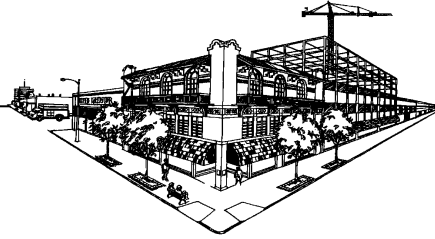


# E. D. Hovee & Company, LLC

Economic and Development Services



## EXECUTIVE SUMMARY

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Subject: Return on Investment for Select Associate Development Organizations (ROI for ADOs)

Date: December 31, 2008

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The Economic Development Councils (aka Associate Development Organizations (ADOs)) within Clark, King, Kitsap, Pierce, Snohomish, and Spokane counties were successful in attracting 74 major economic development investments during the 18 months ending December 31, 2008. These organizations commissioned a survey and impact analysis of investment and business operations information to estimate the total economic benefit to Washington State.

### SUMMARY RESULTS

In summary, this analysis indicates that the following economic and fiscal benefits resulted from the economic development efforts of the six represented organizations. Results are aggregated and summarized so as to avoid disclosing specific proprietary information of each investment.

- Economic Development efforts undertaken by the reporting EDC's within the six counties have resulted in at least \$852.9 million of business investment over the 2007/2008 biennium; \$508.4 million came from contracting businesses within Washington State, as some of the equipment investments were obtained from out-of-state suppliers. These investments supported 13,620 jobs over the duration of construction, with a \$617.0 million construction-related payroll. The investments produce one-time sales tax revenues of at least \$61.3 million to the state.
- The investments within the six counties hired an estimated 6,450 workers with an associated on-going annual payroll of \$376.3 million.
- The recruited and/or expanded businesses within the six counties support another 6,000 jobs elsewhere in the state, for a total direct plus indirect jobs benefit of 12,450 statewide. The indirect supported jobs within the six counties generate an additional payroll of \$229.5 million. Consequently, the investments within the six counties provided a total annual payroll benefit of \$605.8 million.
- Business operations will pay over \$19.45 million in Business and Occupation and State Sales Taxes annually.

## ECONOMIC & FISCAL ASSUMPTIONS

Information for this assessment has been obtained from a representative of each economic development organization, Minnesota IMPLAN Group, and the Washington State Department of Revenue. All individual survey information was summarized to avoid disclosure of proprietary information.<sup>1</sup>

**Background.** The economic development organizations in the six counties successfully sited 74 economic development investments. Investments range from manufacturing to financial services. A survey was conducted of each company to solicit information helpful in describing the full economic benefit of efforts to the local and state economy.

**Construction.** The companies assisted within six counties represent a combined *disclosed* investment value of at least \$852.9 million (including lease payments);<sup>2</sup>. Lease payments were capitalized into an investment figure by calculating the net present value of the lease payments over a multi-year period. The majority of the investment came from purchases of equipment or improvements to existing facilities.

Estimates of construction workers, average wage, and economic effects directly attributable to the investment are made using information collected from Minnesota IMPLAN Group. Multiplier estimates are made using the IMPLAN Input-Output economic model that measures inter-industry transactions between all segments of the Clark County economy. The economic multiplier is defined as the total direct benefit plus indirect benefit divided by the direct effect.<sup>3</sup> For example, a jobs multiplier of 2.0 (a relatively strong multiplier) means that one job could be created indirectly for every new job at the project site.

**Operations.** A separate set of assumptions for the operations of each firm has been applied to this analysis. These assumptions include the number of employees hired (or retained) at each facility and the wages and benefits paid to each worker.

**Fiscal Effects.** As part of this benefit analysis, major state fiscal revenue sources are estimated based on direct impacts only. Those taxes are business & occupation, sales & use, and property taxes. Not estimated with this analysis are local fiscal effects, taxes associated with indirect (or multiplier) activity, or development exactions/fees.

Figure 1 on the following page provides a summary table of the quantitative assumptions utilized in this impact evaluation.

