

R9 AJ ~~DISCUSS/TAKE ACTION REGARDING APPROVING MIAMI NEW DRAMA'S
COLONY THEATRE MANAGEMENT AGREEMENT FEE INCREASE REQUEST.~~
Applicable Area:

MIAMI BEACH

COMMISSION MEMORANDUM

TO: Honorable Mayor and Members of the City Commission
FROM: Eric Carpenter, City Manager
DATE: September 11, 2024
TITLE DISCUSS/TAKE ACTION REGARDING APPROVING MIAMI NEW DRAMA'S COLONY THEATRE MANAGEMENT AGREEMENT FEE INCREASE REQUEST

RECOMMENDATION

The Administration recommends the Mayor and City Commission discuss and approve Miami New Drama, Inc.'s request to increase the Colony Theatre management fee by \$200,000, for a total fee in an amount not to exceed \$700,000 including \$80,000 in utility reimbursement, and to authorize the City Manager and City Clerk to execute Amendment No. 4 to the agreement with Miami New Drama, Inc.

BACKGROUND/HISTORY

On June 8, 2016, the Mayor and City Commission adopted Resolution No. 2016-29429 accepting the recommendation of the Finance and Citywide Projects Committee and approved, in concept, a pilot program for the management of the Colony Theatre and authorized the Administration to negotiate a management agreement with Miami New Drama, Inc. (MiND), as the resident company and venue manager for the Colony Theatre, a City-owned facility on the 1000 block of Lincoln Road.

The City entered into a Management Agreement (or "Agreement") with MiND for an initial term of two (2) years, commencing on October 1, 2016, and ending on September 30, 2018, unless earlier terminated pursuant to the provisions of the agreement. The Agreement also included up to one (1) additional five (5)-year term, and one (1) additional two (2) year and 364-day term.

On May 17, 2017, the Mayor and City Commission adopted Resolution No. 2018-29858 approving and authorizing the Mayor and City Clerk to execute Amendment No. 1 to the Management Agreement, with said amendment providing for the City to fund the cost of six (6) parking spaces at municipal parking lot No. P25, for use by employees of MiND, in the amount of \$5,393 annually.

On October 17, 2018, the City Commission adopted Resolution No. 2018-30567 approving Amendment No. 2 to the Management Agreement, which included the following key terms and conditions:

- The City of Miami Beach ("City") shall provide an annual contribution to MiND in the amount of \$420,000, payable in installments following the end of each quarter. The annual contribution is contingent upon funding approval of the City's contribution during the City's annual budgetary process.
- The City shall reimburse utility costs at the Colony Theatre, up to \$80,000 annually. All costs above \$80,000 are the responsibility of MiND.
- The City approval of the first renewal option for one (1) additional five (5)-year term, commencing on October 1, 2018, and ending on September 30, 2023.

- MiND will increase the number of events and attendance as follows:
 - Produce 150 events at the facility for contract years October 1, 2018 - September 30, 2020, serving more than 35,000 visitors per year;
 - Produce 175 events at the facility for contract years October 1, 2020 -September 30, 2022, serving more than 40,000 visitors per year;
 - Produce 200 events at the facility for contract year October 1, 2022 - September 30, 2023, serving more than 45,000 visitors per year.

- MiND will develop an educational division and increase public outreach to include the following:
 - A "\$3.05 ticket program" reserving seats for first time theatergoers for every performance for \$3.05 (12 tickets per MiND Performance, 1,000 tickets annual estimate)
 - Free tickets for senior centers/facilities and youth throughout Miami Beach (1,000 tickets annual estimate)
 - Educational programs to accompany each production
 - Children's Summer Camp and Workshops
 - Traveling plays for schools and senior centers

- MiND shall provide day-to-day operational and administrative services in support of its management activities to ensure that the facility shall be operated, managed and maintained in a first-class manner, including but not limited to, acquisition of services, equipment, supplies and facilities; maintenance and property management; security; personnel management; record-keeping; collections and billing; and promotional activities, including but not limited to public relations, social media and paid marketing outreach.

- MiND shall provide quarterly reports to the City detailing event records and programmatic plans, educational and outreach initiatives, marketing and promotional activities, maintenance and capital work, and operational/administrative budgets.

