START Partnership
Final Economic Impact Results

July 2009

Document Outline

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Definitions

The Creative Industries Are Economic Engines, Creating a Profound Economic Impact in their Communities

Creative Economy: The economic activity, such as jobs, financial transactions, and wealth creation, generated by businesses and non-profit organizations of a creative or cultural nature

- Normal or traditional industries do not have the same economic impact as creative industries
- Creative industries are unique because they induce additional spending beyond the customer's initial purchase of a ticket
  - They attract visitors to their events, and those visitors spend money to travel, eat, shop, and sleep
  - As museums and theaters draw patrons, they bring other businesses, such as restaurants and shops, to the area
- Creative industries are also unique because they are strongly rooted in their communities. The jobs they generate remain local.
- A vibrant Creative Economy can foster a more attractive area in which to live and locate businesses

We Computed START Partnership's Total Economic Impact by Using Two Different – and Well Respected – Models

Americans For The Arts (AFTA)

Arts and Economic Prosperity III Initiative

http://www.americansforthearts.org/

New England Foundation for the Arts (NEFA) and Center for Creative Community Development (C3D)

Culture Count Initiative

Http://www.culturecount.org/

- Both of these models use statistical data of creative organizations
- They use different methods to estimate the same value, but give similar results
- The consistency reinforces the validity of these models

- **These models expect:**
  - Your organization to function as the:
    - ✓ Average creative organization in the US, for the AFTA Model
    - ✓ Average performing arts organization/ museum/ creative organization in Middlesex County, MA, for the C3D Model
  - The investment to successfully increase community involvement, not just be a “one-hit wonder”
- **These are reasonable expectations for the START Partnership**

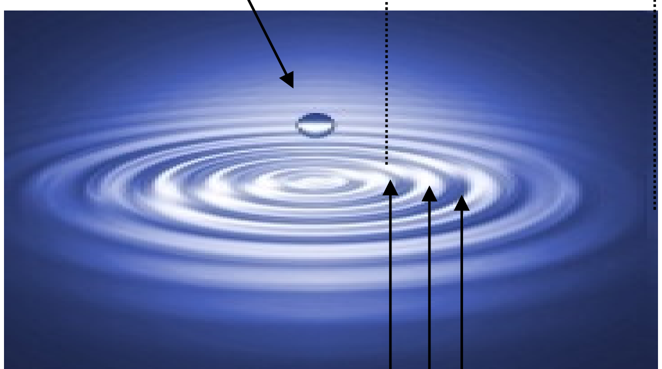
Understand These Key Terms

- **Contractors**:
  - Throughout this document, when the term "contractor" is used, we are referring to **contracted service workers**, e.g. web designers, construction workers, art installers, etc.
  - Anyone hired by an organization who is not in the operating budget is a contractor
- **Community**:
  - **Middlesex County**
  - For the purposes of determining economic impact it is most accurate to consider Middlesex County the "community."
  - For other purposes, e.g. social impact, it is reasonable to consider Framingham and adjacent towns the "community."
- For additional terminology, please see appendix

START Partnership's Own Contribution to the Local Creative Economy Is Primarily Measured by the Total Economic Impact (TEI)

Investment/Budget (Salaries, Capital Expenses, etc.)

All the ripples sum to the Total Economic Impact (TEI)

