



May 19, 2016

Mr. Geoff Yetter  
Business Relationship Manager  
Certain Affinity  
7620 Guadalupe Street  
Austin, Texas 78751

Dear Mr. Yetter,

Thank you for the opportunity to provide consulting services to Certain Affinity. The attached memo highlights TXP's findings related to the economic and tax impact of Certain Affinity's proposed new location in Austin, Texas. TXP has organized the analysis and results based on the requirements of the State of Texas Media Production Facilities Development Program.

To assist the City of Austin and State of Texas in reviewing your application, I have summarized the State of Texas Media Production Facilities Development Program. This document is intended to satisfy the requirements of the economic impact analysis.

Please do not hesitate to contact me with any questions or comments.

Best regards,

A handwritten signature in blue ink that reads 'Travis D. James'.

Travis D. James  
Vice President



**Certain Affinity New Facility Project Summary**

- Certain Affinity (CA) was founded in 2006 with the goal of creating innovative, top-quality action games.
- The company is currently located in a leased facility in north Austin.
- Currently, CA has 121 Austin employees with an average annual wage of \$100,000.
- CA is contemplating moving its operations to a new location in Austin, Texas that it would own.
- The CA project will redevelop and improve 52,000 square feet of existing commercial office space.
- The renovation will focus on the creation of new offices, meeting rooms, and a large multi-purpose space that could be used for community related events.
- Priorities include restoration of existing surfaces and structural components, updating interior finishes/lighting, energy efficiency, and creation of new green space.
- Table 1 depicts CA’s current Austin footprint and projected growth figures based on expanding to the new facility.

**Table 1: Certain Affinity Project Summary by Year**

	Current Facility	Growth Attributable to New Facility				
	2015	2016	2017	2018	2019	2020
Revenue	\$18,900,000	\$22,680,000	\$27,216,000	\$32,659,200	\$39,191,040	\$47,029,248
Wages	\$12,000,000	\$14,400,000	\$17,280,000	\$20,736,000	\$24,883,200	\$29,859,840
Employment	121	145	174	209	251	301

Source: Certain Affinity

- CA will spend approximately \$6.9 million on the renovation an existing building.
- The proposed new facility is located at 7620 Guadalupe Street (near the intersection of north Lamar and US Highway 183).
- The site is large enough to accommodate an additional building and parking structure (Phase II).
- STG Design, an Austin-based firm, has been selected to perform the professional interior design and architectural services.
- The project will take 6 months to complete.
- Because the project is nonresidential, the majority of the project costs are subject to state and local sales tax.



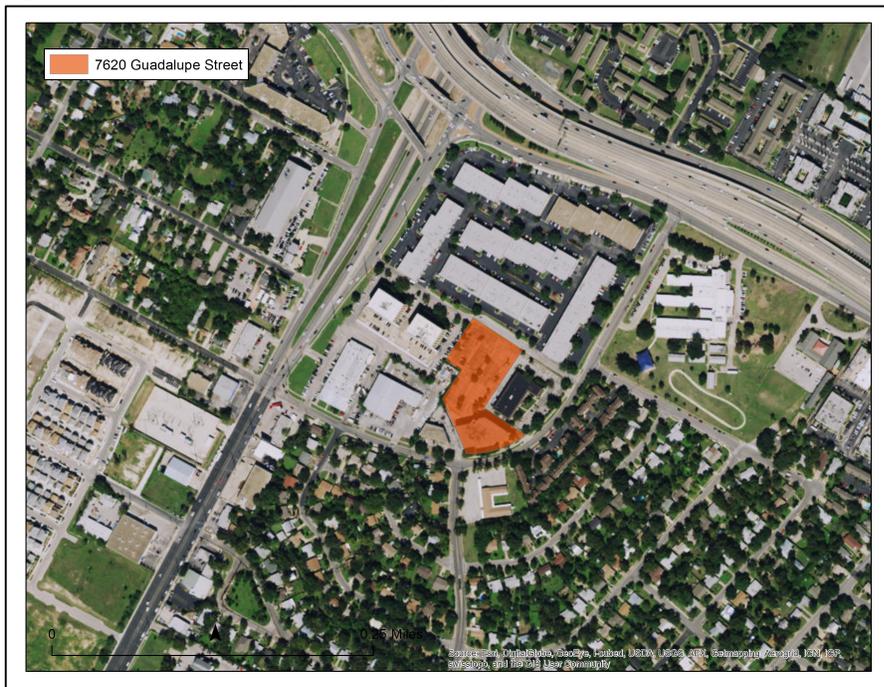
**Table 2: Building Construction Cost Estimate**

