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The Civic Innovation Lab: Economic Impact

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Prepared for:
THE CIVIC INNOVATION LAB

Prepared by:
Ziona Austrian, Ph. D.

August 21, 2009

**THE CIVIC
INNOVATION
LAB:
ECONOMIC
IMPACT**

**Center for
Economic
Development**



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The Civic Innovation Lab: Economic Impact

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INTRODUCTION

This report summarizes the economic impact of the Civic Innovation Lab (the Lab) on Cuyahoga County in 2008. The Lab was launched in 2003 by the Cleveland Foundation. “The Civic Innovation Lab fuels innovation by providing mentoring and funding of up to \$30,000 for ideas that can improve the Greater Cleveland economy. Since 2003, the Lab has granted over \$1.4 million to 50 great ideas. Included in this portfolio are initiatives to foster downtown vibrancy, attract and retain talent, support entrepreneurship and build emerging industries.”¹

The Lab provides four types of services: (1) encouraging and engaging potential social and private-sector entrepreneurs to develop innovative ideas to grow Greater Cleveland; (2) conducting training sessions for applicants to expand ideas into viable business models; (3) providing grants of up to \$30,000 and mentoring by experienced community members for promising ideas; and (4) providing networking sessions that highlight civic projects and connect Lab participants to the community.

During the first 5 years of the Lab (between September 2003 and March 2009) the Lab received 720 proposals and funded 45 initiatives for a total of \$1.3 million. The funded initiatives received follow-up funding of over \$5 million.

Both applicants and recipients of funding (called champions by the Lab) are diverse by race (Table 1) and gender (Table 2).

Table 1. Diversity by Race, 2003 – 2008 (Ranked by Diversity of Champions)

	Applicants	Champions
White	49%	70%
Black/African American	40%	26%
Mixed Race	3%	2%
Asian	1%	2%
Spanish/Hispanic	2%	0%
Native American	0%	0%
Other	5%	0%
Total	100%	100%

¹ <http://www.civicinnovationlab.org/default.aspx> (August 5, 2009).

Table 2. Diversity by Gender, 2003-2008

	<u>Applicants</u>	<u>Champions</u>
Male	57%	65%
Female	43%	35%
Total	100%	100%

METHODOLOGY

WHAT IS ECONOMIC IMPACT?

Economic impact is an analytical approach used to estimate economic benefits from projects, programs, or companies on affected regions. These economic benefits are measured in terms of output (value of goods and services produced in the economy), employment (number of jobs), and labor income (household earnings). Economic impact estimates measure benefits for a specific region and time period. Economic impact analysis is based on inter-industry relationships within regions, which determine how regions respond to changes in economic activity. Multipliers are calculated from the inter-industry relationship estimating the “ripple effect” throughout the economy.²

Total economic impacts on output, income, and employment are each a summation of three impacts: *direct impact*, *indirect impact*, and *induced impact*. *Direct impact* refers to the initial value of goods and services, including labor, purchased by an organization within a defined economic region. These purchases are sometimes referred to as the *first-round effect*. *Indirect impact* measures the value of labor, capital, and other inputs of production needed to produce the goods and services required by that organization (*second-round* and *additional-round effects*). *Induced impact* measures the change in spending by local households due to increased earnings by employees in local industries who produce goods and services for the organization.

As stated earlier, economic impact analysis is based on inter-industry relationships within an economy—that is, the buy-sell relationships among industries. These relationships largely determine how an economy responds to changes in economic activity. Input-output (I-O) models estimate inter-industry relationships in a region by measuring the industrial distribution of inputs purchased and outputs sold by each industry. Thus, by using I-O models, it is possible to estimate how the impact of one dollar or one job ripples through the local economy, creating

² For example, suppose that company ABC reports sales of \$1 million. From the revenues, the company pays its suppliers and workers, covers production costs, and takes a profit. Once the suppliers and employees receive their payments, they will spend a portion of their money in the local economy purchasing goods and services, while another portion of the monies will be spent outside the local economy (leakage). By evaluating the chain of local purchases that result from the initial infusion of \$1 million, it is possible to estimate a regional economic multiplier.

additional expenditures and jobs. The economic multiplier measures the ripple effect that an initial expenditure has on the local economy. This study utilizes regional I-O multipliers from IMPLAN Professional.³

