

**RETURN ON INVESTMENT  
from the use of  
CITY OF SAN ANTONIO  
TAX INCENTIVES**

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**And**

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**August 15, 2022**

**Disclaimer:**

Dr. Steve Nivin serves on the Board of Directors for Credit Human, an entity included in this report, in a volunteer capacity without any vested financial interest. The integrity of all figures used in this report has been maintained.

## EXECUTIVE SUMMARY

The purpose of this study is to calculate a return on investment for all the projects in which the City of San Antonio has invested business incentives (primarily tax abatements and grants), staff time in generating jobs and investment for the community, and funding for additional economic development initiatives.. The return on investment is measured in terms of the fiscal impact to the City of San Antonio in terms of CPS Energy revenues generated by these projects, and property tax revenues generated from the real and personal property investment. It also includes revenues generated by the sales taxes from the company's direct spending, spending by suppliers, and spending by employees.

Only active projects (i.e., those still being monitored by the Economic Development Department) are included in this analysis. The study covers a time horizon covering the period from 2005-2040. The time period extends to 2040 to allow for the fact that almost all of these companies maintain their presence in San Antonio after termination of their incentives which generates revenues to the City of San Antonio and economic benefits to the community. Generally, the time period analyzed is double the time period of the incentive package to account for the continued operations of the company beyond the period of the incentives. In other words, if a property tax abatement is granted for a period of ten years, a twenty-year period is used in the analysis.

Through a substantial data collection and analysis process on each active project through 2021, a total of 69 projects, the analysis compares the outflow of funds due to the incentives to the inflows of revenues to the City derived from the economic activity of the project. Even though tax abatements are not necessarily City cash outflows, but rather the absence of tax revenue generation, the study still treats them as outflows from the City to demonstrate the opportunity cost of providing tax abatements. Additionally, other incentives provided such as grants, tax rebates, and E-16 Riders are also accounted for in the analysis. These incentive programs and the general fund budget for the Economic Development Department staff were all taken into consideration when determining the cost portion of the ROI calculation.

The detailed methodologies for obtaining the numbers that went into the model are discussed in the following sections. Aside from the project lists and most of the project files, which were obtained internally, most of the data needed to calculate the ROI was obtained from the following departments and sources:

- Economic Development Department
- Finance Department
- CPS Energy
- Bexar Appraisal District
- Bexar County Tax Assessor
- City Clerk
- IMPLAN

Since the analysis involved projecting costs and revenues into the future, a conservative approach was adopted, and no growth was assumed in the projected figures. The portion of income spent by employees on taxable items used to calculate sales tax revenue was generated by an IMPLAN model. IMPLAN is a software program designed to measure economic impact based on an input-output model of the local economy.

**Table 1. Return on Investment of City of San Antonio Economic Development Incentives**

Total Expenditures on Economic Development Programs	\$71,397,359
Total Amount of Incentives	\$179,629,100
Total Revenues to City of San Antonio	\$670,412,941
Total Net Revenues to City of San Antonio	\$419,386,482
Total Private Sector Investment	\$5,615,390,424
Private Sector Investment Per Dollar of Incentives	\$31.26
Revenues Per Dollar Spent on Programs	\$9.39
Revenues Per Dollar of Incentives	\$3.73
Revenues Per Dollar Spent on Programs and Incentives	\$2.67

Over the time period of this analysis, the City of San Antonio is projected to invest \$71,397,359 on the administration of economic development programs related to incentives, including the operations of the Industry Development Division of the Economic Development Department and its various initiatives on business attraction, retention, and expansion in which incentives may be involved. The total amount of incentives provided (including projected incentive values) is \$179,629,100. In return, these initiatives have yielded \$5,615,390,424 in investment by the private sector through 2021. Including current and projected revenues, the City of San Antonio will receive \$670,412,941 in revenues on these projects resulting in net revenues of \$419,386,482 once the cost of the economic development programs and the value of the incentives are taken into account. As a result, every dollar the City of San Antonio has invested in the incentives has generated \$31.26 in private sector investment. The resulting economic activity from these investments and employment of the workers at these companies provides \$9.39 in revenues to the City of San Antonio per dollar spent on the economic development programs and \$3.73 per dollar spent of incentives provided. Once the cost of both the economic development programs and the incentives are taken together, the return on investment still comes out to \$2.67 per dollar. Based on this analysis, the return on investment of the incentives is quite substantial even by the most conservative measure.

# **METHODOLOGIES**

## **RETURN ON INVESTMENT (ROI) PROJECT METHODOLOGY**

### **Data**

The analysis covered any active projects defined as those the Economic Development Department is still actively monitoring – a total of 69 projects extending back to 2005. The incentives included tax abatements, Economic Development Incentive Fund grants and loans, job training assistance funding provided through the Economic Development Department, tax rebates, and E-16 Riders. More specifically, the outflows or costs included General Fund expenditures, job training grants, property tax abatements. Although property tax abatements are not necessarily cash expenditures by the City of San Antonio, they are counted as outflows because they are property taxes the City of San Antonio would have otherwise received.