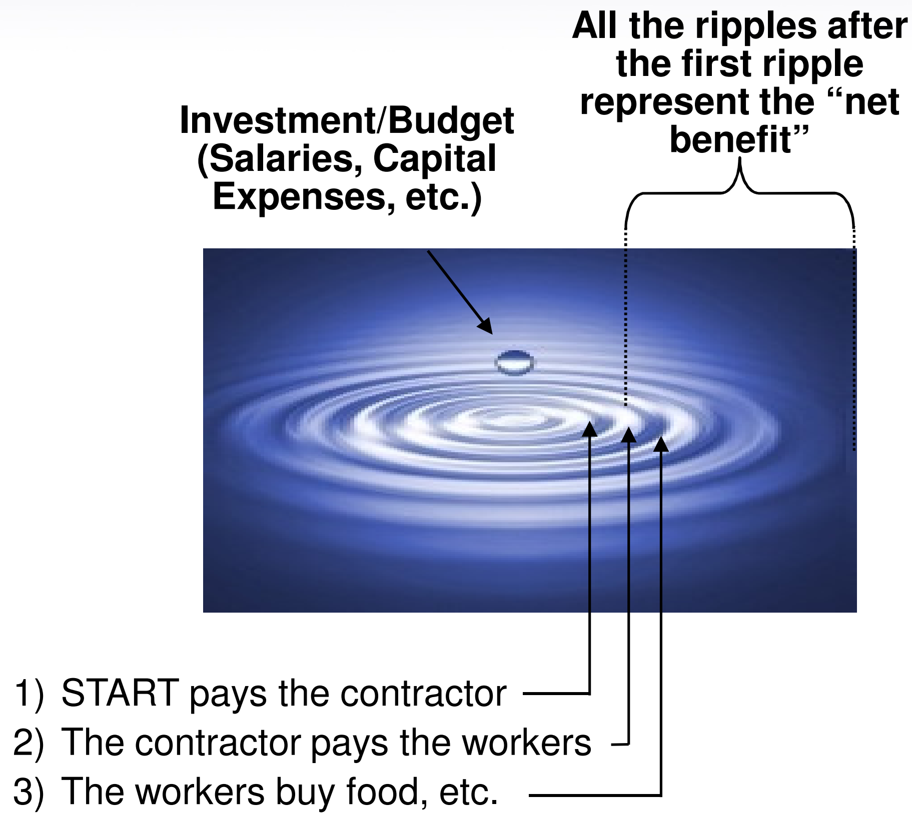


1) START Partnership pays the contractor
2) The contractor pays the workers
3) The workers buy food, etc.

- The models calculate how a dollar spent by an organization (non-profits in this case) is re-spent in a community
- As the START Partnership pays the contractor, and (s)he pays the workers, and so on, "ripples" of economic activity are created
- The sum of all these ripples is the Total Economic Impact (TEI)

Computing Net Present Value (NPV) Helps Better Understand the Value of the Investment

- All economic activity beyond the original amount spent is a "net" benefit
  - In terms of the ripple diagram, everything after the *first* "ripple" is the net benefit
- Over a period of time, the net benefit (or net "ripples") can be used to evaluate the Net Present Value (NPV)
- The NPV of an investment is its value in *today's* dollars
- This metric helps us better understand how much the investment is creating a benefit beyond START Partnership



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How to Interpret Net Present Value, Another Metric

- **Net Present Value (NPV)** is a way to calculate the value of future cash flows in terms of present-day dollars by discounting future amounts due to inflation and opportunity cost
- Consider a factory that wants to buy a machine for $42,000 that will earn $10,000 per year for the next five years. **Should they buy the machine?**
- The chart below shows how cash flows are discounted (at 10%):

	Year 0	Year 1	Year 2	Year 3	Year 4	Year 5	Net
Cash flow	-$42,000	$10,000	$10,000	$10,000	$10,000	$10,000	$8,000
Present Value	-$42,000	$9,091	$8,264	$7,513	$6,830	$6,209	-$4,092

The Cost of the Machine

The Net Present Value

- If the total amount of money earned is positive, the machine should be purchased
- **NPV evaluation shows that this investment would not be profitable. The machine should not be purchased.**

High-Level Summary

At This Point We Have Assessed Your Economic Impact And Your Employment Impact Based On Your *Operating Budget*, Your *Out-of-county Attendance* Figures And Any Possible Future Budget Expenditures And Investments

- Members
  - Amazing Things Arts Center (ATAC)
  - Danforth Museum of Art (DMA)
  - Framingham History Center (FHC)
  - Framingham Public Library (FPL)
  - New England Wild Flower Society (NEWFS)
  - Performing Arts Center of Metrowest (PAC)

