The Role of Economic Development in Communities:
A Public Information Series on the Value of Economic Development

October 15, 2014

Article 11: The Importance of Inventory When Considering Abatements

By: Vince Yokom, Director
Waller County Economic Development Partnership

In the Article 6 series, I explained the process we use to qualify companies for incentives. The most common of which is a tax abatement from the county. In this article, I want to examine one important aspect of our model, the impact of inventory.

When the WCEDP works with a prospect, part of the process is getting to know the business and the industry. This means understanding what the company does and it's economic and environmental impacts. Along the way, we ultimately get down to negotiating potential terms for incentives. At this point we essentially look at options for the county, and therefore taxpayers, to create a tax revenue stream to offset the investment of future tax revenues as part of a potential tax abatement. One of the biggest opportunities for a return lies within the amount of inventory a company renders each year. Since inventories are not included with an abatement, and therefore taxed as personal property at full value, the county will realize a revenue stream within the company's first year of operation.

> ***"Inventory is much more than just a taxable asset."***

But, inventory is much more than just a taxable asset. It is also an indication of what the company expects to do over time. It can be seen as a measure of expected growth, and therefore, an increase in expected future tax revenues for the county. With the projected inventories, we have a good sense of how the company thinks they will perform over time. If the company shows a low expected increase year over year, then we know the return to taxpayers will not increase much. This is taken into consideration when negotiating with prospects.

In addition to being a measure of future revenues and growth, we like to look at inventory in another light. Inventory is also closely tied to jobs. If the company expects to increase inventories over time, then we know that the jobs should, at least, stay steady. With increased inventory comes the need for increased production. With increased production comes either great overtime opportunities, or the need to hire more employees. There is a direct correlation between job stability and increasing inventories.

In conclusion, the value of inventories cannot be overstated. If companies show sustained growth in inventories, we know there is a greater likelihood that the company will not only continue to support the tax base, but will be in a position to increase employment opportunities. Both are good. As the Houston area grows, and the commute times get longer, we feel it's really great to have strong jobs here in the county so citizens have more employment choices. Yes, inventory is much more than a taxable asset, it's an indication of future opportunities.

Stay tuned for the next part in this series on economic development. If you have any questions or feedback, please feel free to email me at vyokom@wallercounty.org.

About the Waller County Economic Development Partnership (WCEDP): The WCEDP is a Texas non-profit corporation with an IRS 501 (C) 6 tax designation. We are non-political and have a 24-member board, which includes representation from every community in Waller County that has an economic development program. To learn more, visit www.wallercounty.org.

Mission: The WCEDP is organized to operate a charitable service center to foster increased, environmentally balanced business commerce, positive growth, and overall cooperation and coordination for all communities throughout Waller County, Texas.

WALLER COUNTY
Economic Development Partnership