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Figure 1. Economic & Fiscal Assumptions

Assumption	Value
<b>Capital Investment:</b>	
Value of Investment	\$852,904,000
– In-State Purchases	\$508,404,000
Revenue per Worker	\$95,200
Average Compensation (includes benefits)	\$49,900
Output Multiplier	1.58
Jobs Multiplier	1.52
Income Multiplier	1.38
<b>Operations:</b>	
Estimated Output (Sales/Revenue)	\$1,384,519,000
% of Output Used for Annual Taxable Retail Purchases	5.0%
Number of Workers	6,451
Estimated Payroll (includes benefits)	\$376,261,000
Worker Taxable Retail Purchases	20%
Output Multiplier	1.52
Jobs Multiplier	1.93
Income Multiplier	1.61
<b>Fiscal Taxes Rates:</b>	
Washington State B&O Tax Rate	0.727%
Washington State Sales Tax Rate	6.5%
Washington State Property Tax Rate	\$1.92000

Note: All information specific to a particular investment has been summarized into a consolidated figure. All estimates are subject to change.

Source: E.D. Hovee & Company, LLC from information provided by each economic development organization, Minnesota IMPLAN Group, and Washington State Department of Revenue.

## ECONOMIC BENEFITS

Economic benefits are categorized into two different phases, construction and on-going operations. The economic benefits associated with the construction phase may appear significant in relation to the *operations* phase but last a relatively short 12-18 month time period. Economic benefits estimated for the operations phase recur annually, lasting as long as the facility is in operation.

While the economic benefits represent only the activity occurring in Washington State, companies interact with other firms on a regional, national, and/or global level, providing a broader economic benefit that reaches well beyond the political borders of the state.

### *Construction Phase*

As identified in the assumptions section, business investments within the six counties represent an investment value of \$852.9 million. Just under \$510 million of this investment amount was procured within Washington State, as some specialized equipment and materials were purchased from out of state suppliers. These investments are estimated to indirectly stimulate another \$294.9 million in other Washington State business revenues for a total in-state economic benefit of \$803.3 million during construction.

The investments within the six counties directly support 8,960 construction related jobs. These jobs (positions) are phased in over the entire construction period and across each investment.

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Economic & Fiscal Benefits of Six Urban County Efforts

Construction jobs likely supported as much as another 4,660 jobs statewide for a total of 13,620 jobs statewide (during the construction period).

The construction workers earned approximately \$49,900 per year on average, generating a total construction payroll of \$447.1 million. This construction payroll generates another \$169.9 million of income in other industries during the construction phase, for a total statewide payroll benefit of \$617.0 million during the period of combined project construction.

**Figure 2. Economic Benefits Associated with Construction (Cumulative)**

Impact Category	Economic Benefits of Construction		
	Direct	Indirect	Total
Capital Investment	\$852,904,000	–	–
In-State Capture	\$508,404,000	\$294,874,000	\$803,278,000
Construction Jobs	8,960	4,660	13,620
Construction Payroll	\$447,104,000	\$169,900,000	\$617,004,000
– Average Wage	\$49,900	\$36,500	\$45,300
Worker Procurement	\$89,420,800		

Note: Data is for primarily five counties, as only one investment within King County was disclosed. All estimates subject to change.

Source: E.D. Hovee & Company, LLC.

### *Operations Phase*

At full build-out, the investments within the six counties will produce \$1.4 billion in annual sales/revenue and the hiring of 6,450 employees. These workers earn \$376.3 million in annual base pay plus benefits. An additional 6,000 jobs are supported elsewhere in Clark County; these workers collectively earn an estimated \$229.5 million per year.

The success of the economic development organizations within the six counties can be measured in terms of the \$2.1 billion of business income and 12,450 permanent jobs supported directly and indirectly by the investments profiled within this analysis. These investments also represent an annual payroll benefit of \$605.8 million

**Figure 3. Annual Economic Benefits Associated with Operations**

Impact Category	Annual Economic Benefits		
	Direct	Indirect	Total
Output	\$1,384,519,000	\$719,950,000	\$2,104,469,000
– Annual Procurement	\$69,226,000	–	–
Number of Jobs	6,450	6,000	12,450
Total Payroll	\$376,261,000	\$229,519,000	\$605,780,000
– Average Wage	\$58,300	\$38,300	\$48,700
Worker Procurement	\$75,252,200		

Note: All estimates subject to change

Source: E.D. Hovee & Company, LLC.

