,
For example, a ten-year abatement period is the equivalent of a personal trainer offering a client a chair to use to for pull-ups during the first ten repetitions.

Loan guarantees allow a firm to take out a loan for start-up costs or renovations with the city acting as a co-signer. Loan guarantees turn the loan from a risky investment into a safe investment since the city provides an incentive for the lender to offer a lower interest rate on the loan. This is possible because the lender has more faith in the city’s ability to repay the loan in case the company defaults on payments (Mody and Patro 1996, 121). The business gains “peace of mind” when it begins investing in its new location.

Industrial revenue bonds allow cities to sell the use of tax-exempt land to private companies for business investment (Bland and Chen 1990, 43). Firms keep the money that would have been used for property taxes and allocate it wherever needed. Additionally, smaller cities, unable to gain access to investment capital, because of rigorous standards or lack of availability, rely on industrial development bonds to fund new commercial projects. Even when a small company pairs with a small city to apply for a business start-up loan, large credit agencies may still deny their applications for loans. In these cases, cities rely on leasing tax-exempt land to businesses so they can allow the company to use the benefits of the local government’s tax-exempt status during the company’s start-up period (Thompson 1968, 99).

Above all, private firms are the biggest beneficiaries from development tax incentives. Cities direct the bulk of tax incentives to private businesses as an enticement
for specific companies to locate to the community. It is up to the business to determine the potential benefits between competing communities.

*Effects on Population Growth*

Just as with tax revenue and public service growth, research on the relationship between economic development and population growth is slim to none. One study showed that population has a strong relationship with the adoption of tax increment financing. Surprisingly, it was only determined that an established population had an effect on TIF financing, rather than the inverse (Dye and Merriman 1999, 316-317).

Employment growth rate has the larger effect on population growth and worker migration. As counties and cities bring in new companies that offer new jobs, skilled employees specific to the new industry begin migrating to the city (Renkow 2003, 512). One can only assume that employment grows in cities that offer more tax incentives for economic development. The result of an increase in available jobs would theoretically result in larger population growth. However, with some tax incentives, a city may put restrictions on a company, such as requiring the company to hire within a particular zone. This includes job catchment zones, where the company can only hire citizens within a drawn radius so only a specific communities’ residents benefit from the development (Immergluck 1998, 175).

Ultimately, it is difficult to make a determination as to whether or not tax incentives lead to population growth. The research only concludes that population growth is sensitive to employment growth in a community (Renkow 2003, 511). If a city
creates a high demand for a specific talent or skill, the laws of economics suggest that the
supply of skilled workers will eventually increase. Although this makes sense at face
value, such variables have yet to be tested. However, the research shows that an increase
in the number of jobs within a region strongly correlates with an increase in population
(Immergluck 1998, 175). Above all, population spurs because cities offer something that
draws new families to the region. This ranges from family atmosphere or low traffic but
for the most part, new residents are drawn by the availability of jobs. People find
communities that best satisfy their needs. Research concludes that a city with strong
business and jobs growth will draw new people into the region (Bourassa 1990, 104).

**Conceptual Framework**

Conceptual frameworks are connected to outcomes or problem resolution because
they aid in making judgment. They guide the most practical, mechanical, elements of
empirical inquiry (Shields and Tajalli 2005, 5). The purpose of this research project is
explanatory. The research describes economic development, incentives to cities and
businesses as well as what type of development incentives are used. Lastly, the research
illustrates specific consequences and benefits resulting from economic development
incentives.

Table 3.1 shows the three hypotheses regarding the impact of a single business on
a small local economy. The first hypothesis shows the impact of a single subsidized
business on local sales tax-revenue growth. The second hypothesis shows the impact of a

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2 For an extended discussion of conceptual frameworks see Shields (1998) and Shields
single subsidized business on population growth in the Buda/Kyle region. The third hypothesis shows the impact of a single subsidized business on business growth in the Buda/Kyle region. This table also shows the connection of the hypotheses to the literature. The hypotheses addresses whether or not a subsidized business can have a positive or negative impact on a local economy.