Component	Cost Estimate*
Interior Architecture	\$173,400
MEP- Interiors	\$80,000
Structural- Interiors	\$6,000
FF&E - Fee	\$25,000
Acoustics	\$15,000
Data/Telecom	\$175,000
Security	\$75,000
TDLR	\$2,500
RAS	\$2,500
Envelope	\$15,000
Permitting	\$5,000
Design Contingency	\$24,000
Interior Construction	\$5,600,000
Construction Contingency	\$560,000
Project Management	\$18,000
New Furniture	\$150,000
<b>TOTAL COST</b>	<b>\$6,926,400</b>

Source: STG Design

\*These costs exclude sales tax

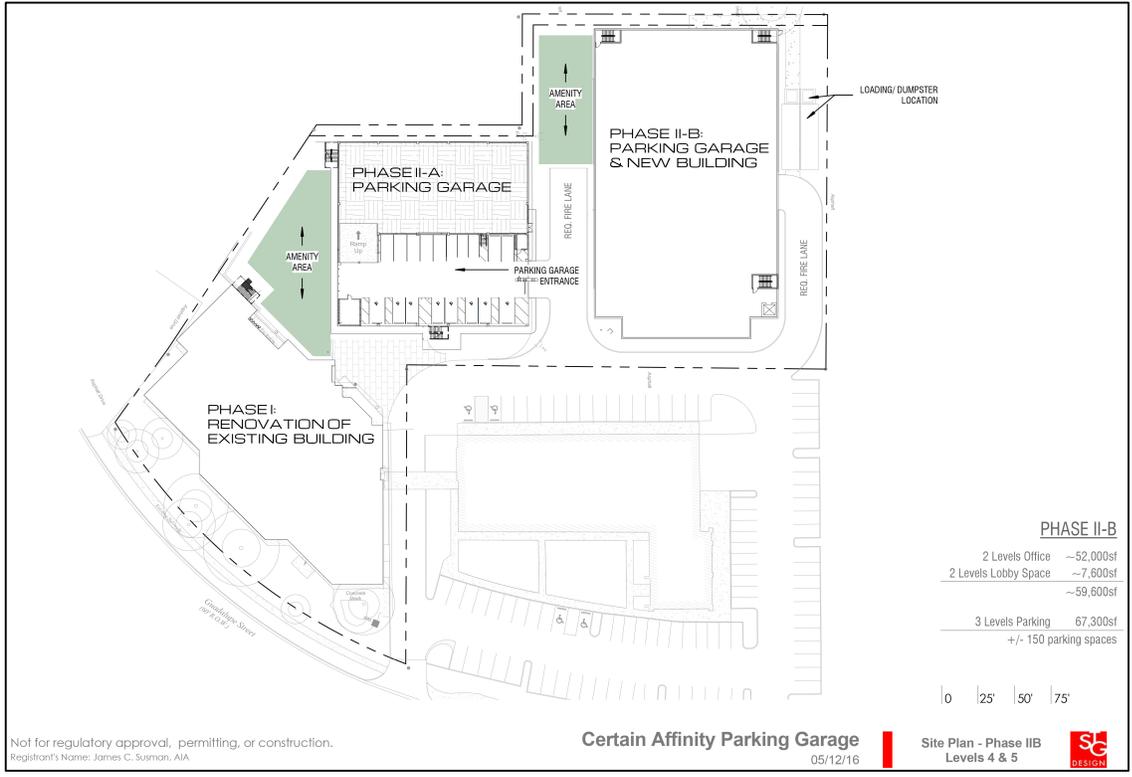
**Figure 1: Certain Affinity Project Proposed New Location**



Source: TXP, Inc.



