



**The Economic Impact of the Pfizer
and
Fort Trumbull Development Projects**

**An Assessment for the
New London Development Corporation**

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The Economic Impact of the Pfizer and Fort Trumbull Developments
on the City of New London

The City of New London is undergoing a dramatic transformation with the completion of the new Pfizer facility and the proposed Fort Trumbull developments. Taken together, these developments are expected to create directly 4,174 jobs in the city. But total benefits will be even greater as the increased economic activity these developments generate will themselves produce further activities: new investments, employment, and production. This analysis offers an estimate of the total benefits to the City of New London over the period 2001-2020, expressed in terms of key economic and fiscal variables.

The New London Development Corporation engaged the Connecticut Center for Economic Analysis (CCEA) at the University of Connecticut to assess what the economic impact of this new business activity will be on the City of New London and New London County. For this study, CCEA used a REMI eight-county multi-region econometric model of Connecticut. (Regional Economic Models Inc. of Amherst, Massachusetts developed the REMI model). This model is a dynamic representation of the economic activity that occurs within the individual counties of the State of Connecticut along with the interactions with rest of the United States and other countries around the globe. The REMI models are developed from detailed county-level data the Federal government collects on economic activity and thus build the analysis specifically for each county. As a result, REMI models have become the standard among economic development experts for developing dynamic economic impact analyses of economic development projects.

The total Pfizer project will cost \$294.6 million, \$270.8 million of which covers engineering and legal fees, expenses for land preparation, purchase of property, and construction of the buildings. A further \$23.8 million will be spent on furniture, fixtures, and equipment. The Fort Trumbull developments include a Waste Water Treatment Plant, Fort Trumbull State Park, the Coast Guard Museum, a marina complex with retail shops, a restaurant and offices, an office building, approximately eighty residential units, two buildings for biotech labs, and a high-quality hotel/conference center. The costs of these developments are estimated at \$253.4 million. The State of Connecticut is spending \$50 million on the relevant land parcels to prepare the sites.

Upon completion, these developments will directly create 4,174 new jobs in the city, of which 4,172 will be private sector, non-farm jobs. The largest employer will be Pfizer, which will add 2,040 new jobs by 2004. The other large employers will be the office complex, projected to add 1,166 new jobs; the biotech labs, projected at 942 workers; and the hotel, projected to employ 120 workers.

To stimulate these developments, the City of New London and State of Connecticut have combined to offer an economic incentive package. The Pfizer construction is eligible for a state Enterprise Zone tax credit, under which the City forgives 40% of the tax on the property for the first ten years. Pfizer will pay 20% of the total property tax, and the State will pay 40%. The City is using municipal bonds to fund two aspects of the Fort Trumbull developments: \$4 million for the Fort Trumbull Municipal Development Plans (MDPs) and \$430,000 for the Waste Water Treatment Plant. We assume the interest rate on the bonds is 5%. The proposed Fort Trumbull developments are eligible for a Local Enterprise Zone tax credit, paying no tax for the

first two years after occupancy and then receiving declining abatements annually of 50%, 40%, 30%, 20% and 10%. After eight years, the City collects 100% of the property tax due.

This analysis assumes that New London retains its historic commuter share of indirect and induced benefits from the proposed developments. Of all workers in the City, 34.8% reside in the City itself, according to 1990 data (the most recent available); we assume this ratio remains constant and therefore this is the proportion of indirect and induced results that occur within the City. Because the REMI analysis can only directly estimate impacts at the county level, we use this ratio to project the benefits that the City of London captures. In the case of employment, we already know the number of jobs that the developments will create directly in the City; adding 34.8% of the indirect and induced employment to this number generates the projected total employment that these developments will generate in New London. To estimate Gross Regional Product (GRP), we use the employment share in the City relative to the total new employment created in New London County, which is 71.5%. We also use the commuter share to estimate Personal Income, Disposable Income and Population changes accruing to the City.