- Information Collected & Analyzed
  - Operating Budget
  - Out-of-County Attendance
  - Full-time Equivalents
  - Endowment Investment Return Rate
  - Endowment Draw Rate
  - Investment Breakdown
  - Specialized Volunteers
    - Will be tallied up separately

START Partnership Budget Assumptions

1. Current Operating Budget	$6,271,000
1.1 Projected Budget Over 9 Years	2010-2018: $63,166,241
2. Current Out-of-County Attendance	22,530
2.1 Projected Out-of-Country Attendance over 9 Years	2010-2018: 264,396
3. Current FTE's (Full-time Equivalents)	87
3.1 Projected FTE's Over 9 Years	N/A
4. Endowment Investment Return	N/A
5. Endowment Draw Rate	N/A
6. Investment Breakdown Over 10 Years	2009-2018: $19,835,395

In Every Measure the Proposed Investment Yields Impressive Gains Over the Baseline of "No Investment"

No Investment

- Total Economic Impact is $126.8M over 10 years
- Over 10 years, the Net Present Value of START Partnership is $27.8M
- START Partnership is responsible for an estimated 2004 FTE jobs over 10 years

+ $36.0M

+ $11.2M

+ 537

Investment

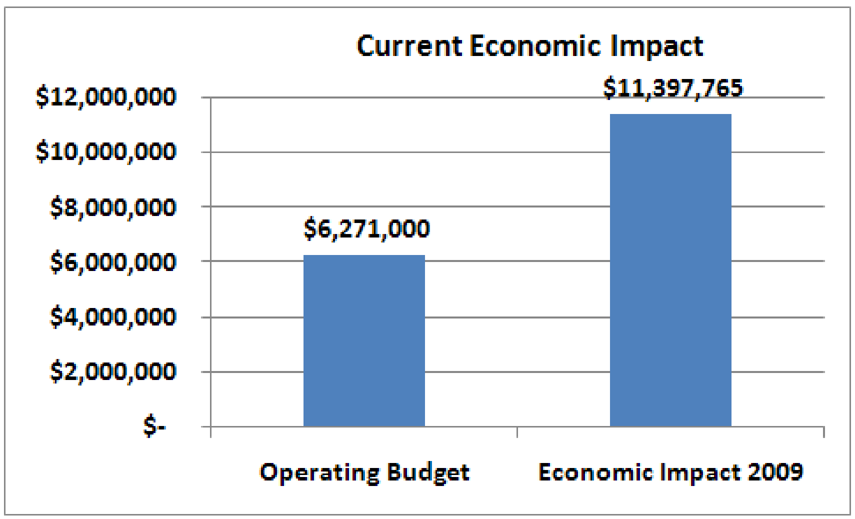
- Total Economic Impact is $162.8M over ten years
- Over 10 years, the Net Present Value of START Partnership is $39.0M
- START Partnership is responsible for an estimated 2541 FTE jobs over 10 years

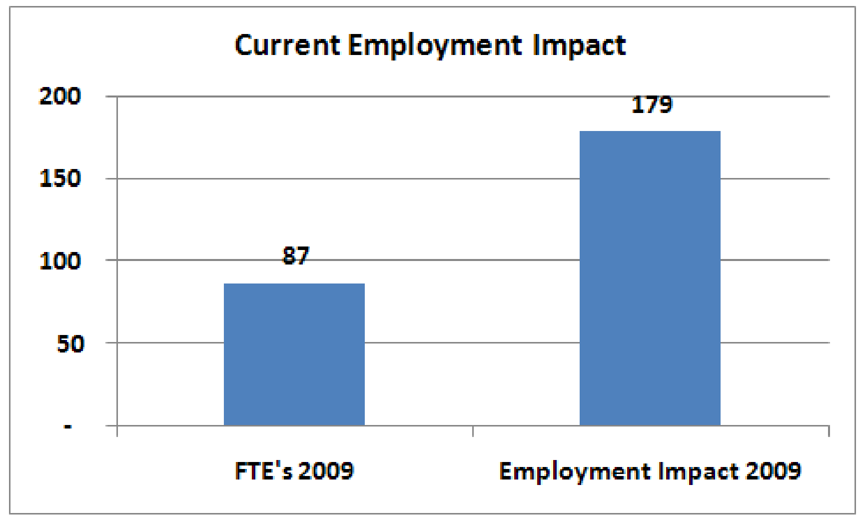
Note: If START Partnership's operational budget expands beyond the stated assumptions (see page 11) the economic impact will be greater by all measures

