



# **GWEDC Economic Development Activity and Performance Evaluation**

**1st Half 2008**

**Prepared for the Greater Wichita  
Economic Development Coalition  
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In the preparation of this report, the Center for Economic Development and Business Research assumed that all information and data provided by the Greater Wichita Economic Development Coalition or others is accurate and reliable. CEDBR did not take extraordinary steps to verify or audit such information, but relied on such information and data as provided for purposes of the project.

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## Introduction

The Greater Wichita Economic Development Coalition (GWEDC) asked the Center for Economic Development and Business Research at Wichita State University to prepare reports on the activity and results of the GWEDC economic development efforts.

This report presents data for 1st half 2008. The raw activity data were provided to the CEDBR by the GWEDC economic development staff. No attempt was made by the CEDBR to independently verify these activity numbers. Based on these activity numbers, the CEDBR carried out a benefit/cost and return on investment analysis of the activities of the GWEDC economic development efforts.

In addition, the CEDBR estimated several different measures of economic impact, including:

- Change in earnings in the community
- Change in employment in the community
- Change in selected city and county tax collections

To measure public benefit, the GWEDC evaluation model estimates the streams of tax revenues for the local school district, city, county and state governments based on the economic activity created by the jobs, earnings, and capital investment attracted or retained in the community as a result of the GWEDC economic development staff's efforts. As such, the GWEDC evaluation model measures only the financial return on investment; it does not examine other potential "spillover" benefits to residents or businesses. The GWEDC evaluation model, as do most conventional benefit-cost models, relies only on financial data and excludes the many intangible and non-public benefits that come from an expanded employment base.

## 1st Half 2008 Activity Summary

Estimated Direct Impact			
	Jobs	Annual Payroll	Capital Investment
Recruitment/Expansion	1,072	\$77,676,120	\$200,500,000
Retention*	0	0	0
<b>TOTAL</b>	<b>1,072</b>	<b>\$77,676,120</b>	<b>\$200,500,000</b>

\*See "Definitions and Methodologies" section for an explanation of how retention capital investment amount is derived

# Analysis of GWEDC Economic Development Activities 1st Half 2008

## Summary Measurements for All Activity 1st Half 2008 (GWEDC Public Funding Partners)

SUMMARY MEASUREMENTS	TOTAL ACTIVITY
<b>Analysis of GWEDC operations</b>	
Present value of net benefits	\$18,635,669
Rate of Return on Investment	
Net public benefits 10-year period	\$18,688,752
Public costs 10-year period	\$11,510,943
ROI	162.4%
Benefit-Cost Ratio	
Public benefits 10-year period	\$30,199,695
Public costs 10-year period	\$11,510,943
Benefit-Cost Ratio	2.62
GWEDC support dollars	\$250,000
Rate of Return on Investment	
Net public benefits 10-year period	\$18,438,752
Public costs 10-year period	\$11,760,943
ROI	156.8%
Benefit-Cost Ratio	
Public benefits 10-year period	\$30,199,695
Public costs 10-year period	\$11,760,943
Benefit-Cost Ratio	2.57

In general, a “good” deal would have a positive present value; a rate of return in excess of the taxing entity’s cost of capital and a benefit-cost ratio of 1.3 or more. However, in rare cases a deal may have a negative ROI and still be a “good” deal for the community. An example best illustrates this point. Assume a major auto manufacturer wanted to open a plant in Wichita, making a significant capital investment in land, buildings and machinery and hiring 3,000 production workers with annual salaries of \$50,000. The location of a major original equipment manufacturer typically leads to the expansion or relocation of numerous OEM suppliers in proximity to the OEM. In such cases, the community may decide to make what on the surface would seem to be a “bad” deal with the OEM with the expectation that the long-run economic benefits of the expanded economic base and the entry of OEM suppliers would make up for any losses on the original deal with the OEM.

# Analysis of GWEDC Economic Development Activities Since Inception

## Summary Measurements for All Activity Since GWEDC Inception (GWEDC Public Funding Partners)

SUMMARY MEASUREMENTS	TOTAL ACTIVITY
<b>Analysis of GWEDC operations</b>	
Present value of net benefits	\$52,763,088
Rate of Return on Investment	
Net public benefits 10-year period	\$53,040,532
Public costs 10-year period	\$34,214,432
ROI	155.0%
Benefit-Cost Ratio	
Public benefits 10-year period	\$87,254,963
Public costs 10-year period	\$34,214,432
Benefit-Cost Ratio	2.55
GWEDC support dollars	\$2,250,000
Rate of Return on Investment	
Net public benefits 10-year period	\$50,790,531
Public costs 10-year period	\$36,464,432
ROI	139.3%
Benefit-Cost Ratio	
Public benefits 10-year period	\$87,254,962
Public costs 10-year period	\$36,464,432
Benefit-Cost Ratio	2.39

## Definitions and Methodologies

### **Present Value**

The present value of the expected cash flow over the next ten years – the excess of benefits over cost – for each entity was computed. Present value is a way of expressing in today’s dollars, dollars to be paid or received in the future. Today’s dollar and a dollar to be received or paid at differing times in the future are not comparable because of the time value of money. The time value of money is the interest rate or each taxing entity’s discount rate. The GWEDC evaluation model uses a discount rate to make the dollars comparable – by expressing them in today’s dollars or in present value.

In general, a positive present value indicates an acceptable investment.

### ***Rate of Return on Investment***

The rate of return on investment for each taxing entity was also computed. The rate of return analysis views the incentives that each taxing entity is considering as an investment that the public will be making in the company. The rate of return, therefore, is annual rate of return, over the next ten years, on each taxing entity's investment in the company.

In general, a rate of return in excess of the taxing entity's cost of capital is considered desirable.

### ***Benefit-Cost Ratio***

The benefit-cost ratio for each taxing entity was also computed. This ratio compares public benefits over a ten-year period from the new or expanding company(s) to public costs during the same period. For example, a benefit-cost ratio of 1.55 (or 1.55 to 1) shows that ten year benefits are 155 percent of public costs. Conversely, a benefit-cost ratio of .75 shows that public benefits are only 75 percent of public costs – costs exceed benefits.

In general, a benefit-cost ratio of 1.30 to 1 is considered acceptable for a taxing entity to grant tax abatements and other financial incentives to a company.

### ***Apportioning Capital Investment between Expansion and Retention Activity***

When a project under analysis is part retention and part expansion any capital investment attached to the project is pro-rated between retention and expansion based on the percentage breakdown of jobs. For example if the ABC Manufacturing Co. were under analysis with the following parameters:

Total jobs	= 105
Retained jobs	= 75 or 71.4% of total
New jobs	= 30 or 28.6% of total
Total Capital Investment	= \$3,250,000
Credited to retention	= 71.4% or \$2,320,500
Credited to expansion	= 28.6% or 929,500