On the fiscal side, the analysis assumes that the municipal bond debt service reduces the town's spending. The town also loses the original tax revenues on the sites involved. The reduced government spending entered into the model therefore accounts for the debt service plus the lost revenues. We also assume that the City of New London Grand List and budget increase at the rate of inflation, and the mill rate stays constant at 33 mills. (The Office of Policy Management lists the mill rate for New London at 33.5, and the assessor's reports referenced later in this analysis uses 33.5 mills in its

calculations. The estimates given here utilize a mill rate of 33.0 mills, the rate City Manager Richard Brown said is now the appropriate number.) We generate the estimate of the increased tax revenues that the City will collect directly from the Pfizer and Fort Trumbull developments using investment values provided by the Department of Economic and Community Development (DECD). To obtain the indirect earnings to the City (generated by the increased residential population and other increased economic activity), we applied the commuter share (34.8%) to the REMI County results, adjusted for the differential in mill rates. Taken together, these estimates (direct + indirect) provide the total projected revenues for the City of New London.

The section that follows presents the results of our economic impact analysis with respect to the City of New London and New London County. We calculate net present values of the future output and income streams because we want to work with constant dollar figures. Because the United States has been experiencing inflation rates below 3% for several years, we use 3% as the discount rate. The analysis presented covers the 20-year period from 2001 to 2020.

Results

City of New London

Based on the direct employment outcomes of the developments and the indirect effects computed with the New London's commuter share, the Pfizer and proposed Fort Trumbull developments will have a substantial, positive economic impact on the City of New London. We anticipate that the City will gain an average of 4,481 direct, indirect and induced new private non-farm jobs over the period under consideration. This period

however covers the construction phase and the early years where the full employment potential of the developments have not yet been reached. If we look at the average employment increase after 2009, when the direct employment potential (4,172 private non-farm jobs) has been fully realized, the average employment increase becomes 5,134 jobs in a given year. This amounts to an annual average of 962 private non-farm jobs over the direct employment that the developments created. The exact annual distribution of these jobs over the twenty years varies, but by the year 2020, the analysis projects number rising to 5,236 new positions. These new jobs will increase personal income within the City by over \$2 billion in present value terms. We project that the city's population will increase by 3,593 by 2020. Finally, Gross Regional Product in the City will be almost \$824 million more in 2020 than what it would be without the investments.

**Table I: Economic Impact Pfizer/Fort Trumbull Projects
City of New London
1999-2020**

Variable	Average	Value in 2020	Present Value
Private Non-Farm Employment	4,481	5,236	-
Gross Regional Product (Mil 99\$)	\$601.04	\$823.50	\$8,519.38
Personal Income (Mil 99\$)	\$144.14	\$182.16	\$2,060.79
Disposable Income (Mil 99\$)	\$91.55	\$106.64	\$1,301.60
Population	2,630	3,593	-

To appreciate the scale of these impacts, the aggregate impact of the Pfizer/Fort Trumbull development is significantly larger than that projected for the Adriean's Landing initiative in Hartford and ranks with those flowing from the Swiss Bank relocation to Stamford.

A second criterion for judging the project is the fiscal returns for the City of New London. Based on investment values of the new buildings provided by the DECD and the City assessor, we calculated the projected annual property taxes from the sites under consideration for the Pfizer and proposed Fort Trumbull developments. The Pfizer development enjoys tax concessions of 40% from the town for the first ten years, and the State will itself pay 40% of the taxes due, meaning that Pfizer will pay 20% of its local taxes through 2010, 100% afterwards. The City of New London thus receives 60% of the tax revenue during those ten years. The Fort Trumbull developments, if undertaken, will be eligible for a Local Enterprise Zone tax abatement, under which they pay no taxes for the first two years after occupancy. In the third year, the developments will pay 50% of the tax due, in the fourth year, 60%, and a similar 10% increase every year afterwards, leading to a 100% payment in the eighth year following completion.

In addition to the direct tax revenues, the town gains from indirect revenues that new developments generate. For instance, some new employees will want to reside in the City, increasing demand for residential property, and thus generating some investments in new housing stock, which will add to the City's taxable base. Similarly, the large number of new direct employees will generate demand for business services and generate new business investments in the City. We applied the town's commuter share (34.8%) to New London County's induced revenues obtained from the REMI analysis to estimate this induced local revenue. Because some of the induced developments may be eligible for a Local Enterprise Zone tax credit, we assumed for the projections that half the induced earnings are eligible for the same eight-year abatement plan as that for the proposed Fort Trumbull developments.