The General Fund budget for the Industry Development Division of the Economic Development Department for each fiscal year was used as a measure of the cost of administering the incentive programs. Only the budget of the Industry Development Division was used instead of the entire budget for the Economic Development Department because this is the unit with responsibility for the administration of the incentive programs. Additionally, General Fund expenditures to support other economic development initiatives that support business attraction, retention, and expansion in which incentives may be used were also included.

Staff obtained budget data from the Office of Management and Budget. Data on property tax abatements and other incentives were collected from internal Economic Development Department databases and from the Finance Department and the Bexar County Tax Assessor.

The inflows or revenues to the City include real and personal property tax revenues, sales tax revenues from new jobs created, and CPS Energy revenues. Property tax revenues on the tax abatement projects were compiled by the Finance Department and the Economic Development Department internal database.

Determining sales tax revenues from new jobs created was a multi-step process. Data were pulled for each project on the number of jobs actually created and the number of jobs required by contract to be created by the companies. When data were available on actual jobs created, those figures were used, but if not, data on contractually required job creation numbers were used. For those projects that had actual job numbers through 2021 and that had not yet met their required job creation levels, the number of jobs were projected to grow linearly to the required employment levels to the end date of the contract and then a straight-line projection was used for the years beyond the term of the incentive agreement. If a company's employment levels exceeded those required by contract, the actual job number was used in the following projected years for the employment levels.

The employment levels for each year for each project were run through the IMPLAN input-output model for Bexar County. The model for Bexar County was used because a model for the City of San Antonio does not exist within the software, and Bexar County is the geography that most closely approximates the City of San Antonio. It is possible to build a model to approximate the geography of the city of San Antonio using zip codes. However, this would not exactly match the boundaries of the city and very closely approximates the area of Bexar County, and in either case, adjustments are required to the results to get an estimate of the

sales tax revenues to the City of San Antonio. Using Bexar County as the model allows for such an adjustment since data are available at the county level but not at the zip code level. Once the sales tax revenues were pulled from the IMPLAN results, the figures were multiplied by a factor of 0.19 to account for the proportion of those tax revenues flowing to the City of San Antonio. The factor was calculated based on the fact that the employment level in the City of San Antonio as of 2016 is 77% of the employment level across Bexar County, according to data from the U.S. Census Bureau.<sup>1</sup> This accounts for the amount of economic activity that occurs in the San Antonio economy in proportion to all of the economic activity that occurs within Bexar County. Since the City of San Antonio sales tax rate accounts for 2% of the 8.25% total sales tax rate charged within the city, the proportion of 2% to 8.25% was calculated and multiplied by the 77% to get the adjustment factor of 0.19. This calculation is shown in the following equation.

$$\text{Adjustment factor} = (0.02/0.0825)*0.77 = 0.19$$

In order to calculate the projected property tax revenues, a similar methodology was used as was described above for the projected employment levels. Data on the property tax assessed values were available for many projects, but for newer projects, it was necessary to calculate an estimated projection of the property tax revenues. In these cases, the amount of actual real and personal property investment was used as the initial value and linearly projected to the beginning of the agreement term or to the end of the term if it was below the required investment level. The level of investment in the final year of the contract was the value used as the projected investment level in the years following the end of the agreement. For example, if the value of investment was \$5,000,000 at the end of a ten-year agreement, that value was used to calculate the projected property values in years eleven through twenty. It was assumed that the assessed value would be equivalent to 75% of the amount of the real and personal property investment. This figure was then multiplied by the appropriate property tax rate to get the value of the property tax revenues. Using the example of a \$5,000,000 investment, the property tax revenues for 2021 would be calculated using the following equation:

$$\text{Property tax revenues} = \$5,000,000*0.75*(0.55827/100) = \$20,935$$

Due to privacy reasons, staff was not allowed access CPS Energy revenues on a project-by-project basis. Therefore, staff provided CPS Energy a list of projects and addresses in a pre-formatted spreadsheet. CPS Energy then calculated their data and provided staff the revenues for the companies. A 14% rate was applied to the CPS Energy total revenues to get the portion of CPS Energy revenues that flow to the City of San Antonio.

### **Calculation of Return on Investment**

The return on investment was calculated based on the net revenues for each project over a maximum twenty-year period up to 2040. The model was created to account for all of the inflows (i.e., revenues) and outflows of each project (i.e., incentive and administrative costs) according to fiscal year. In the calculation of future forecasts, a 0% growth was applied to remain conservative. The return on investment is calculated as a form of a benefit-cost ratio with the different measures of revenues (i.e., benefits) divided by different measures of costs to give a

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<sup>1</sup> Data for the year of 2016 were used since it was used in the previous study and also coincided with the first year of new data added to this analysis.

benefit per dollar of cost. The calculations of different measures of the return on investment are shown in Table 1.