Detailed Economic Impact Projections

START Partnership's Current (2009) Economic Impact is $11.4M and its Employment Impact is 179 FTE's

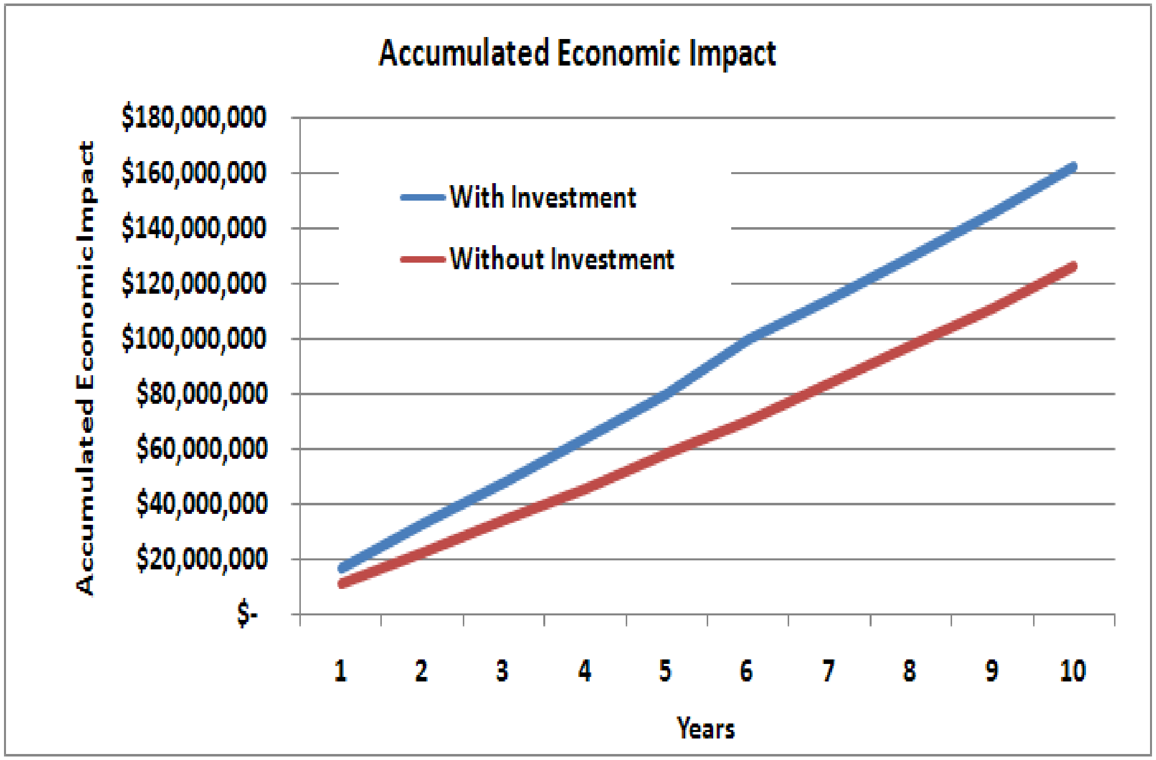
These impact figures reflect a 82% increase over the current budget and a 106% increase over current employment rates





These figures do not take any investments into account

Comparing the Proposed Investment to the Baseline Shows the Increase in Total Economic Impact (TEI)



- **Proposed Investment is $19.94 M over 10 years**
- **Over 10 years *without* investment, START Partnership's TEI is $126.8M**
- **Over 10 years *with* investment, the TEI sums to $162.8M**
- **This represents a 28.39% increase over the *without investment* scenario**