Table II provides a summary of the total fiscal impact for the City of New London. Direct revenues from both projects generate initially \$1.81 million, rising to \$9.74 million in 2011 when all abatements end, topping out at \$10.28 million in 2016. This is an average of \$7.4 million per year, with a present value of over \$102 million, assuming a 3% discount rate. When indirect earnings are added, the City receives in average annual revenue of \$12.33 million, beginning at \$2.09 million, rising to \$15.27 million in 2011, and growing to \$18.88 million in 2020. The present value of all revenue streams to the City, using the 3% discount rate, amounts to \$169.38 million over this period.

Table II: Fiscal Impact Pfizer/Fort Trumbull Projects City of New London 2001-2020 (Millions \$99)			
Variable	Average	Value in 2020	Present Value
Direct Revenues from Pfizer Project	\$5.29	\$6.81	\$74.98
Direct Revenues from Fort Trumbull Projects	\$2.08	\$3.47	\$27.41
Direct Revenues from Both Developments	\$7.36	\$10.28	\$102.39
Indirect Earnings for City	\$4.97	\$8.60	\$66.98
Total Revenues for City	\$12.33	\$18.88	\$169.38

To understand the benefits correctly, however, we need to project the *net new* revenue the City stands to gain from the projects, using available data. For example, assessment of the Pfizer site prior to the development values the current property at \$7.14 million. Because the reported numbers did not include personal property taxes for furniture, fixtures and equipment (FFE), we accounted for this by increasing the assessed value by 9%, which is the proportionate increase for FFE estimated for the new Pfizer

development. Even including FFED, the property prior to the Pfizer development generated less than \$180,000 in tax revenue. The assessor's report apparently considers only the site of Phase I of the Pfizer build-out, and thus underestimates the full impact. Table III shows the *new* tax revenue the town can expect to earn from just Phase I of Pfizer's facility, based on the assessed value and our analysis. The City of New London can expect tax revenues of almost \$5.9 million per year from Phase I (shown in Table III) and \$6.6 million per year from the completed Pfizer project after the 10-year abatement period ($\$294.6 \text{ million} * 0.7 \text{ assessment} * 0.0330 \text{ mill rate} = \$6,625,555.$).

Table III: Fiscal Impact for the City of New London Pfizer Development – Phase I Earnings Differential per Year	
Market value of Current Property (1998)	\$7,137,100
Market Value of Current Property including 9% FFE	\$7,779,439
Assessed value (70% of market value)	\$5,445,607
Revenue (33.0 mill rate)	\$179,705
Market value of Phase I of Pfizer investment, incl. FFE	\$261,850,046
Assessed value (70%)	\$183,295,032
Projected Revenue (33.0 mill rate)	\$6,048,736
Net Change in Revenue from Pfizer Phase I site	\$5,869,031

We applied the same analysis to all of the parcels included within the proposed Fort Trumbull development. The *net new* revenues are from both the Pfizer and planned Fort Trumbull developments are \$1.16 initially, growing to \$9.09 million in 2011 when all abatements end, and then growing to \$9.62 in 2020 (constant \$99). To understand this from another perspective, consider how much bonding this net new revenue would

support. If the City wished to issue bonds where the value of the issue equals the present value of the new revenue stream derived directly from the Pfizer and Fort Trumbull developments over the next twenty years (through 2020), the above estimates allow us to calculate the value of such a bond issue. An issue of 20-year bonds at a 6% interest rate would finance \$66.09 million of such bonds; the new *direct* revenues projected above would fully cover interest and principal payments. A similar bond issue backed by the total (direct + induced) projected *new* revenues would generate \$112.61 million. Table IV below summarizes the incremental revenues for the City.