**Table 3.1 Conceptual Framework**

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<thead>
<tr>
<th>Hypotheses</th>
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<tr>
<td><strong>H₁:</strong> Buda will see a significant increase in aggregate sales tax revenue over time after the addition of Cabela’s.</td>
<td>(Baum 1987), (Beaumont and Hovey 1985), (Black 1991), (Bland and Chen 1990), (Bourassa 1990), (Brunori 1997), (Business Dictionary.com 2010), (Cox and Mair 1988), (Dye and Merriman 1999), (Feiock 1991), (Galambos and Schreiber 1978), (Galster and Peacock 1986), (Garcia-Mila, et al. 2002), (Gendzel 1995), (Hofer 2003), (Horan 1990), (Immergluck 1998), (Klutznick 1983), (Lester 2005), (Merton and Bodie 1992), (Mody and Patro 1996), (Peterson 1981), (Renkow 2003), (Shields and Tajalli 2005). (Severn 1992), (Wassmer 1992)</td>
</tr>
<tr>
<td><strong>H₂:</strong> The addition of Cabela’s to Buda will significantly increase the number of single-family housing permits purchased in the city</td>
<td></td>
</tr>
<tr>
<td><strong>H₃:</strong> The addition of Cabela’s to Buda will significantly increase the number of commercial-building permits purchased in the city</td>
<td></td>
</tr>
</tbody>
</table>
Chapter Summary

This chapter discussed economic development in five sections. The first category defined economic development, recalled its history and discussed its current implications. Secondly, the research focused on incentives for municipalities and businesses to engage in economic development. The third section focused on four separate types of tax incentives, which include tax abatement, tax increment incentives, loan guarantees and industrial revenue tax-exempt bonds. The fourth section discussed consequences and restrictions of both individual tax incentives as well as economic development as a whole. The final section focused on the positive relationships between economic development and tax revenue increases, city service increase, and business and population growth.

In closing, the research appears very heavy on the consequences and impacts of economic development on a community. Identified benefits to tax revenue and city service allocation are scarce at best. This research does not address why cities and private firms still participate in economic development, as each have their own reasons. This research ultimately measures how a single subsidized business can affect a city’s sales tax revenue, population growth as well as business growth. The following methodology chapter explains how this project operationalizes and tests the hypotheses of this study.
Chapter 4 – Methodology

Chapter Purpose

The purpose of this chapter is to show how the data are compiled and by what procedure this project tests the hypotheses. The hypotheses are operationalized by defining how the dependent and independent variables of this study are measured. This chapter discusses the research design and statistics used to address the research question.

Operationalization

In order to determine if a single business can have an impact over a local economy, a trend analysis tests sales tax revenue, single-family housing permits and
commercial permits before and after the opening of a single business. In this case, the focus is on Cabela’s Incorporated Sports Outfitter.

The dependent variable for the first hypothesis is the total amount of sales tax revenue for the City of Buda before and after the opening of Cabela’s. These data come from tabulated monthly totals from the Texas Comptroller’s office. These data illustrate the change in growth of revenue before and after Cabela’s opened. Sales tax totals 8.25% when a person buys groceries at a store. City sales tax collections comprises one percent of the 8.25%. Another one percent of sales tax goes to the county, which leaves the remaining 6.25% to the state of Texas.

<table>
<thead>
<tr>
<th>Variables</th>
<th>Definition</th>
<th>Unit of Measurement</th>
<th>Data Source</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Dependent Variables</strong></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>H₁: Sales Tax Revenue</td>
<td>Total amount of monthly sales tax revenue for Buda</td>
<td>Monthly sales tax in dollars</td>
<td>State of Texas, Comptroller’s Office</td>
</tr>
<tr>
<td>H₂: Single-Family housing permits</td>
<td>Total number of new single-family permits purchased each month</td>
<td>Total number of single-family permits purchased</td>
<td>City of Buda, City Engineer’s Office</td>
</tr>
<tr>
<td>H₃: Number of Commercial-building permits</td>
<td>Total Number of new commercial-building permits purchased each month</td>
<td>Total number of commercial-building permits purchased</td>
<td>City of Buda, City Engineer’s Office</td>
</tr>
</tbody>
</table>

**Table 4.1: Table of Operationalization**
The dependent variable for the second hypothesis is the number of single-family permits issued per month. This variable measures the growth or decline in population before and after the opening of Cabela’s. The data are gathered through reports from the city engineer’s office of Buda. Anytime someone purchases a home within the city, that person must purchase a single-family housing permit whether he or she is buying a new or existing home. The data are tabulated monthly and will be used to test a population