## FISCAL EFFECTS

The investments within the six counties yield considerable tax benefit both to Washington State and local taxing jurisdictions. Tax benefit estimates are focused on both phases of construction and operations. With this analysis, only the State portion of tax benefits are calculated.

During the *construction* phase, the State of Washington is projected to receive at least an estimated \$55.4 million in sales taxes from the investments, depending on eligibility and participation in tax incentive programs. Construction workers spend a portion of their incomes on taxable goods and services. Sales taxes generated from their purchases are estimated at \$5.8 million. In total, the state could receive upwards of \$61.3 million from construction activity associated with the investments profiled in this analysis.

**Figure 4. Sales Tax Revenues Associated with Construction of the Investments**

<u>Tax Source</u>	<u>Estimated \$ Value</u>
Investments	\$55,438,800
Worker Procurement	\$5,812,400
Estimated Sales Tax	\$61,251,200

Note: Data is primarily for five counties, with investment information for only one firm being disclosed within King County. Estimates are for revenues attributed directly to construction of the investments. Indirect tax revenue effects are not estimated. All estimates are subject to change.

Source: E.D. Hovee & Company, LLC.

During *operations*, investing companies pay taxes to operate their facilities. Property, state Business & Occupations (B&O), and sales tax tend to be the largest taxes collected, with utility taxes also contributing but only to local coffers. These investments within the six counties will produce \$10.1 million in State B&O taxes, another \$9.4 million in sales taxes due to local procurement of taxable goods and services for business' and worker's household operations. *Note:* Property tax payments will vary from these estimates over time as an individual company's personal property (e.g. equipment, tools, etc.) will depreciate each year according to DOR depreciation tables.<sup>4</sup>

**Figure 5. Tax Revenues Associated with Business & Household Operations  
(To State of Washington)**

<u>Tax Generated</u>	<u>B&amp;O Taxes</u>	<u>Retail Sales Taxes</u>	<u>Property Taxes</u>
Business Activity	\$1,384,519,000	\$144,478,200	\$852,904,000
Tax Rate	0.7270%	6.5%	0.1920%
Estimated Taxes	\$10,065,453	\$9,391,083	\$1,637,576

Note: Estimates are for revenues attributed directly to operations of the investments, based on non-depreciated values. Indirect tax revenue

effects are not estimated. All estimates are subject to change.

Source: E.D. Hovee & Company, LLC.

## END NOTES

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<sup>1</sup> Data for this assessment has been compiled from sources generally deemed to be reliable. However, the accuracy of information obtained from third-party sources is not guaranteed. Direct impact estimates are also subject to change over time for reasons including national and statewide economic conditions and local company decisions to expand or reconfigure operations.

The findings and opinions contained in this report are those of the authors. They should not be construed as representing the opinion of any other party prior to their approval, whether in whole or part.

<sup>2</sup> Investment value for only one firm within King was disclosed.

<sup>3</sup> Indirect effects are defined to also include induced effects of added local consumer spending.

<sup>4</sup> With the exception of depreciation effects over time, tax effects should be viewed as conservative representations of fiscal benefits to jurisdictions within the state of Washington. Added benefits can be expected to local jurisdictions (not calculated with this analysis), for added fee and revenue sources beyond those calculated, for indirect and effects resulting from business procurement and induced consumer spending, and inflation over time.

This economic impact assessment report has been prepared by E. D. Hovee & Company, LLC, an economic and development consulting firm based in Vancouver Washington. Since 1984, the firm has conducted economic impact assessments together with market/ feasibility assessments and economic development planning for a variety of economic development projects. Clients include public agencies, non-profit economic development organizations, private firms and individuals – primarily within the Pacific Northwest region of the U.S. Analysis preparers are Paul Dennis and Eric Hovee.