Table IV: Incremental Fiscal Impact of Pfizer/Fort Trumbull Projects City of New London 2001-2020 (Constant dollars, 1999 base)			
Variable	Average	Value in 2020	Present Value (6% discount rate)
Current Revenue from Project Sites	\$656,817	\$656,817	\$7,533,638
Projected Revenue from Projects	\$7,362,623	\$10,276,890	\$73,627,031
Incremental Revenue from Projects	\$6,705,806	\$9,620,073	\$66,093,393
Total New Revenues for City (incremental + induced)	\$11,674,219	\$18,220,628	\$112,610,669

Another way to appreciate the potential fiscal impact of these developments is to consider by how much the Net Grand List of New London will grow. The 1999 assessment of the Net Grand List in New London was \$934,521,596. This will decrease to \$916,261,466 when the City loses \$18,260,130 of value from the current property on the relevant sites. The Pfizer and proposed Fort Trumbull developments, along with the induced investments in the City, will offset this loss, and soon increase the value of the

net Grand List to \$1.12 billion, then to almost \$1.4 billion in 2011, finally reaching \$1.49 billion in 2020. Thus, between Pfizer, the proposed Fort Trumbull developments, and the induced investments that they generate will increase New London's Grand List (measured in constant dollars) by more than 50% in the next twenty years.

This fiscal impact is of such a scale that the City of New London will be able to accommodate, if it wishes, a combination of: 1) new bonding to support critical municipal investments; 2) increased current services spending to enhance and expand vital municipal services; 3) a reduction in the mill rate.

New London County

New London County will capture many benefits from the Pfizer and Fort Trumbull developments. Many of the new employees at these developments will choose to live in a town within New London County (the following results are reported for the entire County, including the City of New London). Employment in the County will increase by an average of 6,184 non-farm jobs in a given year as a result these developments. By 2020, the increase in jobs in the County will be 7,227. Many of these new jobs will be highly paid professional positions. This analysis also projects that the population of New London County will increase by an average of 7,553 residents, with a projected increase by 2020 of 10,320 people.

Personal income in New London County will increase over the baseline forecast by an annual average amount of \$414.01 million. In present value terms, this is \$5.3 billion. Total economic activity within the County as measured by gross regional product (GRP) increases by \$840.5 million as an annual average over the twenty years (no

accumulation implied). This corresponds to an increase in GRP in present value terms of \$10.64 billion. After taxes, disposable income in New London County will be on average \$262.96 million per year above the baseline forecast, or \$3.7 billion in present value terms.

Table IV: Economic Impact Pfizer/Fort Trumbull Projects New London County 1999-2020			
Variable	Average	Value in 2020	Present Value
Private Non-Farm Employment	6,184	7,227	-
Gross State Product (Mil 99\$)	\$840.53	\$1,151.63	\$10,636.69
Personal Income (Mil 99\$)	\$414.01	\$523.20	\$5,336.54
Disposable Income (Mil 99\$)	\$262.96	\$306.30	\$3,738.52
Population	7,553	10,320	-

Table V shows the fiscal impact of the Pfizer and Fort Trumbull developments on local revenues in New London County. Because the state average mill rate is lower than that of the City of New London, we adjusted the direct revenues upward by 29.3% to obtain a more realistic estimate. The results show that the towns in New London County will gain an average of \$21.94 million in revenues in a given year, with a total of almost \$35 million in 2020. The present value of these revenue streams is \$300.29 million.