- The City remains responsible for maintenance of the major building systems (i.e. HVAC, roof, plumbing, electrical, and elevator) and for long term capital improvements at the property

On October 27, 2021, the City Commission adopted Resolution No. 2021-31914, approving Amendment No. 3 to the Management Agreement allowing for a separate lease agreement between MiND and the City, for MiND's operation and management of the Collins Park Cultural Arts Facility, to be located at 340 23rd Street (the "Collins Park Lease"). With this Resolution, the City and MiND extended the term of the Colony Theatre Management Agreement for a period to run co-terminus with the term of the Collins Park Lease. This Amendment is subject to and contingent upon the buildout of the Collins Park Cultural Facility, pursuant to the Collins Park Lease. Tangentially, the Administration has included a referral item regarding the Collins Park Lease on this Commission agenda.

On September 23, 2023, the Mayor and City Commission adopted Resolution No, 2023-32743 to renew the final term of the Management Agreement. The final term is for two (2) years and 364 days, ending on September 29, 2026.

On July 12, 2024, at the Finance and Economic Resiliency Committee (FERC) Budget Workshop, Committee members discussed MiND's request to increase its annual management fee, and

requested the Administration return to the City Commission ~~once~~ following discussion of the request with MiND. .

ANALYSIS

Since 2017, MiND has overseen the management of the Colony Theatre. MiND is responsible for managing and operating the theater property and the production of performances at the theater by using the primary stage for critically acclaimed theatrical productions. MiND maintains its offices within the building and uses it as the educational and youth camp program venue. MiND will relocate its offices and youth programs to the new Collins Park Cultural Facility once built out. The theater is also available for rental by other cultural organizations and non-performance events.

MiND has produced successful productions, including “Seven Deadly Sins,” an innovative theater production that activated vacant storefronts on Lincoln Road during the COVID-19 Pandemic, which was performed sixty-one (61) times and totaled over six thousand (6,000) attendees. The production garnered media attention from the New York Times and travelled to New York.

MiND has continued to grow post-pandemic by successfully increasing the number of performances and audience attendance.

MiND Three-Year Annual Report

Fiscal Year	Performance Revenue	Attendees	# of Performances	# of Days for Non-Performance Events
2021	\$ 381,211.05	6,561	61	4
2022	\$ 1,084,821.31	22,501	113	8
2023	\$ 1,609,151.44	34,912	130	20
2024	\$ 1,600,500.00	27,187	137	12
2025*	\$ 1,700,000.00	39,000	150	25
Total	\$ 6,375,683.80	130,161	591	69

*Based on MiND FY 2025 projections

Under MiND, the Colony has become a significant cultural asset with a positive economic impact on Miami Beach. Earlier this year, MiND engaged Miami Economic Associates, Inc. to conduct an economic impact analysis of the Colony Theater.

At the July 12, 2024, Finance and Economic Resiliency Committee (FERC) Budget Workshop, MiND presented this following economic impact analysis, an overview of rising cost impacts, and proposed management fee increase options for discussion:

Economic Impact of the Colony Theater

Measure	Description	Total Impact*
Direct to City	Parking Fees and Tourism Tax*	\$150,000 annually*
Local Businesses	Restaurants and businesses on or near Lincoln Rd.	\$1.2M annually*
GDP	Labor Income	\$5.3M annually
Total Economic Impact		\$10M annually*

*Miami Economic Associates, 2024

Inflation Impact

Inflation has caused activation costs to rise, impacting MiND’s operational budget. MiND has shared that previously, City funding represented 25% of their operating budget. With MiND’s expanded budget of \$5.5 million annually, City funding now represents less than 10% of their operating budget.

- Wages for operations and production labor have risen from \$18 per hour to \$28 per hour
- The cost of an average production has risen from \$325,000 to nearly \$500,000

MiND has proposed the following management fee increase options commensurate with its impact and current economic conditions for FERC consideration:

Agreement	Rate	Description
Current Fee	\$420,000 + \$80,000 utility reimbursement (annually)	Current 6 year old rate that is unsustainable for the level of activation of the Colony Theatre.
Option A Proposed Fee	\$620,000 + \$80,000 utility reimbursement (annually)	Sustainability of current activation levels of world-class theater, robust education program, expanded community benefit, and expected expense increases throughout the term.
Option B Proposed Fee	\$670,000 + \$80,000 utility reimbursement (annually)	Additional increased activity and community benefit in the form of Colony Theatre Movie Nights. 25 events per year exploring films curated to reflect our community, in conversation with world events and the theatrical work presented on the Colony Theatre stage.