Figure 2: Certain Affinity Project Proposed Site Plan



Source: Certain Affinity

Figure 3: Certain Affinity Project Section Elevation



Source: Certain Affinity



### **Media Production Development Zone Act Overview**

The Media Production Facilities Development Program<sup>1</sup> encourages the construction and renovation of media production facilities—including soundstages, animation facilities and game studios—by granting a sales and use tax exemption that covers their construction or renovation costs. Enacted by the State of Texas in 2009, the program is also known as the Media Production Development Zone Act (MPDZA). The Texas Film Commission administers the incentive program.

To be eligible for the sales and use tax exemption on the construction or renovation of a media production facility:

- The applicant must own (or lease for four years) the land/building where the project is located
- The proposed facility must be used exclusively for the creation of moving images projects.
- Acceptable media production facilities include:
  - Soundstage
  - Motion capture studio
  - Animation facility
  - Game facility
  - Sound studio
  - Scoring stage
  - Editing facility
  - Production office

Each application will need to provide the following documentation to support and justify the request:

- Specific and detailed description of the project
- Site plan for proposed media production location
- Floor plan for the proposed media production facility
- An itemized budget for project
- A schedule of media production equipment to be bought, rented, or leased
- An economic impact analysis
- A financial statement and background information on requestor

A MPDZA exemption cannot be granted unless the Texas Comptroller of Public Accounts certifies that the project will have a positive impact on state revenue. The Comptroller makes this determination, in part, by reviewing the economic impact analysis.

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<sup>1</sup> <http://gov.texas.gov/film/programs/mpdza>



### **Economic Impact of Methodology**

An economy can be measured in a number of ways. Four of the most common are “**Output**” which describes total economic activity and is equivalent to a firm’s gross sales, “**Value Added**” which equals gross output of an industry or a sector less its intermediate inputs, “**Labor Income**” which corresponds to wages and benefits, and “**Employment**” which refers to permanent jobs that have been created in the local economy.

In an input-output analysis of new economic activity, it is useful to distinguish three types of expenditure effects: direct, indirect, and induced.

**Direct effects** are production changes associated with the immediate effects or final demand changes. The payment made by an out-of-town visitor to a hotel operator is an example of a direct effect, as would be the taxi fare that visitor paid to be transported into town from the airport.

**Indirect effects** are production changes in backward-linked industries caused by the changing input needs of directly affected industries – typically, additional purchases to produce additional output. Satisfying the demand for an overnight stay will require the hotel operator to purchase additional cleaning supplies and services, for example, and the taxi driver will have to replace the gasoline consumed during the trip from the airport. These downstream purchases affect the economic status of other local merchants and workers.

**Induced effects** are the changes in regional household spending patterns caused by changes in household income generated from the direct and indirect effects. Both the hotel operator and taxi driver experience increased income from the visitor’s stay, for example, as do the cleaning supplies outlet and the gas station proprietor. Induced effects capture the way in which this increased income is in turn spent by them in the local economy.

The interdependence between different sectors of the economy is reflected in the concept of a “multiplier.” An output multiplier, for example, divides the total (direct, indirect and induced) effects of an initial spending injection by the value of that injection – i.e., the direct effect. The higher the multiplier, the greater the interdependence among different sectors of the economy. An output multiplier of 1.4, for example, means that for every \$1,000 injected into the economy, another \$400 in output is produced in all other sectors.

The detailed RIMS II multipliers (2007 U.S. Benchmark I-O data and 2013 Regional Data) used in this analysis are included in the following pages.



### Tax Revenue Impact Methodology

To provide an “order of magnitude” estimate for tax revenue attributable to the Certain Affinity project, TXP focused on the ratio of government tax collections to gross domestic product (GDP). Three datasets were used to derive the ratio: 1) U.S. Department of Commerce Bureau of Economic Analysis GDP estimates by state and metropolitan area; 2) the U.S. Census Bureau State Government Tax Collections<sup>2</sup> (STC) report; and 3) City of Austin<sup>3</sup> budget documents. A brief description of the STC data collection methodology follows:

In this survey, "taxes" are defined as all compulsory contributions exacted by a government for public purposes, except employer and employee assessments for retirement and social insurance purposes, which are classified as insurance trust revenue. Outside the scope of this collection are data on the unemployment compensation "taxes" imposed by each of the state governments. However, all receipts from licenses and compulsory fees, including those that are imposed for regulatory purposes, as well as those designated to provide revenue are included.