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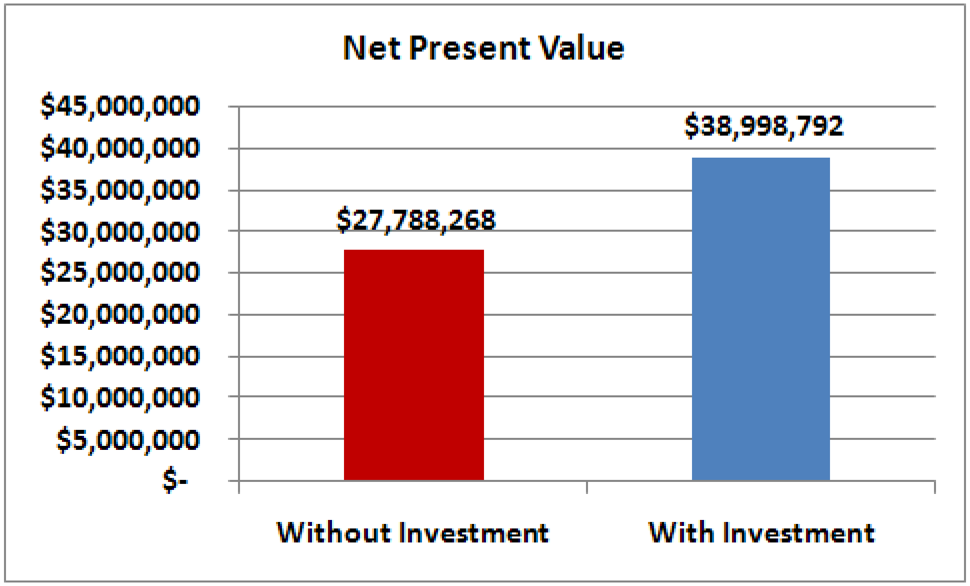
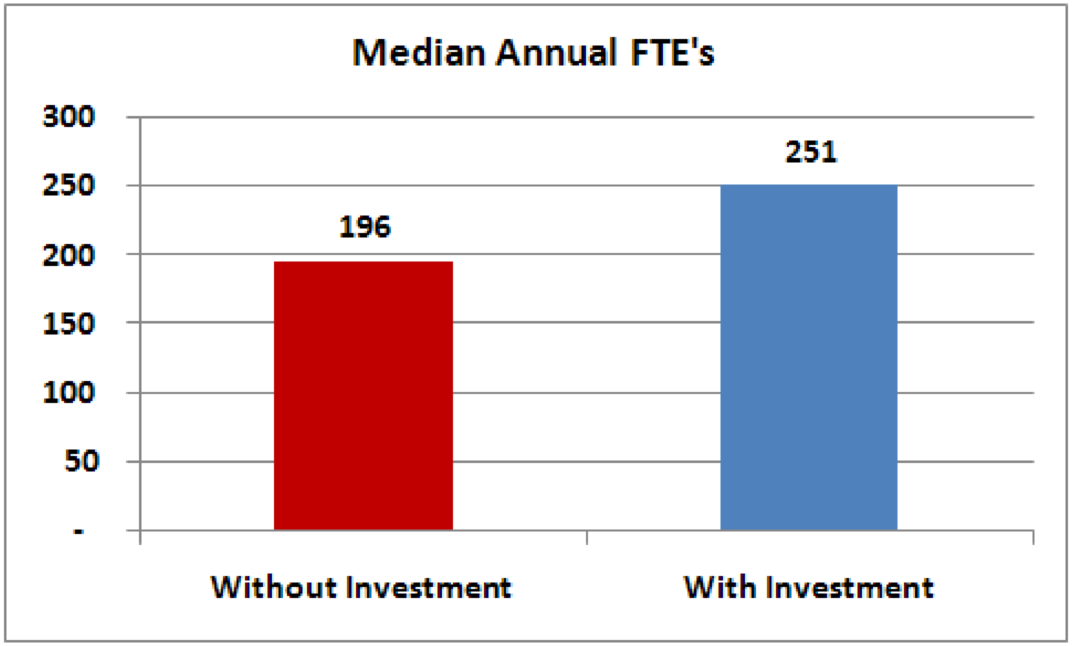
The Net Present Value Strongly Supports the Notion That This Is a Sound Investment

