

7 Things Your Board Needs to Know About That Cost-Benefit Report

Paul Scheuren



www.ImpactDataSource.com



- Economic consulting firm based in Austin, TX
 - 20+ years experience evaluating economic development deals



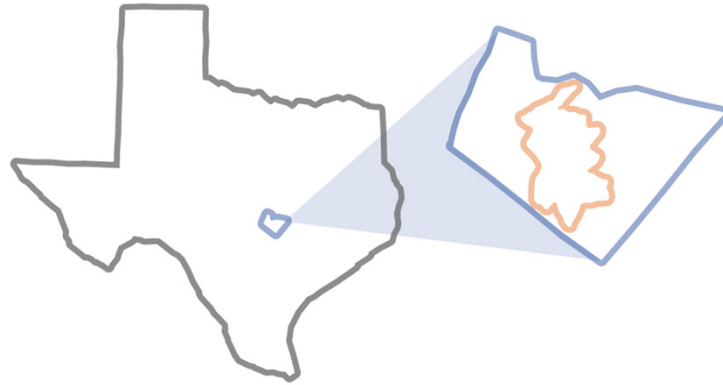
- License models to 70+ EDOs nationally and provide reports “as needed” for many more



- Podcast: Economic Development Secrets and 1-2-3 CEcD

Cost-Benefit Reports

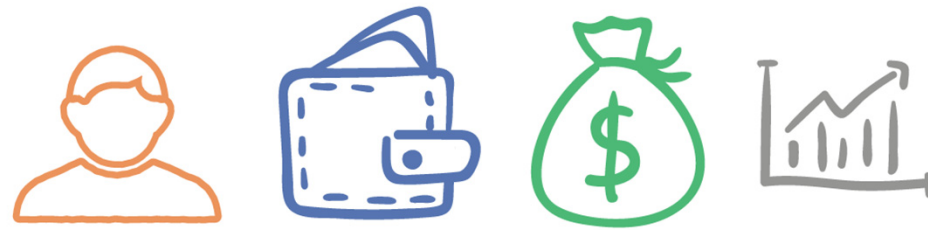
- Extremely valuable for economic development decision making and keeping everyone on the same page
- No standard terminology or presentation
 - Confusing and leads to misinterpretation
 - Intimidating and opaque
- What are the hallmarks of a high-quality cost-benefit report?



1. Focus On YOUR Region

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- Local stakeholders need to know the local impact
- Statewide impact vs. Local impact



2. Economic Impact Is Not One Number

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- Economic activity occurs when money changes hands
- Measured with four different metrics
 - Employment
 - Household Earnings
 - Economic Output
 - Value Added
- How useful is economic output and value added?
 - Employment & earnings are typically more instructive



1.5X

3. Understand Multipliers

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- Multipliers for any type of impact
- Direct Effect Employment Multiplier Example: Furniture Mfg
 - 2.05 Dallas County
 - 2.73 Statewide
- Indirect – Business-to-business spending
- Induced – Employee-to-business spending



4. Public Revenues vs. Public Costs

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- Economic impacts drive Fiscal Impacts
 - Tax revenue and government costs
- Property Tax, Sales Tax, City-Owned Utilities, Franchise Fees
- Costs to provide Public Safety services or Education
 - New business activity or new workers move to the area
- One-time costs for infrastructure or other government expenditures?



5. Detailed By Jurisdiction & Over Time

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- Benefits accrue over a period of time
- Distributed with varying intensity across different levels of government
- Cost benefit report should cover multiple years – 1 year won't tell the entire story
 - A film strip not a snapshot
 - Present value
- State and local taxes are the result of specific tax rates
 - Single property tax bill – many jurisdictions
 - 8.25% sales tax – not all to the state



6. Inputs and Key Assumptions Available

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- Cost-benefit reports involve a lot of inputs
 - Project attributes – jobs, capital investment, etc.
 - Tax structure – rates by jurisdiction
 - Key assumptions – property appreciation/depreciation, commuting or spending patterns
- Are all of these correct and reasonable?



ROI

7. Incentives Analyzed

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- Tax abatements or rebates affect the net fiscal benefit
- Non-tax incentives can be evaluated in an investment framework
 - Incentive = Investment
 - New Fiscal Benefit = Return on Investment
- Calculate Return on Investment and Payback Period

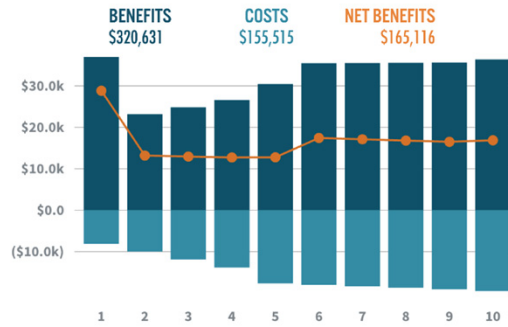


IMPACT REPORT

PROJECT ARMADILLO

50 Jobs Phased In

CITY OF COWTOWN



69.2 Total
50 Direct
19.2 Spin-off

JOB CREATION

\$31,439 Average
\$35,000 Direct
\$22,166 Spin-off

SALARIES

\$2,400,000
Buildings + FF&E

CAPITAL INVESTMENTS

0.8 Homes
5.2 Relocations

RESIDENTIAL DEVELOPMENT

A plywood manufacturer is considering relocating to the city. The company would build a \$1.4 million building and invest \$1.0 million in new equipment. Taxable inventories are expected to be \$900k per year. The company is expected to hire 50 new workers, phased in over the first 5 years. The workers will earn approximately \$35,000 per year.