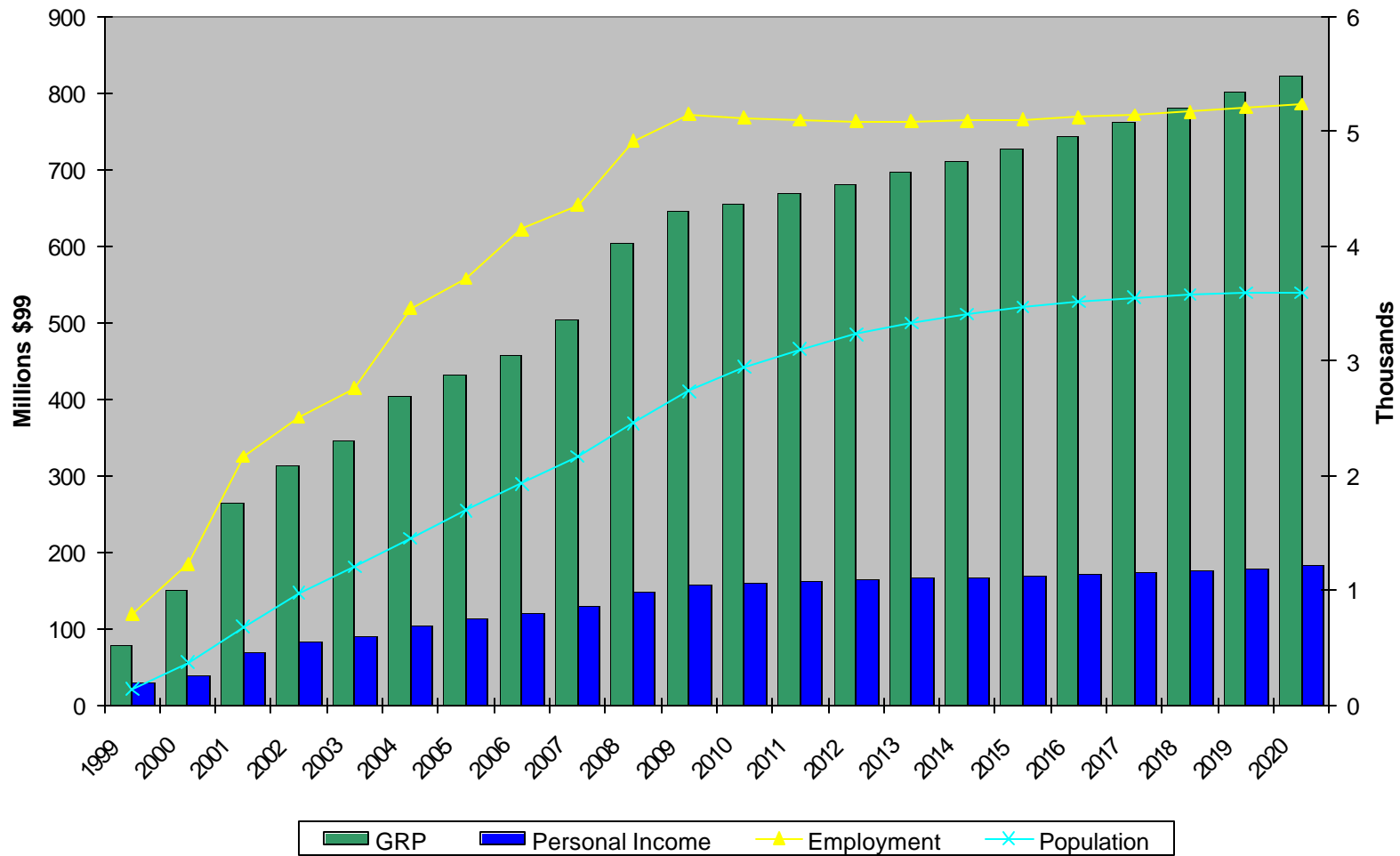
Table V: Fiscal Impact Pfizer/Fort Trumbull Projects New London County 2001-2020 (Millions \$99)			
Variable	Average	Value in 2020	Present Value
Local Revenues at State Average	\$19.79	\$31.98	\$270.29
Adjustment for Higher Mill Rate	\$2.16	\$3.01	\$30.00
Total Local Revenues for County	\$21.94	\$34.99	\$300.29

