RETURN ON INVESTMENT OVERVIEW AND ITEP CASE STUDY

LOUISIANA ECONOMIC DEVELOPMENT

APRIL 2018

OVERVIEW

- Fiscal decisions can be evaluated using various models that help predict overall impact based on projected investment and revenue values.
- It is important to differentiate between the Return on Investment (ROI) model, which uses a percentage to denote impact, while the Cost-Benefit model strictly evaluates the gains per dollar spent.
- The Hunt Forest Products project announced in LaSalle Parish is a real-world example demonstrating the Cost-Benefit analysis that can be used to determine the fiscal impact of ITEP-eligible projects.

RETURN ON INVESTMENT AND COST-BENEFIT ANALYSES ARE METHODS TO MEASURE THE POTENTIAL FISCAL IMPACT OF A PROJECT

Return on investment (ROI) and cost-benefit are two ways to measure the attractiveness of an investment and whether the investment will demonstrate a positive fiscal impact. They are almost identical calculations; ROI shows a percent change based on returns, and cost-benefit shows a gain (or loss) for every dollar spent.

		Return on Investment (ROI)	Cost-Benefit Analysis
Definition		Return on investment is a performance measure used to evaluate the efficiency of an investment or compare the efficiency of a number of different investments	Cost-benefit analysis is a systematic process for calculating and comparing the benefits and costs, at present, that help to determine whether a course of action is positively or negatively feasible
Formula		*(Gains from investment – cost of investment) / Cost of investment*	*(Gains from investment) / Cost of investment*
Example	Inputs	**Investment (cost)** = $1,000 **Total gains** = $1,200	
	Formula	($1,200 - $1,000) / $1,000 = 0.2	$1,200 / $1,000 = $1.2
	Result	**0.2 or 20% return on initial investment**	**$1.20 benefit for every $1 spent**

When considering the potential return, it is important to consider all potential costs and gains associated with the project.

A COST-BENEFIT ANALYSIS SHOULD INCLUDE ALL LOCAL REVENUE SOURCES AS A RESULT OF THE PROJECT, NOT JUST PROPERTY TAXES

All benefits used in the assessment of ITEP-eligible projects are only at the local level. Positive impacts to the state are not considered.

Cost-Benefit with ITEP

$$ $$$ REVENUES

- Direct jobs and indirect jobs*
- Construction jobs
- Payroll
- Sales tax
- Property taxes collected during and after ITEP years

*calculated using multipliers for specific NAICS codes from the Bureau of Economic Analysis

$$$ COST

- Revenue from exempted property tax

To fully evaluate the cost-benefit of a project, all of the costs and benefits must be considered. For ITEP, some make the mistake of only including property taxes paid as a benefit, but the graphic above illustrates there are many other benefits to local governments that must be considered.

HUNT FOREST PRODUCTS WAS A PROJECT ANNOUNCED IN LASALLE PARISH THAT WILL SERVE AS A CASE STUDY FOR COST-BENEFIT ANALYSIS OF ITEP PROJECTS

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Hunt Forest Products Announces $115 Million Mill In Central Louisiana

State-of-the-art lumber mill will create 110 direct jobs and result in over 300 new indirect jobs

URANIA, La. — Today, Gov. John Bel Edwards and Hunt Forest Products co-owner James D. Hunt announced the company will build a state-of-the-art $115 million lumber mill in Urania, a LaSalle Parish community in the heart of Louisiana's $11 billion forest products industry.

The sawmill project will create 110 new direct jobs with an average annual salary of more than $46,000, plus benefits. Louisiana Economic Development estimates the project also will result in another 307 new indirect jobs, for a total of over 400 new jobs in Central Louisiana. Construction of the mill will begin in April, with operations slated to start in early 2019.

"This project is a great economic boost to the center of the state, in the heart of our historic timber industry," Gov. Edwards said, "and it will help create hundreds of direct and indirect jobs across the forestry, industrial services and retail sectors in Urania and LaSalle Parish. We thank Hunt Forest Products for the confidence company leaders are showing in Louisiana and our workforce through this investment."

Based in Ruston, Louisiana, Hunt Forest Products will prioritize buying timber locally. The Urania sawmill will require up to 650,000 tons of wood per year, with plans to produce approximately 200 million board feet of lumber annually. Hunt already operates a LaSalle Parish lumber mill in nearby Olla, along with a Grant Parish plywood plant in Pollock. Statewide, Hunt Forest Products employs 350 before the addition of the new Urania sawmill.

