

# Memorandum

## City of Lawrence

### City Manager's Office

TO: David L. Corliss, City Manager  
CC: Diane Stoddard, Assistant City Manager  
Casey Toomay, Assistant City Manager  
FROM: Britt Crum-Cano, Economic Development Coordinator  
DATE: March 10, 2015  
RE: Expanding Analytical Tools for Incentive Analysis

#### **Introduction**

The City of Lawrence values the use of analytics when considering public investment in economic development or related community enhancement projects. Currently, the City performs a cost-benefit analysis (to estimate fiscal impacts to taxing jurisdictions) and a "But For"/Pro forma analysis (to estimate financial feasibility) for incentive requests on economic development projects. However, there have been recent incentive requests for projects that are not primarily related to economic development (the creation of primary jobs and associated wages and new capital investment), but rather oriented to service, community improvement, or historic preservation. This has prompted staff to identify additional analytical resources that could be utilized when evaluating incentive requests.

This memo presents background on the models currently employed in-house and offers suggestions for enhancing analytical tools, depending on the project type and requested public assistance.

#### **Background**

As per City Policy, there are two primary analytical models that are routinely used to examine an incentive request: cost-benefit (or benefit-cost) and "But For"/Pro forma.

#### **Cost-Benefit Analysis**

- Measures: Fiscal impact on City, County, School District, and State over proposed incentive period
- Model Type: Proprietary, City of Lawrence
- Output: Ratio comparing the overall fiscal costs and benefits to the various local jurisdictions.
- Threshold: Preferred City Ratio: 1:1.25 cost to benefit ratio
- Used for: Mandatory for NRA and Tax Abatements applications. Typically utilized when examining other public assistance

requests for economic development or related community improvement projects. Often used when examining initial incentive requests/inquiries for a “first blush” perspective.

### **“But For”/Pro forma Analysis**

- **Measures:** Overall, estimated financial performance/investment potential via detailed comparison of project expenses to anticipated revenues. Within incentive request context it is used to examine the need for financial assistance.
- **Model Type:** Financial performance (e.g. Pro forma).
- **Output:** Return on investment, cash flow projections. Note the City recently subscribed to the Price Waterhouse Cooper Real Estate Investor Survey, which provides national level data on returns for the most commonly invested real estate property types. This data will be used in addition to other sources, to help examine return metrics.
- **Threshold:** Varies. Depends on returns on investment and/or cash flow requirements as determined by project investors and lenders. City considers cash flow and reasonable return rates on investment.
- **Used for:** City: Mandatory for NRA, TDD, CID, TIF  
State: Financial Feasibility Reports

### **Expansion of City Analytical Tools and Models**

In addition to a cost-benefit and “But For”/Pro forma analysis, the City may want to consider utilizing additional analytical resources to broaden and enhance the public investment perspective for decision making. Staff believes the addition of the following analytics could aid decision making, depending on the parameters of the project being examined.

- **Economic Impact Analysis (EIA)**  
Quantitative methodology used to estimate the overall economic contribution of a project, business, or industry to the local or surrounding community. EIA results are helpful in informing decision makers and the public about how and in what form the benefits and costs of the project will ultimately be distributed within the economy.
- **Market Impact Assessment**  
Specialized market analysis designed to identify financial impacts to existing, local businesses when a competitive project (specifically those seeking public assistance) is proposed.
  - Estimate share of revenues captured away from local, existing businesses by new project.

- Identify net new market effects on local private and public revenues as a result of the project:
  - Estimate net new increase in sales revenues and sales taxes on retail components of project
  - Estimate local, net new increase in operational revenues (e.g. net new rental revenue as a result of project)
- **Business Viability Studies**

Examination of business and marketing plans to estimate future viability of a business and its service(s) or product(s). Utilized when considering support for start-up or early stage business ventures.
- **Qualitative Studies**

The above methods are quantitative and won't address intangible benefits and costs. Although they can still be an important consideration when examining support for a project, intangible outcomes are hard to measure and hard to value. For example, social responsibility (providing affordable house), community image and pride, historic preservation, and environmental priorities, and others are some intangibles that might be considered in light of public assistance for a project.