<table>
<thead>
<tr>
<th>Addition of Cabela’s in Buda, TX (Month)</th>
<th>Reports the difference between the trend before and after Cabela’s opens</th>
<th>1-117</th>
<th>Manually Created</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dummy</td>
<td>Short-Term change resulting from opening of Cabela’s</td>
<td>0= before the company opened 1= after the company opening</td>
<td>Manually Created</td>
</tr>
<tr>
<td>Counter</td>
<td>Represents the trend after Cabela’s opens</td>
<td>0 before the company opening, 1,2,3,4, so on…after the company opening</td>
<td>Manually Created</td>
</tr>
<tr>
<td>Group</td>
<td>Separates each city where 0 represents the intervention city and 1 represents the comparison city (One test for each city)</td>
<td>0=Buda 1= Dripping Springs and Kyle</td>
<td>Manually Created</td>
</tr>
<tr>
<td>Comparison Month</td>
<td>Reports the difference in trends before Cabela’s opens</td>
<td>The product of the variables in Group and Month</td>
<td>Manually Created</td>
</tr>
<tr>
<td>Comparison Dummy</td>
<td>Reports the difference in short-term change right as Cabela’s opens</td>
<td>The product of the variables in Group and Dummy</td>
<td>Manually Created</td>
</tr>
<tr>
<td>Comparison Counter</td>
<td>Reports the difference in trends after Cabela’s opens</td>
<td>The product of the variables in Group and Counter</td>
<td>Manually Created</td>
</tr>
</tbody>
</table>
trend before and after Cabela’s. The permit information is a reasonable alternative data source because 2010 census information will not be available until after the conclusion of the applied research project.

The dependent variable for the third hypothesis is the number of commercial building permits issued per month. This variable measures the impact on business growth in the City of Buda before and after Cabela’s. City leaders argue that Cabela’s will bring more businesses and jobs to the city. This variable compares the trend in the number of commercial building permits issued before and after the retail center opened.

**Data Collection and Input**

The data for the second and third hypotheses come from the City of Buda. All collected sales tax revenue comes from the Texas Comptroller’s Office. Data pertaining to population and business growth is collected from the city engineer’s office. These data includes single-family housing permits and commercial building permits. All data came in the form of either currency or raw numbers so there was no need to convert any data into new values.

**Design**

The research evaluates trends before and after the opening of Cabela’s. This project compares the trend of sales tax revenue for Buda and the two comparison cities in order to determine the impact Cabela’s had on the City of Buda. The design uses an interruption in the social atmosphere to determine the point where of impact. In this research, the interruption is the opening of Cabela’s. The setting chapter addressed how
the city brought the business to the Buda community. To evaluate the data, this project uses an interrupted time-series comparison group design.

_Schematic Research Design_

Table 4.2 shown below displays the structure of the research design. “X” stands for the treatment or, in this case, the opening of Cabela’s in Buda. “O” is the observation of sales tax, single-family and commercial permits. The top row represents Buda and the bottom row represents the comparison group (Dripping Springs, Kyle). There are 54 months of observation before and 62 months of observation after Cabela’s in this project. This schematic is to show the structure of the design.

**Table 4.2: Interrupted Time-Series Design with Comparisons**

<table>
<thead>
<tr>
<th></th>
<th>Before Cabela’s</th>
<th>T</th>
<th>After Cabela’s</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Buda</strong></td>
<td>O₁</td>
<td>O₂</td>
<td>O₃</td>
</tr>
<tr>
<td></td>
<td>…O₅₄</td>
<td>X</td>
<td>O₅₅</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>O₅₇</td>
</tr>
<tr>
<td><strong>Comparison</strong></td>
<td>O₁</td>
<td>O₂</td>
<td>O₃</td>
</tr>
<tr>
<td><strong>Cities</strong></td>
<td>…O₅₄</td>
<td></td>
<td>O₅₅</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>O₅₇</td>
</tr>
</tbody>
</table>

**Design Strengths**

This is a very strong quasi-experimental design because it allows data collection at multiple points before and after a treatment versus a simple pre-test post-test design where data is evaluated at one point before and after. A time-series design is further strengthened by the number of data collections (Bingham & Felbinger, 2002, pp. 123-124). A design that collects 54 points of data before and 62 points of data after is
stronger than a design that only collects half of each. Additionally, bias is eliminated when a design collects more than one observation, which makes it easier for a researcher to identify causes of trends in the social atmosphere. In this research, sales tax revenue, single-family and commercial permits are collected 54 months prior to Cabela’s opening and 62 months after.

