

Frequently Asked Questions regarding economic impact assessment

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What is economic impact?

Economic impact begins when an organization spends money. Economic impact studies measure the direct economic impact of an organization's spending plus additional indirect spending in the economy as a result of direct spending. Economic impact has nothing to do with dollars collected by institutions, their profitability or even their sustainability, since all operating organizations, even those in bankruptcy, have a positive economic impact when they spend money and attract spending from outside sources.

Direct economic impact measures the dollars that are generated within the state of Pennsylvania due to the presence of Penn State University. This includes not only spending on goods and services with a variety of vendors within the state, and the spending of its staff and visitors, but also the business volume generated by businesses within Pennsylvania that benefit from Penn State's spending. It is important to remember that not all dollars spent by a university remain in its home state. Dollars that "leak" out of the state in the form of purchases from out-of-state vendors are not included in the university's economic impact on the state.

The total economic impact includes the "multiplier" of spending from companies that do business with Penn State. Support businesses may include lodging establishments, restaurants, construction firms, vendors, temporary agencies, etc. Spending multipliers attempt to estimate the ripple effect in the state economy where the spending occurs. For example: Spending by a Penn State campus with local vendors provides these vendors with additional dollars that they re-spend in the local economy, causing a "multiplier effect."

What multipliers were used in this study?

Tripp Umbach uses Economic impact (also referred to as business volume impact) multipliers recommended by the American Council on Education. The indirect impacts represent the re-spending which takes place in the study areas.

State business volume multiplier = 2.3

County business volume multiplier = 1.6

What methodology was used in this study?

The methodology employed in the calculation of the impact of Penn State University was derived from the standard set of impact research tools developed by the American Council on Education (ACE) for the measurement of college and university economic impact. The ACE-based methodology is well-established, having been used in hundreds of impact studies throughout the United States. Tripp Umbach previously has used the same methodology in Pennsylvania in a multi-university study for the State System of Higher Education and on two occasions for all six medical schools. The ACE methodology employs linear cash-flow modeling to track the flow of institution-originated funds through a delineated spatial area.

What is employment impact?

Employment impact measures the direct employment (staff, faculty, administration) plus additional employment created in the economy as a result of the economic impact of Penn State University.

Indirect employment impact refers to other employees throughout the region that exist because of Penn State's economic impact. In other words, jobs related to the population -- municipal services (police, fire), employees at local hotels and restaurants, clerks at local retail establishments, residents employed by vendors used by Penn State.

The approximate ratio of direct to indirect state employment for Penn State University is 1 to 2.2. This is a much stronger ratio than other industries, which is typically 1 indirect job for every 1 direct job. For example, Wal-Mart might have more employees than Penn State, but since most of their spending goes to out-of-state vendors and the average wages are lower for their employees, fewer indirect jobs are created by Wal-Mart in the commonwealth of Pennsylvania. Health-care and higher-educational organizations typically create 0.8 additional jobs for every one direct job.

How is the tourism impact of an institution measured?

Universities are by nature major tourism destinations. Students, faculty and staff visit universities on a regular basis for conferences and meetings. Parents and friends visit students frequently and the general public travels to universities for sporting events, concerts and cultural events. The economic impact models created by Tripp Umbach for Penn State University calculate the net impact of spending within the commonwealth of Pennsylvania from visitors from outside of the state. The tourism impact of a major university represents hundreds of millions of dollars annually in the flow of "fresh" dollars, dollars attracted from out-of-state, into the state's economy. The models do not include spending by visitors within Pennsylvania who travel to State College or other Penn State campuses.

What is the difference between direct and indirect taxes?

Direct tax dollars include payroll taxes, sales taxes and net corporate income taxes paid directly by the institution to the state, while indirect taxes include taxes paid to the state by vendors that do business with Penn State.

Is this a one-time impact or does the impact repeat each year?

The results presented in the Penn State economic impact study are generated on an annual basis. The economic impact in future years can either be higher or lower based on number of students, capital expansion, increases in external research and state appropriations. For example, Tripp Umbach estimates that the annual economic impact of Penn State University will be approximately \$9.54 billion in 2013. However, this estimate might be significantly lower if funds are not available for capital and program expansion.

What types of economic impacts are typically presented in a comprehensive economic impact report?

There are three standard measures that institutions use when measuring and communicating their economic impact:

- 1) Direct spending -- How many direct dollars spent annually by the university, its employees and its visitors that remain in the commonwealth of Pennsylvania.
- 2) Indirect spending -- How many direct dollars are spent annually by businesses that receive money from Penn State within the commonwealth of Pennsylvania.
- 3) Induced impacts -- How many direct dollars are spent annually as a result of the products and services provided by an organization. For example, since Penn State alumni make more money than the average college graduate in Pennsylvania; these additional dollars generate induced economic impacts within the state's economy. Another example is the capitalization of research innovation. Induced economic impact occurs when new products are developed based on research conducted at Penn State University.

How do you calculate volunteer hours and charitable donations?

Tripp Umbach has conducted survey research where students, faculty and staff provide estimates on spending patterns, including information on the number of volunteer hours and charitable donations in which they provide. Tripp Umbach used a conservative assumption of \$20.10 per hour to calculate the value of volunteer services. This amount was originally calculated independently by the Points of Light Foundation.

What are Tripp Umbach's qualifications to perform an Economic Impact Study for Penn State University?

Tripp Umbach is the nation's most experienced provider of economic impact consulting services for leading universities and health-care organizations. Since 1990 Tripp Umbach has worked with more than 500 hospitals and universities, including 50 of the top 100 hospitals included in the 2008 US News and World Reports rankings. Tripp Umbach has completed economic impact studies on two occasions for every medical school in the United States on behalf of the Association of American Medical Colleges.

Tripp Umbach has completed more than 50 customized economic impact projects for many of the country's leading universities and hospitals including:

The Mayo Clinic

The Cleveland Clinic

Conference of Boston Teaching Hospitals

Children's Hospital of Philadelphia

The University of Pennsylvania

Thomas Jefferson University

The Ohio State University

Florida International University

University of Cincinnati

University of Pittsburgh

Case Western Reserve University

University of Florida

University of Wisconsin

The University of North Carolina

Michigan State University