Capturing some sense of the value of intangibles can be done through surveys.

The below is an overview of current and additional quantitative analytic options.

<b>Options for Economic Development and Community Investment Analysis</b>					
<b>Model/Study Type</b>	<b>Used For Examining</b>	<b>Measures</b>	<b>~Cost</b>	<b>Notes</b>	<b>Analysis Performed by</b>
Cost-Benefit Analysis	Fiscal impact to taxing jurisdictions	Ratio of costs to benefits	Staff time	Performed by staff using proprietary model	City Staff
"But For"/Pro forma	Financial feasibility	Return rates, cash flow	Staff time	Performed by staff using financial data provided by applicant.	City Staff
Price WaterHouse Cooper (PwC) Real Estate Investor Survey	Return rates by property type and area	Return rates for various equity investments	\$500/yr.	Does not cover mixed-use projects. Data is for regions and nation, not specific to Lawrence or KC area.	City Staff
Economic Impact Analysis (EIA)	Economic impacts of project on local community	Local community impacts via direct, indirect, and induced economic effects	\$3,000-\$38,000 for software + staff time. Varies for outside studies <sup>1</sup>	For performing in-house, see model comparisons in Addendum A.	Consultant or City Staff (with additional resources)
Market Analysis	Trade Area(s)	Impact to existing, local businesses on competitive service or retail related operations	See Note <sup>2</sup>	Studies vary by area/region, industry, project type.	Outside Resources
	Market Share & Competitive Standing				
Business Plan	Business viability	Soundness of business operations	See Note <sup>3</sup>	May be able to utilize KUSBDC or BTBC to assist in plan evaluation	Outside Resources
Marketing Plan	Business viability				Outside Resources

<sup>1</sup> As an example, the CSL Sports Village EIA study was \$27,800.

<sup>2</sup> Ranges from \$5000-\$8500, depending on scope of study

<sup>3</sup> Varies depending on scope of study.

### **Staff Conclusions & Recommendation**

The type of analytical tool(s) employed depends upon multiple factors, including City policy requirements, Kansas state statutes, project type, incentives requested, available data and resources, and other specifics as determined by the particular project under consideration.

The decision to employ additional analytical models and tools can provide more information to help broaden the perspective of the economic and financial impact the project will have on the community. Each model has limitations and requires additional time and monetary resources.

The timing of projects usually won't accommodate the staff time needed to perform additional analytics. For example, the arrival of incentive requests is uncontrollable, with multiple requests often arriving within the same general timeframe. In addition, due to project scheduling, financing, or other limitations, the applicant typically requires the request to be processed under very tight deadlines.

Governing bodies should weigh the investment costs of employing additional analytical tools and models with the benefits of providing additional data on the financial and economic impacts of proposed projects. If additional analysis is required, it should also be decided who should bear the cost of additional studies (e.g. City, applicant/owner, both).

It is also important to note that there will always be intangible benefits and costs that can't be measured through quantitative methods. Decision makers should consider the context of the project within the framework of community needs and enhancements that contribute to non-quantifiable, quality of life factors. If needed, surveys can be employed, but will involve additional resources to cover cost and time requirements.

Due to timing considerations for processing requests, combined with the high costs of purchasing additional software and additional staff time required to become familiar with new models and perform additional analysis, Staff recommends:

- Utilizing outside consultants to help expand analysis, as needed
- If expanded analysis is required, City to choose the consultant company, determine the level of analysis to be performed, and deliverables required
- Applicant to cover costs of additional analysis unless there are extenuating circumstances as to why the applicant can't cover those costs.

### **Action Requested**

Provide direction to Staff on the expansion of analytical tools for economic and community investment analysis, if those tools are mandatory or optional when considering certain project and incentive types, and guidelines for utilizing outside resources and who pays for those services.