"We are excited to be bringing a high-tech sawmill – and the skilled jobs it will provide – to Central Louisiana, and to provide a local outlet for the massive inventory of southern yellow pine that exists in this region," said company co-owner Hunt, who also is vice chairman of the Hunt Forest Products board of directors. "This will boost the local economy, bring a new generation of sawmill technology to our state, and provide a much-needed outlet for Central Louisiana timber."

The new $115 million lumber mill also will be a Foreign Direct Investment, or FDI, project. Operating under the name LaSalle Lumber Company LLC, the sawmill is a joint venture between Hunt Forest Products and Tolko Industries Ltd., a 60-year-old, family-owned Canadian forestry company that produces a wide range of forest products for customers around the world. Based in Vernon, British Columbia, Tolko will own a 50 percent share in the mill, which will be managed and operated by Hunt on a day-to-day basis.

"This is our first venture into the United States," said Tolko President and CEO Brad Thorlakson, "and we are thrilled to be in Louisiana with Hunt Forest Products, a family-owned company like ours, and one that has played a vital, reliable role in this state's forestry industry for more than a century."

LED began formal discussions with Hunt Forest Products about the potential project in June 2017. To secure the project, the State of Louisiana offered a competitive incentive package that includes the comprehensive workforce solutions of LED FastStart®, ranked as the No. 1 state workforce training program in the nation. Hunt Forest Products also will receive a performance-based, forgivable loan of $1 million under the Economic Development Award Program, with those proceeds offsetting the costs to construct a rail spur for the mill. In addition, the company is expected to utilize the state's Industrial Tax Exemption and Quality Jobs programs.

The project also will generate 150 construction jobs. Upon the sawmill's scheduled beginning of operations in early 2019, Hunt Forest Products initially will employ 60 people and ramp up to 110 employees at full capacity in succeeding years. Urania Mayor Terri Corley said Hunt Forest Products is working with community officials to coordinate services for the new mill, and to identify and address potential infrastructure issues.

Hunt Forest Products will produce significant economic impact

110 direct jobs
307 indirect jobs
150 construction jobs

$4,940,000 in payroll

$115,000,000 in capex

HUNT FOREST PRODUCTS WILL GENERATE ABOUT $47MM DOLLARS IN REVENUE FOR LASALLE PARISH OVER THE NEXT 30 YEARS

The Hunt Forest Products project was announced in late February and is expected to receive ITEP. They announced plans to build a state-of-the-art lumber mill in Urania, a LaSalle Parish community.

Company Investment

Annual Payroll	$4,940,000
CAPEX	$115,000,000

Local Revenue Foregone

Property taxes years 1-8*	**$16,443,949**

*at a rate of 100% for the first five years and 80% for the renewal period of three years

Revenue generated over 30 years

Taxes generated over 30 years**	**$43,656,859**

**amount of taxes reflects local sales taxes and property tax collections during and after ITEP years. Revenue does not include any inventory taxes that locals would receive from the project

Cost-Benefit Analysis = $$ $$$ REVENUES / $$$ COST

$43,656,859 / **$16,443,949** = **$2.65** / **$1.00**

Based on the cost-benefit analysis of the Hunt Forest Products project**, for every $1.00 of local revenue foregone, the community will gain approximately $2.65.**

IT CANNOT BE ASSUMED THAT PROJECT ACTIVITY WOULD REMAIN THE SAME IF ITEP BENEFITS ARE REMOVED OR DRASTICALLY REDUCED

- Some organizations believe that the opportunity cost of ITEP is not being taken into account, and that if locals deny ITEP contracts, there will be more money for schools, local government, etc.