*Design Weaknesses*

The major setback with an interrupted time-series design is that it is difficult to find a suitable comparison group. Additionally, time-series designs are quasi-experimental. This means they do not have any randomized collection of samples. The design also focuses solely on one effect and does not provide for a broad generalization. This research compares a time-series regression line for Buda to a regression line of two neighboring cities (Kyle, Dripping Springs). Buda, Kyle and Dripping Springs are suburbs for Austin and may potentially show a growth trend similar to that of Austin. However, Kyle is also experiencing its own growth due to the opening of a new hospital and several retail outlet centers. Even though this is a very attractive comparison, due to extraneous variables this is not an experimental design. Dripping Springs allows the research to compare Buda with a city that will not see any effect from Cabela’s. Kyle is situated next door to Buda and may experience spillover from the tourism Cabela's brings to the community. Nevertheless, this research is still very strong for what it is designed to measure. Since the research design restricts the results to a specific location, in this case the City of Buda, it provides an exact conclusion for that area.
Statistics

This project uses regression analysis to analyze the research data. This analysis compares two regression lines on a linear graph to determine if both lines run on the same linear pattern. When paired with a time-series design, the test is called a time-series regression, or in this project, an interrupted time-series regression since this project measures data before and after an interruption in the social atmosphere.

The regression presents unstandardized coefficients that are designed to measure the exact unit of change for each dependent variable. For this project, the six coefficients measure the trend of data before and after the opening of Cabela’s as well as the immediate impact of the business on the City of Buda. The first coefficient (Month) measures the trend of the regression line before Cabela’s opens its doors. The second coefficient (Dummy) simply measures the immediate impact on the regression line right when Cabela’s opens. The third coefficient (Counter) measures the change in the slope of the regression line from before Cabela’s opens to afterwards. For a significant result, a regression line may see an immediate gap and an extreme upward spike in this case.

As the first coefficient (Month) measures the trend of the regression line before Cabela’s opens for Buda only, the fourth coefficient measures the difference in that same line between Buda and each comparison city. For this research, the comparison cities are Kyle and Dripping Springs. The fifth coefficient (Group*Dummy) measures the difference in the immediate impact from Cabela’s between Buda and each comparison city. Essentially, this coefficient determines if Cabela’s had an immediate impact on Buda specifically, since this project compares Buda with two surrounding cities. The
sixth and final coefficient (Group*Counter) is the most important result to analyze. This coefficient measures difference between the change in the slope of the regression line for Buda and each comparison city. This coefficient determines if Cabela’s led to a significant change in the slope of the regression line after the store opened its doors. For a significant result, the regression line would need to show an upward immediate spike for Buda only as well as a greater slope for each hypothesis when measured against to the two comparison cities.

The second hypothesis uses an interrupted time-series regression without a comparison group. The national unemployment rate is used as a covariate to control for any shifts in national economic trends. The third hypothesis does not use any inferential statistical measures. Because the only data available to measure business growth in Buda is the monthly sum of commercial-building permits, the data does not lend itself to run a regression analysis. Instead, simple descriptive statistics are used to generalize the results. The following chapter reports the results from each regression analysis. Tables and charts display trends of revenue collection for both Buda and each comparison city.
Chapter 5: Results

Purpose

The purpose of this chapter is to report the results of the statistical analysis testing the hypotheses of this research. This chapter will also display the results of the analyses for the interrupted time-series regressions. Results will show if the construction and opening of Cabela’s in Buda had an effect on sales tax revenue collected by the city.

Regression Analysis

The regression results will yield an “unstandardized coefficient which measures the change in the dependent variable for every unit of change in the independent variable” (Holder 2009, 45). The results are shown in Tables 5.1.

The City of Buda’s sales tax revenue trends are compared to two neighboring cities. Using comparison cities strengthens the findings by controlling for validity threats.
to the study such as history. The threat of history is when an outside event, such as the 2007 recession, can have an impact on the results. This study uses Dripping Springs as the first comparison city. Dripping Springs is a suburb of Austin located at its western border. As another border town of Austin, using Dripping Springs as a comparison city aids this study in controlling for any fluctuation in the economy of the City of Austin. Since Buda and Dripping Springs border Austin, spillover tourism, spending and commerce can affect the results of the study. Lastly, comparing Buda to Dripping Springs helps control for any economic fluctuation caused by simply being in the region of Austin.

The final regression for the first hypothesis compares the City of Buda against its neighboring city of Kyle. Kyle sits right at the southern border of Buda. When driving north to Austin, it is often difficult to distinguish a point of where Kyle ends and Buda begins. Because both cities are so close, using Kyle as a comparison city helps this study make a more definitive statement of Cabela’s impact on Buda.