Conclusions

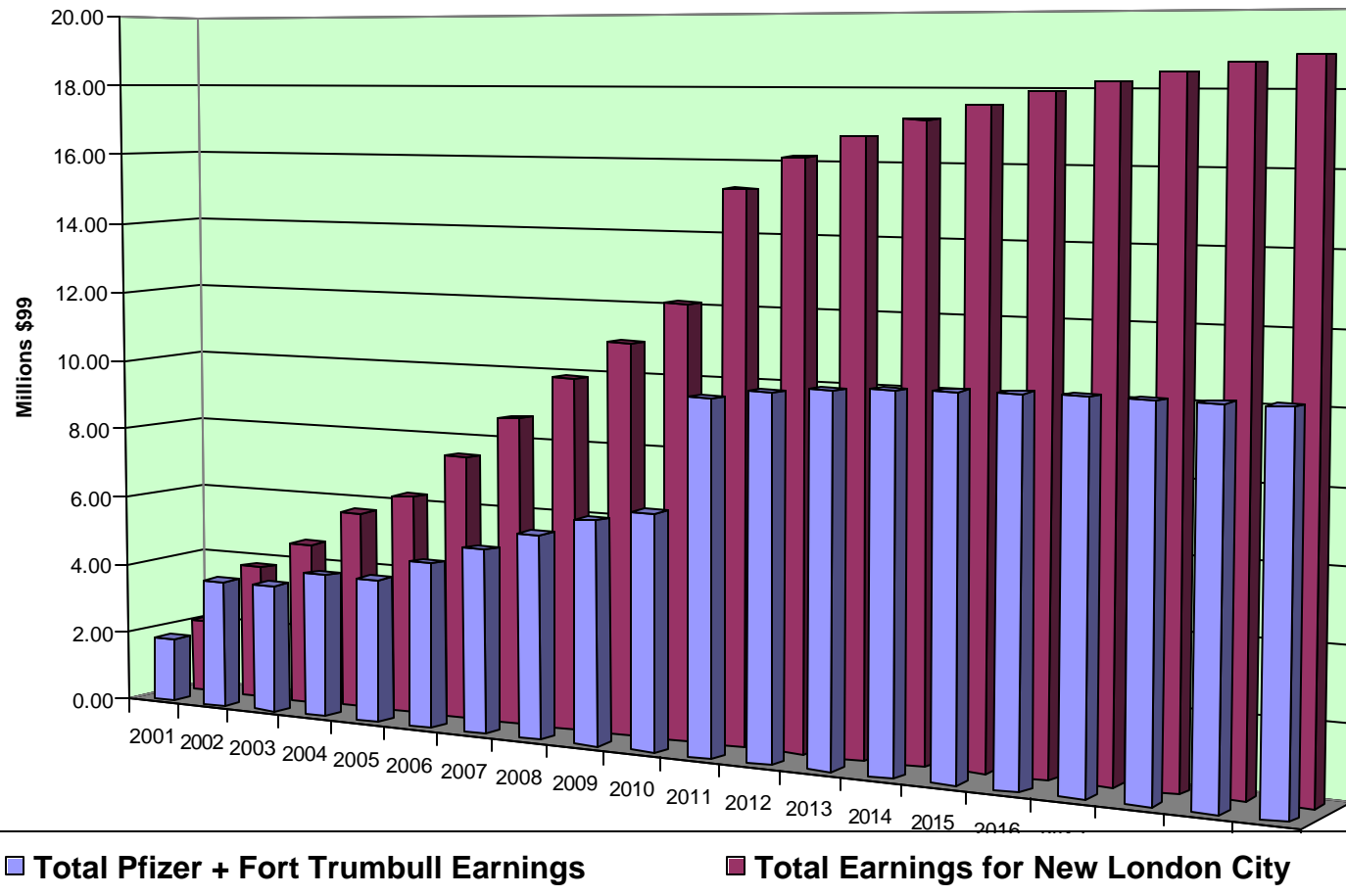
The proposed Pfizer and Fort Trumbull developments will involve an investment of over \$547.99 million in new lab, hotel and office space, and renovated facilities in the City of New London. To get this project underway, the City of New London has combined with the State of Connecticut to offer incentives, including foregoing some tax local tax revenues, that amount to over \$275 million.

The project has positive economic paybacks to both economic areas evaluated for this report. The residents of New London get \$65.10 back in new personal income for each dollar of City revenue invested in the project. The residents of New London County get \$136.51 back in new personal income for every dollar of state and local concessions to the project from the County. Overall, the Pfizer and Fort Trumbull developments have the potential to bring profound economic benefits to the people of the City of New London and New London County.

**Figure 1: Pfizer and New London Developments
Impact on Key Variables in the City of New London**



**Figure 2: Pfizer and Fort Trumbull Developments
Fiscal Impact on the City of New London**



**Figure 3: Pfizer and Fort Trumbull Developments
Impact on Key Variables in New London County**