- **This belief assumes that without the ITEP program, just as many projects would continue to relocate and expand in the State. Or in other words, the State can eliminate or drastically reduce the 'investment' (foregone revenue in the case of ITEP) but still reap the same revenue.**

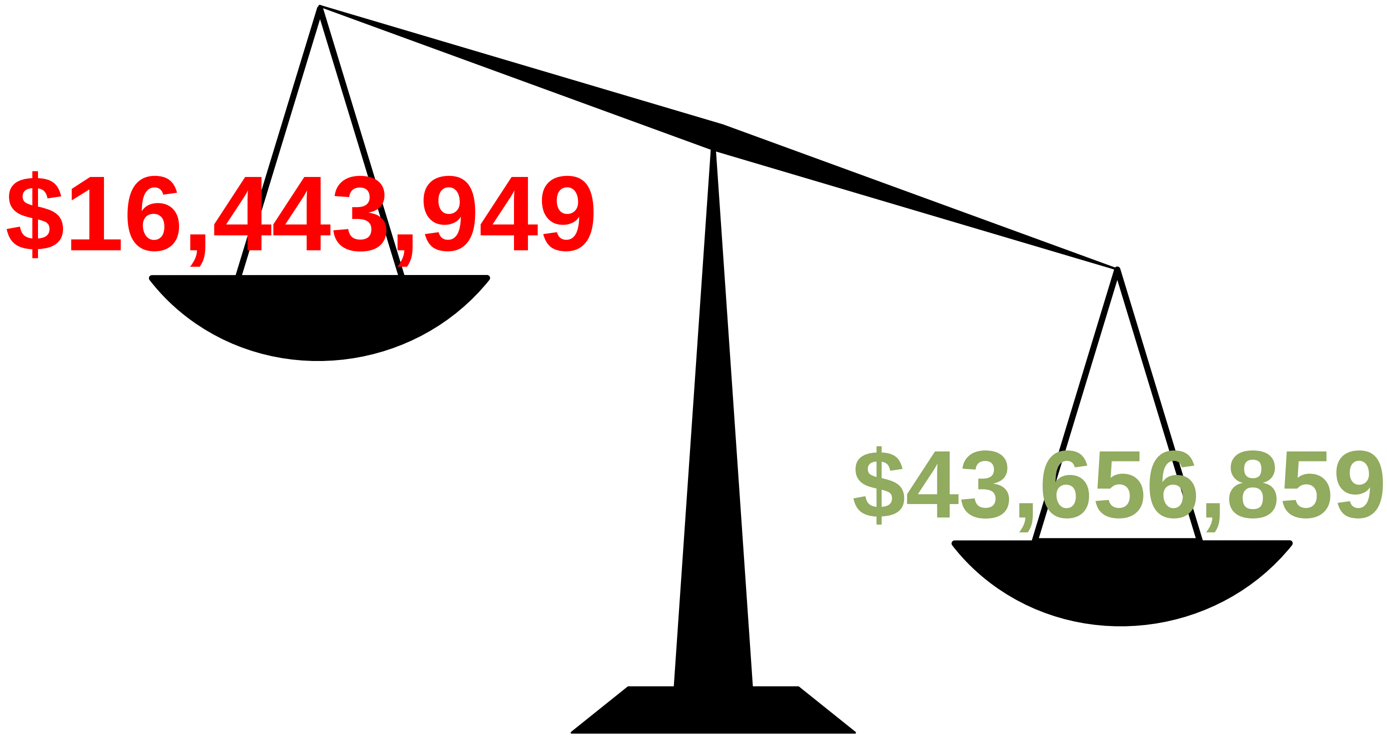
- **A similar example would be if Apple eliminated all R&D and marketing for their iPhones, thereby reducing their 'investment'. It is hard to believe that their revenues would stay the same as a result of this action. The same is true of ITEP. We can not assume that locals will receive the same amount of revenue if they drastically reduce or eliminate ITEP investment.**

- In fact, without ITEP, Louisiana's tax burden for capital-intensive manufacturing would be ranked approximately **44th in the Tax Foundation's 'Location Matters' report**. This would mean that **manufacturers would bear a very heavy tax burden in Louisiana, making them less likely to make investments in the State.**

- The true "opportunity cost" of ITEP is risking all the benefits locals could gain that **would not exist without the projects.**

STATE AND LOCAL OFFICIALS MUST TAKE INTO ACCOUNT THE RISK ASSOCIATED WITH DRASTICALLY REDUCING ITEP

Foregone ITEP revenue vs. estimated overall revenue for the Hunt Forest Products project



It is important to consider how much long-term revenue can be collected from a manufacturing project. In most cases, it is not worth risking the long-term revenue gains in an attempt to forego less revenue losses in the short-term.

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