**Comparing Buda to Dripping Springs and Kyle**

The Table 5.1 reports the regression coefficients comparing Buda’s sales tax trends with that of Kyle and Dripping Springs. The results show that the City of Buda had a significant upward trend in revenue before Cabela’s opened (Table 5.1 shows the first coefficient $B=1378.67$). Once Cabela’s did open, the City of Buda saw an immediate spike in revenue of over $117,000 (Table 5.1 shows the second coefficient $B=117318.14$). Because the coefficient came out significant, this study can say that Cabela’s had a significant impact on an immediate surge in sales tax revenue for Buda.
right as Cabela’s opened. However, after Cabela’s, the trend of sales tax revenue begins to decline by about $640 a month from what it would have been without Cabela’s. (Table 5.1 shows the third coefficient $B=-739.49$). Although $640$ is small in comparison to the monthly total of revenue of over $100,000 at times, the decline does imply that after Cabela’s opened, Buda eventually saw a significant drop in revenue over time. This decline and fluctuation in revenue is mainly due to the general decline in the national economy. Figure 5.1 shows this sharp decline in revenue for Buda at the same time of the beginning of the 2007 recession.

To control for national economic decline, Buda’s sales tax revenue is compared to that of Kyle and Dripping Springs. The last four variables in Table 5.1 represent various aspects of these comparisons. The fifth coefficients of ($B=-1119.71$ and $B=-509.23$) represent the difference between Buda’s trend of revenue before Cabela’s as compared to Dripping Springs and Kyle. Both significant coefficients are negative numbers and imply that Buda’s sales tax revenue trend has a significantly higher level of incline than Dripping Spring but not when compared to Kyle’s revenue trend before the opening of Cabela’s. Before Cabela’s opened, sales tax revenue for both Buda and Kyle was increasing at the same pace.

Coefficients for the sixth variable ($B=-118916.73$ and $B=-94508.73$) show the differences between the immediate change in revenue between Buda and the comparison cities after the opening of Cabela’s. Both coefficients under this variable show that Buda had a significantly higher spike in sales tax revenue than the other two cities, right after the time when Cabela’s opened. The coefficient for the seventh variable ($B=1030.11$ and $B=2341.08$) describes the difference between the trend of sales tax revenue between
Buda and our comparison cities after Cabela’s opened its doors. The coefficients report
the difference in the slope of the regression lines after the store opened. The results show
that both comparison cities were performing significantly better than Buda after the time
Cabela’s opened. The differences between Buda’s sales tax revenue trend and the
revenue trends of the comparison cities are significantly in favor of the comparison cities.
In short, the results do not support the hypothesis that the presence of Cabela’s has
increased Buda’s sales tax revenue stream.

**Testing Population Trends in Buda**

Because the 2010 census data was not available for this research, this study used
the number of single-family permits purchased per month to gauge population growth.
Because Buda was not designated back as a home-rule city until 2005, data on single-
family permits was not available prior to 2004. This only allowed 18 months of single-
family permits to study before Cabela’s opened. The only analysis available is an
interrupted time-series regression without a comparison. Without any data on single-
family permits from the two comparison cities, this project could not use a comparison
group design. Instead, the regression will only look at the trend before and after Cabela’s
opened. Table 5.2 displays the results for this regression analysis. When testing the
trend of single-family permits sold per month while controlling for possible impact of the
national economy (using the unemployment rate as a covariate), the results turned out
insignificant. This means that when controlling for national economic trends, the
opening of Cabela’s in Buda did not have an effect on the growth of single-family
permits sold per month in Buda.
Testing Business Growth in Buda

Business growth is the third hypothesis of this study and is measured with the sum of commercial building permits purchased on a monthly basis. This study does not run a regression analysis to test this hypothesis but only generalizes from simple descriptive data. This is because the data collected for business growth are the monthly sums of commercial building permits sold in the city. Buda is still a small town and because of that, the numbers for each month did not lend themselves to a linear analysis. The range of permits sold per month never exceeded five. Had the data come from a much larger city, a regression analysis would have been possible since a large city is likely to generate larger numbers of permits sold per month.

Descriptive Statistics

This study uses sales tax revenue from January of 2001 until September of 2010. 116 months of data are collected. Figure 5.1 shows the trend of revenue for the cities of Buda, Dripping Springs and Kyle. Prior to the opening of Cabela’s, Buda showed a steeper upward trend of revenue over Dripping Springs. Growth in Kyle mirrored growth in Buda according to Table 5.1. Once Cabela’s opened its doors, Buda shows an immediate upward surge in revenue, however, as time passes, Buda’s revenue takes a steep drop in revenue around the summer of 2007. Although, the City of Buda’s sales tax
revenue collection jumped 55% from June to July of 2005. Kyle, on the other hand, shows a continual climb in revenue from the time Cabela’s opened which suggests a steady pattern of growth.