- The Net Present Value of the proposed investment is $39.0M at a discount rate of 15%
  - This benefit is computed on cash flows within the community
  - Correcting for the current value of START Partnership, the investment represents an incremental increase in Net Present Value of $11.2M
    - Clearly, this investment is extremely valuable to the community
  - The high discount rate was used because of the difficulty in selecting a proper discount rate
- As the operation and endowed budgets continue to grow, so will START Partnership's economic impact



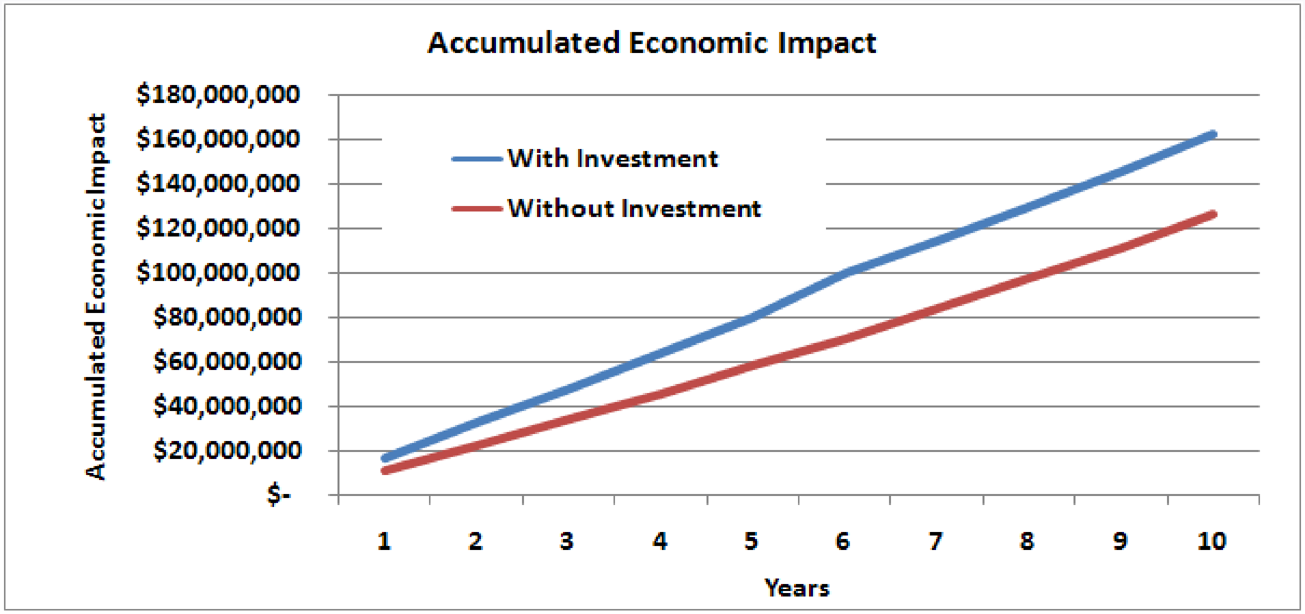
The Proposed Investment Will Also Create a Median of 55 More Jobs Annually



- The C3D and AFTA models give a range of employment estimates
  - Without investment, START Partnership will support an annual median of 196 FTE's
    - ✓ This represents a 125.3% increase over current employee total
  - With the investment, START Partnership will support an annual median of 251 FTE's
    - ✓ This represents a 188.5% increase over current employee total

Summary

The Total Economic Impact from the Investment Surpasses the Alternative



- As Total Economic Impact accumulates over time, the investment scenario is clearly much more significant
- The investment scenario starts at a higher level, and grows at a faster rate
- If START Partnership's base operational budget increases, the TEI will increase proportionally

From an Economic Standpoint, an Investment In START Is an Extremely Valuable Investment In the Community