NET BENEFITS

Present Value

BENEFITS

Sales Tax	\$34,301	
Real Property Taxes*	\$77,109	
FF&E Property Taxes	\$36,949	
Inventory Property Taxes*	\$0	
New Residential Property Taxes	\$6,175	
Building Permits and Fees	\$7,500	
Utility Revenue	\$77,456	
Utility Franchise Fees	\$38,687	
Miscellaneous Taxes and User Fees	\$42,454	
		\$320,631

COSTS

Cost of Utility Services	(\$82,136)	
Cost of Government Services	(\$73,379)	
		(\$155,515)

*Excludes Tax Abatement Value

\$165,116

\$128,567

\$89,057

CITY INCENTIVE ANALYSIS

\$75,000 Total Incentive	\$1,500 Per Job
22.0% Rate of Return	4.6 Yrs Payback Period

NET BENEFITS OVER 10 YEARS

CITY	\$165,116
COUNTY	\$152,167
SCHOOL	\$76,852
OTHER	\$12,012





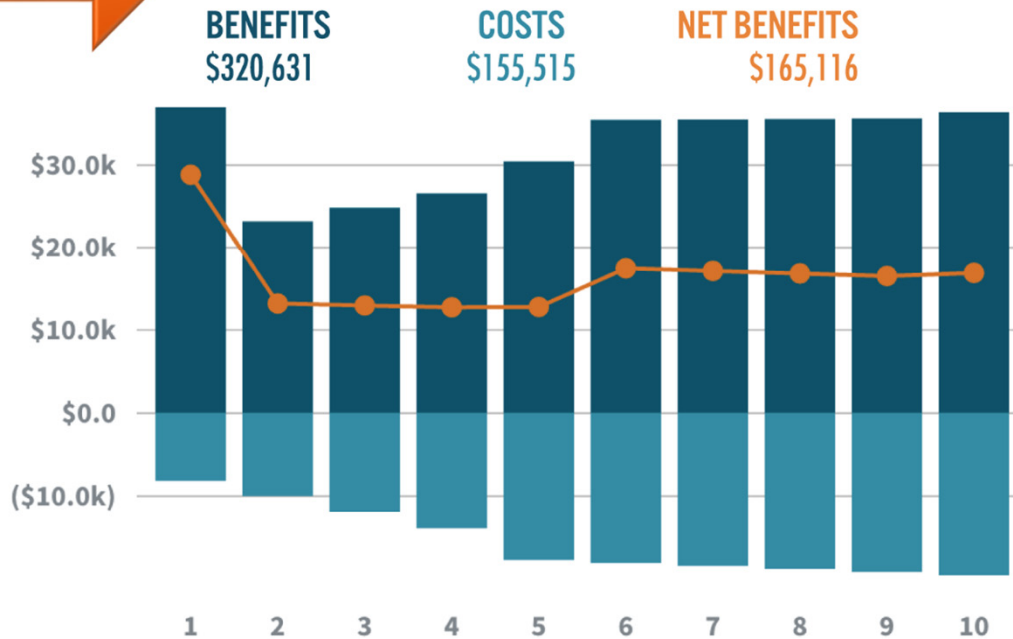
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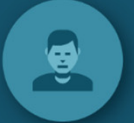
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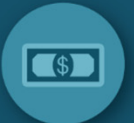
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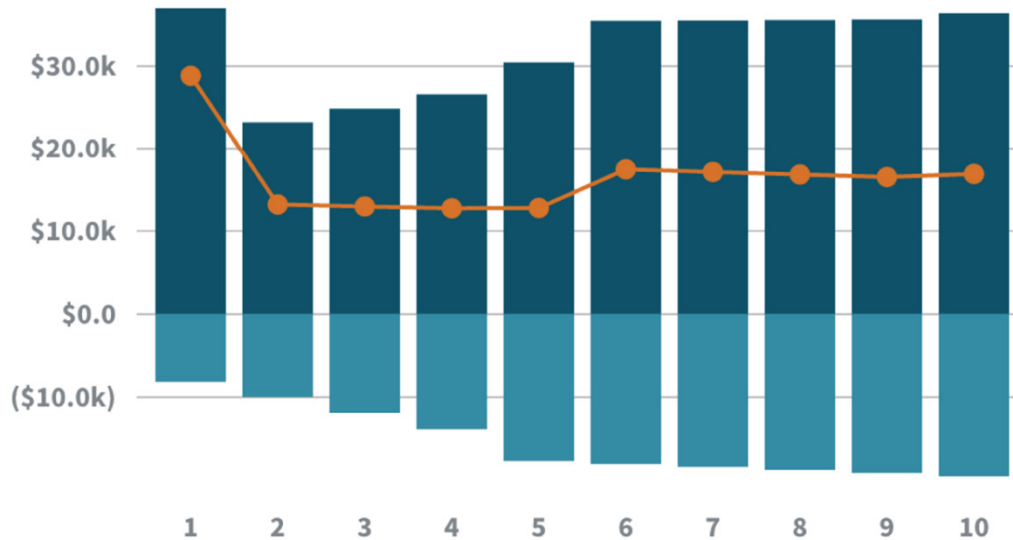
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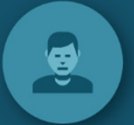
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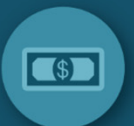