Because property taxes are paid seasonally and no possible comparison was available, a regression analysis was not conducted to compare property tax for Buda against any comparison cities. However, a descriptive analysis shows that property tax revenue in Buda is growing on average by 37% a year with Fiscal Year 2008 to 2009 seeing the largest increase of 56%. There was no available property tax revenue data for Buda before Cabela’s opened which leaves no room for any trend analysis.

Descriptive statistics are used to make simple generalizations about single-family permits. In 2004, there was an average of eight family permits sold per month. This number doubled in 2005. From 2006 until 2009, the average number of permits sold ranged between thirty and thirty-one per month. Regression analysis does not show any significant impact from Cabela’s opening on population growth. However, the number of permits doubling twice each year after Cabela’s opened begs the question to whether or not some of that growth was attributed to the store opening its doors.

The third hypothesis did not lend itself to inferential analysis. Since data was unavailable for all of the comparison cities as well as for Buda before 2005, simple descriptive analysis is provided. From 2005 to 2006, the number of commercial permits purchased doubled as compared to the previous year. The number of permits purchased grew by 33% from 2006 to 2007. However, from 2007 until November 2010, the number of permits purchased has been dropping on average of 42% from year to year.
Table 5.1: Interrupted Time-Series Regression (Coefficients comparing Buda with Kyle and Dripping Springs)

<table>
<thead>
<tr>
<th></th>
<th>Coefficient B</th>
<th>Coefficient B</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Dripping Springs</td>
<td>Kyle</td>
</tr>
<tr>
<td>1.) Month data was collected: Month</td>
<td>1378.668**</td>
<td>1378.668**</td>
</tr>
<tr>
<td>2.) Period before and after the construction and opening of Cabela’s (Immediate Change): Dummy</td>
<td>117318.136**</td>
<td>117318.136**</td>
</tr>
<tr>
<td>3.) Change in trend of revenue: Counter</td>
<td>-739.484*</td>
<td>-739.484*</td>
</tr>
<tr>
<td></td>
<td>4.) Group</td>
<td></td>
</tr>
<tr>
<td>---</td>
<td>-----------</td>
<td>---</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>-28488.343**</td>
<td></td>
</tr>
<tr>
<td></td>
<td>-19302.928</td>
<td></td>
</tr>
<tr>
<td>R Square</td>
<td></td>
<td></td>
</tr>
<tr>
<td>F</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Constant</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

* Significant at $\alpha < .05$
** Significant at $\alpha < .01$

Table 5.2: Interrupted Time-Series Regression (Coefficients for Single-Family Permits w/ National Unemployment as a covariate)

<table>
<thead>
<tr>
<th></th>
<th>Coefficient B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Month data was collected: Month</td>
<td>.325</td>
</tr>
<tr>
<td>Period before and after the construction and opening of Cabela’s (Immediate Change): Dummy</td>
<td>7.832</td>
</tr>
<tr>
<td>Change in trend of revenue: Counter</td>
<td>-.040</td>
</tr>
<tr>
<td>National Unemployment Rate</td>
<td>-2.551</td>
</tr>
</tbody>
</table>
The impact of Cabela’s on population growth does not appear to be significant. Using the number of single-family housing permits issued by the City of Buda before and after Cabela’s opens, while controlling for the possible impact of the national economy, we did not find statistically significant change in the rate of growth after Cabela’s opened its doors. However, when compared to both comparison cities, Cabela’s still has a significant impact on the immediate surge in revenue. Since the data for the business growth does not lend itself to inferential analysis, simple descriptive statistics is offered to generalize the impact of Cabela’s on business development. The next chapter discusses the implication of the impact on Buda sales tax revenue along with further implications of the reported results.

**Chapter 6: Conclusion**

**Research Summary**

The purpose of this research is to assess the impact of a single business over a small local economy. This study focuses on the construction and opening of a new Cabela’s retail center in Buda, TX in 2005. The first chapter introduces the research purpose as well as the implications of the study. The second chapter discusses the history
and business climate of Buda as well as how the Cabela’s transaction developed. Chapter Three presents a theoretical perspective and background on the issue of economic development tax incentives. Three hypotheses are formed at the end of chapter three. Chapter four operationalized the hypotheses and described the data and the research design used to analyze the variables. The fifth chapter provided the results of the regression models. This chapter offers interpretations and explanations of the results in addition to limitations and implications of the study.