Scenario	10-Year Total Economic Impact	Net Present Value	Total FTE's	Return On Investment
Without Investment	$ 126,810,095	$ 27,788,268	2,004	N/A
With Investment	$ 162,828,332	$ 38,991,595	2,541	N/A
Incremental Gain	$ 36,018,237	$ 11,203,327	537	56.52%

- Beyond being valuable in absolute terms, the investment is also valuable relative to the size of the investment
  - This can be evaluated through **Return on Investment (ROI)**
  - ROI can be thought of as a measure of efficiency
- The ROI is a healthy 56.52%
  - The incremental change in the NPV of $11.21M is considered the return

In Every Measure the Proposed Investment Yields Impressive Gains Over the Baseline of "No Investment"

No Investment		Investment
Total Economic Impact is $126.8M over 10 years	+ $36.0M	Total Economic Impact is $162.8M over ten years
Over 10 years, the Net Present Value of START Partnership is $27.8M	+ $11.2M	Over 10 years, the Net Present Value of START Partnership is $39.0M
START Partnership is responsible for an estimated 2004 FTE jobs over 10 years	+ 537	START Partnership is responsible for an estimated 2541 FTE jobs over 10 years

Note: If START Partnership's operational budget expands beyond the stated assumptions (see page 11) the economic impact will be greater by all measures

Appendix

Key Terminology I

- A **direct economic impact ("The Drop")** measures the economic effect of the direct local expenditures.
  - Generally the very first level of economic impact within the community, e.g. the budget or investment expenditures
  - When a museum pays its curators and other staff, the salary and taxes paid represent the direct economic impact.
- An **indirect economic impact ("The Ripples")** measures the economic effect of the money spent as a consequence of the direct expenditures.
  - This local spending on wages, goods and services, and state and local government revenue ripples through a community while creating the indirect economic effect.
  - Until the original dollar value is spent non-locally, when it is deemed to have "leaked out" of the community, the dollar is tabulated as an indirect economic impact

Direct Economic Impact:

1. Orchestra purchases an instrument from a music store

Indirect Economic Impact:

2. Music store manager pays employee
3. Employee buys groceries
4. Grocery store cashier pays utility bill

Source: New England Foundation for the Arts

Key Terminology II

- **Our approach is based on an input-output model:**
  - The **input-output model** closely follows the dollar flow between multiple industries (>500) within a selected community
  - Incorporates detailed expenditure and attendance data from many non-profit arts organizations as well as extensive wage, labor, tax, housing, and commerce data collected from local, state, and federal governments
  - Renders an accurate estimate of the economic impact of the creative economy
- **Our approach is <u>not</u> based on the multiplier effect:**
  - The **multiplier effect** (or economic activity multiplier) estimates the number of times a dollar changes hands within the community. A single number is used to multiply the expenditures involved. For instance,
    - ✓ \$100,000 (direct economic impact) x 4 (multiplier) = \$400,000 (Total Economic Impact)
  - Many economists caution that the multiplier is developed by making gross estimates of the industries within the community. Since it does not allow for differences in these industries, the multiplier may overstate the economic impact.

Source: Americans for the Arts, New England Foundation for the Arts

The START Partnership Engages Nearly 700 Specialized Volunteers on an Annual Basis

Specialized Volunteers	2009
Amazing Things	25
Danforth Museum of Art	35
Framingham History Center	10
Framingham Public Library	300
New England Wild Flower Society	250
Performing Arts Center	75
TOTAL	695

- Specialized volunteers are highly trained and substitute for paid staff
- These highly skilled volunteers make investment dollars go even further
- Specialized volunteers include: docents, tour guides, and teachers

The START Partnership Attracted Over 451,000 Attendees in 2008

Total Attendance	2008
Amazing Things	20,000
Danforth Museum of Art	29,620
Framingham History Center	3,500
Framingham Public Library	363,035
New England Wild Flower Society	35,000
Performing Arts Center	565
TOTAL	451,720

- START cultural organizations attract thousands of visitors from Framingham and the surrounding communities
- The Economic Impact Model counts a fraction of the total attendees, only those who come from outside vast Middlesex County

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