Over the past five years, the state tax revenue as a percent of state GDP was 3.3 percent.

**Table 4: State of Texas Tax Revenue as a Percent of State GDP**

	2010	2011	2012	2013	2014
Tax Revenue (\$M)	\$39,516	\$43,146	\$48,597	\$51,714	\$55,261
GDP (\$M)	\$1,247,572	\$1,350,773	\$1,449,330	\$1,557,193	\$1,648,036
Tax Rev as % GDP	3.2%	3.2%	3.4%	3.3%	3.4%

Source: TXP, Inc.

Over the past five years, City of Austin total general fund tax revenue as a percent of regional GDP was 0.72 percent.

**Table 5: City of Austin General Fund Tax Revenue as a Percent of Austin MSA GDP**

	2009-10	2010-11	2011-12	2012-13	2013-14
Tax Revenue (\$M)	\$627.9	\$662.4	\$709.6	\$783.4	\$832.1
GDP (\$M)	\$87,368	\$92,763	\$100,273	\$106,981	\$115,262
Tax Rev as % GDP	0.7%	0.7%	0.7%	0.7%	0.7%

Source: TXP, Inc.

<sup>2</sup> <http://www.census.gov/govs/statetax/>

<sup>3</sup> <https://austintexas.gov/financeonline/finance/index.cfm>



### Economic Impact of Certain Affinity Construction & Renovation of Facility

Table 6 depicts how Certain Affinity’s construction and renovation-related spending (less contingency) ripples through the Austin MSA economy. This spending increases regional economic activity by \$12.1 million, labor income by \$3.9 million, and employment by 82 jobs. This table illustrates how the Certain Affinity project encourages and promotes regional economic growth in other sectors of the economy.

**Table 6: Total Economic Impact of Certain Affinity Construction & Renovation of New Facility**

Sector	Output	Value Add	Earnings	Employment
Agriculture, forestry, fishing, hunting	\$3,820	\$1,273	\$637	0
Mining	\$106,956	\$64,301	\$17,189	0
Utilities	\$132,421	\$70,667	\$19,736	0
Construction	\$6,423,061	\$3,454,409	\$2,202,774	38
Durable goods manufacturing	\$730,863	\$289,035	\$153,430	3
Nondurable goods manufacturing	\$156,613	\$51,568	\$26,739	1
Wholesale trade	\$480,663	\$325,960	\$143,244	2
Retail trade	\$751,872	\$491,486	\$258,476	9
Transportation and warehousing	\$131,148	\$64,937	\$42,018	1
Information	\$264,842	\$153,430	\$51,568	1
Finance and insurance	\$444,375	\$234,920	\$119,052	2
Real estate and rental and leasing	\$833,998	\$581,252	\$132,421	7
Professional, scientific, tech. services	\$409,996	\$257,203	\$185,262	3
Management of companies	\$28,012	\$17,189	\$11,460	0
Administrative and waste services	\$185,899	\$120,962	\$82,127	3
Educational services	\$65,574	\$40,108	\$29,922	1
Health care and social assistance	\$425,912	\$257,203	\$192,265	5
Arts, entertainment, and recreation	\$43,928	\$24,829	\$13,369	1
Accommodation	\$58,571	\$36,925	\$16,553	1
Food services and drinking places	\$168,710	\$89,130	\$54,751	3
Other services	\$232,374	\$128,601	\$92,313	3
Households	\$0	\$5,093	\$5,093	1
<b>Total Impact</b>	<b>\$12,079,607</b>	<b>\$6,760,480</b>	<b>\$3,850,399</b>	<b>82</b>

Source: TXP, Inc.



### Economic Impact of Certain Affinity Annual Operations

Table 7 illustrates how normal business activity at Certain Affinity ripples through the Austin MSA economy. Over the next five years, Certain Affinity’s annual impact on the Austin economy will more than double – generating an additional 478 jobs and \$29.6 million earnings.