2. Economic Impact

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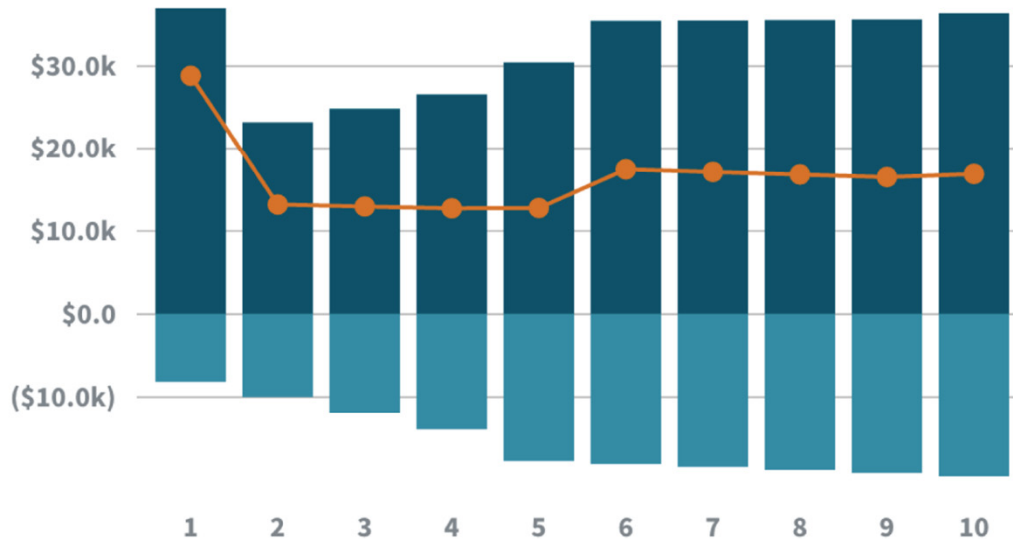
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3. Multiplier:
1.38

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*Excludes Tax Abatement Value \$89,057

4. Revenues
& Costs

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CITY INCENTIVE ANALYSIS

\$75,000
Total Incentive

\$1,500
Per Job

22.0%
Rate of Return

4.6 Yrs
Payback Period

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5. By Jurisdiction
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[Summary Report](#)[Detailed Report](#)

6. Inputs & Key Assumptions Available

Project Armadillo - Impact Report

50 Jobs Phased In

Prepared By: Demo Client



Purpose & Limitations

This report presents the results of an economic and fiscal analysis undertaken by Demo Client using Impact DashBoard, an online impact analysis tool created and supported by economic consulting firm Impact DataSource, based in Austin, TX.

Impact DashBoard is a customized web application developed for Demo Client. The model includes estimates, assumptions, and other information developed by Impact DataSource from its independent research effort detailed in Demo Client's Impact DashBoard User Guide.

The analysis relies on prospective estimates of business activity that may not be realized. Demo Client made reasonable efforts to ensure that the project-specific data entered into Impact DashBoard reflects realistic estimates of future activity.

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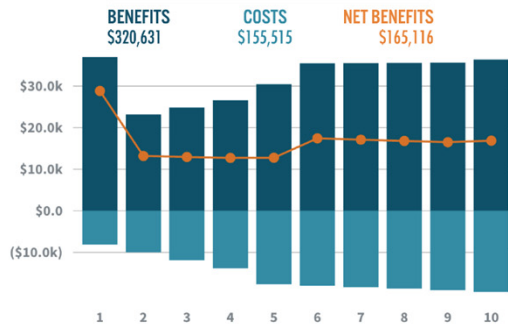


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ROI



1.5X



ROI

Paul Scheuren

Impact DataSource

paul@impactdatasource.com

512-524-0892



www.TheImpactDashBoard.com