**Assessment of Findings**

The findings indicate that the construction and opening of Cabela’s had a significant impact on an immediate growth of sales tax revenue in Buda. However, this spike has gradually been on a decline. When comparing the rate of sales tax growth of Buda with the comparison cities of Kyle and Dripping Springs for the period after Cabela’s opened, we notice that the comparison cities have been growing at a significantly higher rate than Buda. In other words, the presence of Cabela’s does not appear to have improved the growth of sales tax revenue for Buda.

The results suggest that the only benefit from Cabela’s was an immediate surge in sales tax revenue but that there was no contribution to the rate of growth in sales tax revenue over time. Around the time the 2007 recession began, sales tax revenue in Buda began to drop suddenly only picking back up between the Summer of 2008 to the Spring of 2009. According to Figure 5.1, Kyle appears to have the steadiest pattern of sales tax revenue growth. The City of Kyle brought in a new hospital as well as various retail stores a few years after Cabela’s opened in Buda. As major companies have been
locating in Kyle, smaller goods and service businesses have also been relocating to the community. The growth of these businesses in Kyle has been very consistent from year to year.

Buda brought in Cabela’s in order to spike growth of the business sector. Wal-Mart opened its doors in Buda in August of 2005, just a few months after Cabela’s opened. There is no doubt that sales tax revenue growth in the first two years after June of 2005 is also partly attributable to Wal-Mart and other retail centers on the 126-acre Rylander plot.

Above all, businesses such as hotels, restaurants and various service providers did locate to Buda. Many of the businesses came to Buda because Cabela’s decided to build a retail center in the city. Cabela’s arrival in Buda ended up attracting businesses such as Wal-Mart as well as other goods and service providers. The growth of new businesses brought more convenience to Buda residents who could then shop for what they need without having to drive down to San Marcos or up to south Austin. New goods and services meant new sales tax revenue to the City of Buda. The regression results show the increase in revenue in the first few years after Cabela’s opened. However, once the housing crisis occurred and the 2007 recession kicked into gear, city revenue began to decline. When a person is making less money, the first things to be cut from the budget are luxury items. Because Cabela’s sells specialty items such as guns, hunting and camping equipment, the company and similar industries will be the first to suffer from revenue shortfalls during a recession. If people are not traveling to Buda to shop at Cabela’s, the hotels and restaurants will also lose customers. Buda focused its energies on bringing in Cabela’s to spur growth from its presence in the community. It is the
opinion of this author that the City of Buda would have benefited from attracting a more diverse slate of industries that are not as sensitive to a recession as specialty stores.

On a positive note, the presence of Cabela’s has had many secondary benefits. In regards to sales tax revenue, had Cabela’s not come to Buda, sales tax revenue would not have increased so suddenly in the first two years after the store opened. Although the recession affected the trend of revenue after 2007, the decline in revenue would have begun at a much lower level had Cabela’s not come to Buda. One of the side-benefits of bringing Cabela’s to Buda was a significant donation from Mr. Rylander to the state park in Bastrop. He donated some of the money he made from selling his land so Buda could begin development for the Cabela’s site. In addition, according to residents of Buda before Cabela’s opened, the water pressure for many homes around the 126-acre plot was very low. Once Cabela’s built its water tower on the land, water pressure in the area was much stronger. Some Buda officials recognize a quality of life benefit from the presence of Cabela’s.

Overall, the research indicates that the construction and opening of Cabela’s had a significant impact on the immediate surge in sales tax revenue. However, minus the secondary benefits to quality of life and stronger business presence, the presence of Cabela’s did not lead to a significant increase in the trend of sales tax revenue after the store opened.
Limitations to the Study

One major limitation to this study was the lack of a control group against which to measure the changes in sales tax revenue. Using a control group or another city that experienced a major retail center addition would produce much stronger results. This would have allowed a comparison of sales tax revenue from another city of similar size. Another limitation to the study is that sales tax revenue does not provide enough stable data to measure the economic impact from one single business. This research would have been much stronger had it used property taxes as well as sales taxes to measure the impact from Cabela’s. Since Cabela’s and all businesses on the 126-acre tax increment zone still pay their property taxes, measuring the effect on property tax revenue would have provided a more accurate assessment of the impact on the city’s revenue stream. However, this data was not available at the time of this research. In addition, using data on the changes in property value across the Austin-Buda region would have enabled this study to conduct a more accurate analysis on the impact of property value on future revenue collected.