The FERC recommended the Administration negotiate Amendment No. 4 with MiND for the proposed management fee increase and bring the item to the September 11, 2024, City Commission meeting for approval.

Staff negotiated the proposed management fee increase with MiND and is supportive of the requested \$200,000 increase to the annual management fee. The additional funding would bring the fee to \$620,000 plus \$80,000 in utility reimbursement for a total amount of \$700,000 annually.

The Administration discussed any possible enhancement of public benefits or increased programming from MiND in consideration for the requested management fee increase. MiND has stated that adding or expanding any resident benefit or programming would leave the organization in the same financially challenging position. MiND has carefully considered the requested increase, aiming to rightsize costs and ensure the sustainability and growth of the Colony Theatre as a leading cultural institution. Note that this increase will maintain the current level of resident

benefit, including a fifteen percent (15%) discount on tickets, free student entry, free tickets for seniors, and greater access to community groups.

FISCAL IMPACT STATEMENT

The current budgeted amount for the Colony Theatre management fee is \$500,000, including \$80,000 for utilities. The proposed increase will have fiscal impact of \$200,000 annually, subject to approval within the Fiscal Year 2025 Budget.

Does this Ordinance require a Business Impact Estimate? (FOR ORDINANCES ONLY)

If applicable, the Business Impact Estimate (BIE) was published on:
See BIE at: <https://www.miamibeachfl.gov/city-hall/city-clerk/meeting-notices/>

FINANCIAL INFORMATION

General Fund 011-0383-000374-25-406-551-00-00-00-

CONCLUSION

The Administration recommends the Mayor and City Commission discuss and approve Miami New Drama's request to increase the Colony Theatre management fee by \$200,000, plus \$80,000 in utilities for a total amount not to exceed \$700,000, and to authorize the City Manager and City Clerk to execute Amendment No. 4 to the agreement with Miami New Drama, Inc.

Applicable Area

South Beach

Is this a "Residents Right to Know" item, pursuant to City Code Section 2-17?

No

Is this item related to a G.O. Bond Project?

No

Was this Agenda Item initially requested by a lobbyist which, as defined in Code Sec. 2-481, includes a principal engaged in lobbying?

If so, specify the name of lobbyist(s) and principal(s): Miami New Drama initiated the request.

Department

Tourism and Culture

Sponsor(s)

Commissioner Tanya K. Bhatt

Co-sponsor(s)

Condensed Title

Discuss/Action, Approve Miami New Drama Colony Theatre Management Agreement Fee Increase Request. (Bhatt) TC



MIAMI NEW DRAMA

COLONY THEATRE

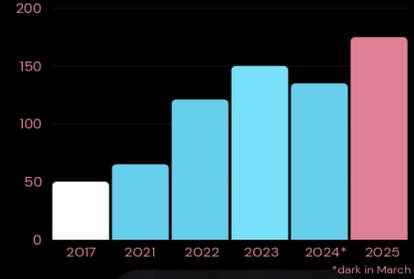


Miami New Drama is

- South Florida's **premier regional theater**
- The **fastest growing** cultural organization in Florida
- The **largest bilingual theater** company in America
- The largest **Hispanic-run** theater in Florida
- A **nationally recognized** symbol of Miami Beach's commitment Arts & Culture
- A powerful **economic driver** and Lincoln Rd. anchor

Transforming The Colony

- **Before MiND**, The Colony Theatre was active roughly **50 nights** per year
- **Today** it is active **over 150 nights** per year and projected to reach **175 events** in the coming year.