**Table 7: Total Economic Impact of Certain Affinity Annual Operations**

Year	Output	Value Add (or GDP)	Earnings	Employment
2015	\$40,697,370	\$26,843,670	\$19,866,000	322
2016	\$48,836,844	\$32,212,404	\$23,839,200	386
2017	\$58,604,213	\$38,654,885	\$28,607,040	463
2018	\$70,325,055	\$46,385,862	\$34,328,448	555
2019	\$84,390,066	\$55,663,034	\$41,194,138	667
2020	\$101,268,080	\$66,795,641	\$49,432,965	800

Source: TXP, Inc.

### State of Texas Tax impact of Impact of Certain Affinity

Applying the percentage of state tax revenue to GDP (3.3 percent) against new economic activity attributable to Certain Affinity’s expansion project, the state is projected to receive \$3.7 million in net new tax revenue over the next five years.

**Table 8: State of Texas Estimated Tax Revenue Impact of Certain Affinity Annual Operations**

Phase	Annual Value Add/GDP	Less Existing Activity (2015)	Net Change in Value Add/GDP	Annual Tax Impact (3.3% ratio)
Construction	\$6,760,480	\$0	\$6,760,480	\$223,096
2016	\$32,212,404	\$26,843,670	\$5,368,734	\$177,168
2017	\$38,654,885	\$26,843,670	\$11,811,215	\$389,770
2018	\$46,385,862	\$26,843,670	\$19,542,192	\$644,892
2019	\$55,663,034	\$26,843,670	\$28,819,364	\$951,039
2020	\$66,795,641	\$26,843,670	\$39,951,971	\$1,318,415
<b>Total Net New State Tax Revenue</b>				<b>\$3,704,381</b>

Source: TXP, Inc.



**City of Tax impact of Impact of Certain Affinity**

According to the Travis Central Appraisal District,<sup>4</sup> the proposed new CA location had a 2015 taxable value of \$4,952,076. CA will invest over \$6.0 million in the property in 2016. It is reasonable to assume the taxable value of the building and associated property tax would double.

Applying the percentage of city general fund tax revenue<sup>5</sup> to GDP (0.72 percent) against new economic activity attributable to Certain Affinity’s expansion project, another methodology to calculate the tax impact, the City of Austin is projected to receive \$807,017 in net new tax revenue over the next five years.

**Table 9: City of Austin Estimated Tax Revenue Impact of Certain Affinity Annual Operations**

Phase	Annual Value Add/GDP	Less Existing Activity (2015)	Net Change in Value Add/GDP	Annual Tax Impact (0.72% ratio)
Construction	\$6,760,480	\$0	\$6,760,480	\$48,602
2016	\$32,212,404	\$26,843,670	\$5,368,734	\$38,597
2017	\$38,654,885	\$26,843,670	\$11,811,215	\$84,913
2018	\$46,385,862	\$26,843,670	\$19,542,192	\$140,493
2019	\$55,663,034	\$26,843,670	\$28,819,364	\$207,188
2020	\$66,795,641	\$26,843,670	\$39,951,971	\$287,223
<b>Total Net New City Tax Revenue</b>				<b>\$807,017</b>

Source: TXP, Inc.

<sup>4</sup> <http://www.traviscad.org/>

<sup>5</sup> Property, sales, utility transfer, and other tax revenue



### About TXP, Inc.

TXP is an economic analysis and public policy consulting firm founded in 1987 in Austin, Texas. Since then, TXP has grown into a team of professionals whose diverse backgrounds allow us to craft customized solutions to client problems. Our clients have discovered that TXP is the firm to hire when there is not an immediate, obvious, or simple solution to their economic or public policy challenge. Our reputation for having the right people to analyze issues from a variety of perspectives has made TXP the firm to call first for professionals in the public sector and business arenas. In addition to drawing on the expertise of our firm members, we regularly partner with urban planning, engineering, and public policy firms — as well as Ph.D.s in varying disciplines — to put together teams uniquely suited to our clients' needs.

TXP has worked with a wide range of not-for-profits and private sector clients to provide illumination through analytical support, always with a strategic view of the big picture. Members of TXP are involved in the community and understand the challenges faced by an increasingly complex world, as heightened media attention and an ever more diverse set of stakeholders shine a brighter spotlight on public decision-making and public policy.

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