In regards to the second hypothesis, this study would have benefited from the 2010 census data so population trends could be measured. Even though single-family permits were used as a proxy, this research only had the total number of permits sold versus the total number of permits in the city. Such a collection of numbers would have presented a different linear pattern for the regression and may have produced different results. The third hypothesis, which tested business growth, would have been stronger had this study used property value trends. This data was unavailable at the time of the research. However, it is difficult to measure business growth using permits sold even
with the addition of property value since the city is still in its economic developmental infancy. Future research should concentrate on a more qualitative analysis until good data becomes available.

A final limitation is the lack of data on how much Cabela’s specifically paid in property and sales taxes. This data required permission from Cabela’s for access and was repeatedly but understandably denied. Having this data would have allowed this research to compare the total proportion of Cabela’s contribution to the sales tax increase in Buda. Additionally, it would have allowed this research to test the immediate impact on sales tax revenue against the amount that Cabela’s contributed.

**Suggestions for Future Research**

In the future, researchers should access other avenues to gather data on property taxes, property value trends, and trends on city operational expenditures. Measuring the changes in property value over time can provide researchers with a better understanding of the overall economic impact on businesses and residents. In addition, future studies can focus on the economic well-being of residents of Buda by measuring potential increases in property taxes if a spike in property value were to occur. Since this research is difficult to replicate except in a city of similar size with its own “Cabela’s” transaction, it would be wise for future researchers to study several small cities that offer economic development incentives to large companies. Having comparison cities would control for geographic conditions that may affect results.

In addition, future studies should also incorporate a cost-benefit analysis by comparing the costs incurred by the city and the revenue collected. This particular
project would not be able to conduct a cost-benefit analysis until 2024 when the 20-year bond period is over. Only then will a proper comparison be possible. Lastly, future research should compare cities that offer different types of development incentives in order to show the different effects from each development incentive type. Since Buda used a combination of tax-exempt revenue bonds and tax increment financing, there is no way of testing the practicability of tax abatements or loan guarantees. Thus, future research should compare small cities that use different development incentives for the attraction of large companies.

**Suggestions for Policy Makers**

Since the early 1900s, cities have used economic development incentives more frequently to entice businesses to locate to their region. Policy makers and municipal officials will use tax incentives as long as there is a demand for economic growth in their cities and counties. The aim is to find the balance between offering a company a reasonable opportunity to grow their business in the early years and providing an unfair advantage to one company over its competitors. The city of Buda used a combination of incentives to keep competition fair for years to come. Essentially, every business on the 126-acre lot pays their full share of property and sales tax. City and county officials need to determine how any immediate or future impacts on revenue will affect the citizens in the community before offering potential businesses any incentive packages.

One way incentives can affect citizens stems from an unexpected surge in property values, which drive people into higher tax brackets and possibly out of a neighborhood. City and county officials should try to find incentives that match the ones
the City of Buda is using with Cabela’s. Cities and counties should never “hand-out” loans or grants to companies without working out a way for the citizens to be paid back. Loan guarantees are useful because cities do not have to put money out upfront; the future costs can hit a city when least suspected if the co-signing company defaults. Tax-exempt bonds are useful because the city can purchase goods and services at a cheaper cost because they are a public entity. Using a tax-increment financing method works well, given that this technique uses the natural growth of property value to split up the collected revenue. The resident does not incur an additional tax. The city only uses the original value of the land for operational costs and taxes from the rising value for debt repayment. This is a sound way of using tax incentives, as the only cost is what the city spends on development. Since Cabela’s bought the debt from the bonds, Buda simply pays portions of their bi-annual debt re-payments. In order to receive full compensation, Cabela’s must meet benchmarks established by Buda. As of now, Cabela’s has forfeited $10 million in potential debt re-payments from the city. Even so, the company still had a positive impact on the city’s growth since 2005.

Cities and counties in the future can take a lesson from Buda’s economic development board and use similar methods of responsible economic development. Growth brings jobs and jobs bring higher incomes and more spending. Quality of life is a desirable asset for any city, especially when it comes to quality property that carries quality property value. It is essential for municipal governments to continue to use tax incentives to sustain and create new business growth. The subsequent benefits have the potential to provide positive impacts for a community and its sustainable economic prosperity.
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