ESTIMATING ECONOMIC IMPACT FOR THE CIVIC INNOVATION LAB

Economic impact is estimated for 2008 based on investments in initiatives that were funded between 2004 and 2008;⁴ initiatives that ceased operation are excluded. The initiatives' number of jobs and operating budgets in 2008 were utilized to calculate the economic impact. The study assumes that these 32 companies and organizations would not have existed without the initial funding from the Civic Innovation Lab. The operating budget and number of employees of the Lab were also used in the impact estimates to account for the mentoring services provided to the applicants and the grantees. Each of these funded initiatives and the Lab are assigned to one of the 440 industries included in the IMPLAN model. The IMPLAN model and its data were changed (edited) to provide better estimates for output per employee based on the individual initiatives included in the analysis.

ECONOMIC IMPACT ESTIMATES

The four measures of economic impact in 2008 are summarized: output, income, employment, and tax.

OUTPUT IMPACT

Output impact provides an estimate of the total change in output (value of goods and services) produced in Cuyahoga County due to the funding and mentoring activities that are provided by the Civic Innovation Lab. Measured in 2008 dollars, output impact in 2008 amounted to \$9.4 million (Table 3). Of that, \$6.0 million (64%) is accounted for by direct production of goods and services by the Lab and the companies and organizations it funds. An additional \$1.95 million (21%) is indirect impact—goods and services produced regionally to support the activities of the Lab and its grantees. The induced impact of \$1.5 million (16%) measures the value of goods and services produced in the region to satisfy the increased demand by households throughout the economy. Of the output impact of \$9.4 million, The Lab itself accounts for 4.7% of the output impact. The remainder is accounted for by the individuals, companies, and organizations that are funded by the Lab.

³ IMPLAN was originally developed by two federal agencies, the Department of Agriculture and the Department of the Interior, to assist in land and resource management planning. The model was later commercialized by the Minnesota IMPLAN Group, Inc.

⁴ Measuring impact for 2009 will take into account funding provided to entrepreneurs between 2004 and 2009.

Table 3. The Civic Innovation Lab's Economic Impact on Cuyahoga County, 2008

	Output	Labor Income	Employment
Direct Impact	\$5,991,735	\$2,959,119	70
Indirect Impact	\$1,951,404	\$615,735	41
Induced Impact	\$1,478,491	\$493,766	17
Total Economic Impact	\$9,421,629	\$4,068,619	128

All numbers have been rounded to the nearest whole number.

LABOR INCOME (EARNINGS) IMPACT

Every new job created by the companies and organizations funded by the Lab generates new earnings for local households. In 2008, total household earnings in Cuyahoga County increased by \$4.1 million due to the activities of Lab (Table 3). Of this impact, \$3.0 million (73%) resulted from the direct effects of payroll of the companies and organizations and the Lab's employees and \$0.6 million dollars (15%) of the total income impact resulted from increased earnings in other industries in the region that supply the companies and organizations funded by the Lab. The remaining income impact, \$0.5 million (12%), is due to increased household earnings throughout the economy. Of the total income impact of \$4.1 million, 4.9% is accounted for by the Lab itself. The remainder is the result of the companies and organizations funded and served by the Lab.

EMPLOYMENT IMPACT

The total employment impact in Cuyahoga County in 2008 as a result of the Lab's investments and mentoring activities amounted to 128 jobs (Table 3). Of these, 70 jobs (55%) are a direct impact. The direct impact includes the employees working at the Lab and all of the employees employed by its grantees. An additional 41 jobs (32% of total employment impact) were created in industries supporting the Lab and its grantees, and 17 (13%) more jobs were created throughout the economy due to increased employee earnings. Of the total employment impact of 128 jobs, only 4% are a result of the Lab itself. The remainder of the employment impact is due to the companies and organizations funded and assisted by the Lab.

TAX IMPACT

The funding and services provided by the Civic Innovation Lab also resulted in small amounts of additional tax revenues to local and state governments as well as the federal government. In 2008, state and local tax revenues increased by \$454,000 and federal tax revenues rose by \$734,000 as a result of the Lab's activities.

SUMMARY

The services provided to entrepreneurs through funding and mentoring between 2004 and 2008 by the Civic Innovation Lab resulted in the following economic impacts for 2008:

- Output impact of \$9.4 million
- Employment impact of 128 jobs
- Income (household earnings) impact of \$4.1 million
- Tax impact of 1.2 million (\$454,000 in state and local and \$734,000 in federal)