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## **Local Economic Development: Importance of the Sales Tax and Other Factors**

### **Executive Summary**

*by David Newell, Utah Foundation and Jennifer Robinson, CPPA*

### **Introduction**

Economic development implies the general growth of an economy, in terms of how much it produces and consumes. One role of state and local governments is to facilitate a high standard of living for their residents by promoting economic growth. In addition to attracting jobs and industries, local governments must provide services to their residents such as roads, water and sewer infrastructure, and fire and police protection.

While the long-term community impacts of a vibrant local economy and providing necessary services and infrastructure are both important to municipalities, the immediacy and necessity of funding city-specific service and infrastructure needs can overshadow the more strategic concerns of securing high-paying jobs and attracting growing industries.

The Utah Foundation and the Center for Public Policy and Administration recently completed a joint research project examining the factors that affect local economic development in Utah. We conducted multiple focus groups with local government officials, and interviewed local officials, state officials, and individuals from the private development sector. These findings were complemented with a review of research on local economic development issues.

### **Factors that affect local economic development**

One of the primary findings in this report is that while the tax structure or "zoning for dollars" definitely exerts some influence on some city decisions, it is by no means the only or even the dominant variable in the economic development decisions of local officials. The focus group participants often did not even identify the tax structure as an influence until asked specifically about it. Upon being questioned about the role of sales and property taxes, the local government officials who participated in the focus groups did recognize the important role they play from a revenue standpoint, but emphasized that other, sometimes more influential, factors are also part of their zoning calculations.

Local government officials noted that there are four types of factors that affect decision-making: 1) market factors; 2) state policies; 3) local policies; and 4) local characteristics. Market factors include the supply of land in a local community, demand for land, and the decisions of businesses. State policies and institutions also have an impact upon local economic development. One of the policies that has already been mentioned is the role of the tax system. In addition, the state can affect economic development at the local level through recruitment of certain types of businesses. For example, the Governor's Office of Economic Development is focusing on certain "clusters," or industries in which Utah has some comparative economic advantage. These clusters include aerospace, high-tech, life science/biotech, financial services/industrial banks, energy/natural resources, and the outdoor industry. Local policies such as city's master plan, the incentives offered to businesses, as well as the costs associated with development (such as sewer, water, and roads) affect development as well. Finally, the characteristics of a city affect economic development. These characteristics include such things as the economic conditions, social characteristics, geography, and political culture.

### **Conclusion**

What factors influence economic development at the local level? The data from the focus groups and interviews with local government officials reveals that the tax structure is only one of a multitude of factors that come into play. The development of local economies is a very complex and dynamic sphere that is subject to market factors, state policies, local policies, and local characteristics.

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