Miami New Drama is



People

AUDIENCE

- Up to **40,000 people** annually
- **86%** - 30,000 annually - report having **dinner** or drinks on or near Lincoln Rd.
- **77%** pay for **parking**

WORKFORCE

- Over **160** people employed
- Over FTE **90** jobs created



Community

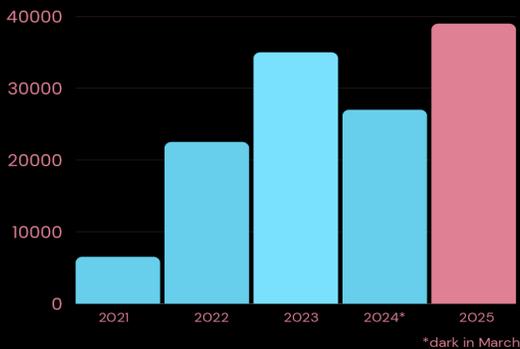
- **15% Miami Beach Resident** Discount
- Thousands of **students** attend for **FREE** annually
- Hundreds of tickets offered **FREE** annually to **Seniors**
- **Movie nights** at The Colony Theatre
- Facilitating **greater access** to community groups and students



Growth

- **300%** budget increase since 2017
- **200%** staffing growth since 2019
- Cost of operations **UP 46%** since 2019
- Labor wages **UP 56%** since 2019

People Served



A Wonderful World, Born at the Colony and opening on Broadway Nov. 2024.

Economic Impact

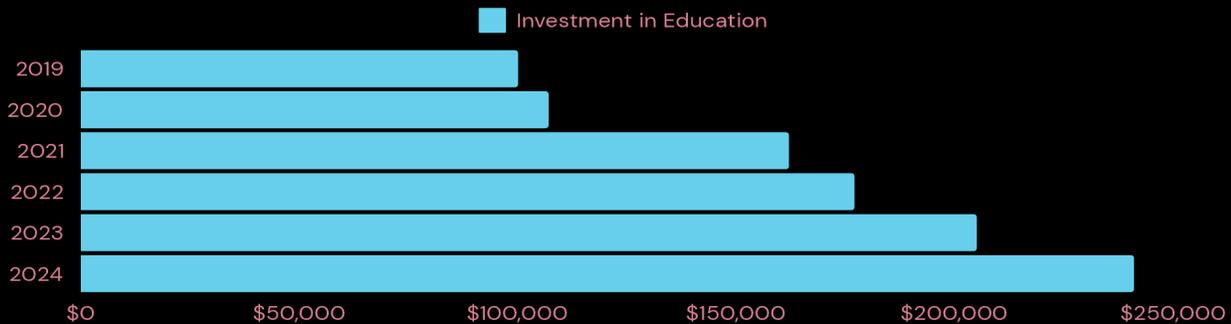
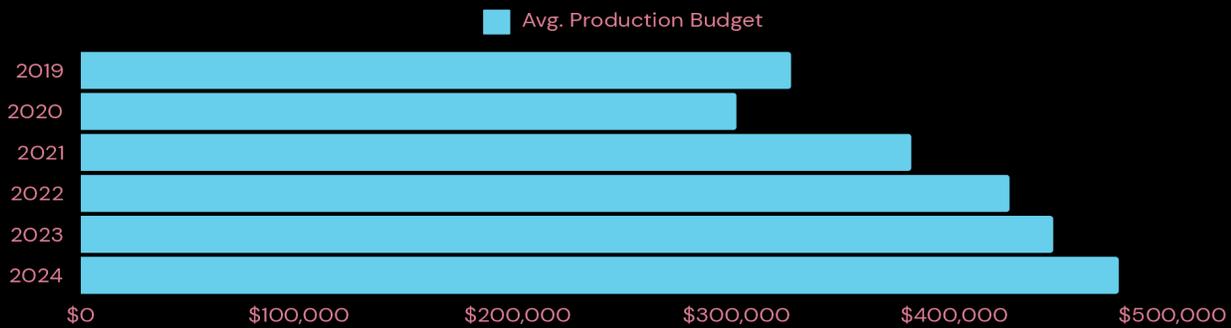
Measure	Description	Total Impact*
Direct to City	Parking Fees and Tourism Tax*	\$150,000 annually*
Local Businesses	Restaurants and businesses on or near Lincoln Rd.	\$1.2M annually*
GDP	Labor Income	\$5.3M annually*
	Total Economic Impact	\$10M annually*

* Miami Economic Associates, 2024

Rising Cost of Activation

Key Factors

- Since 2019 Miami New Drama's budget to operate the Colony Theatre **has grown 150%**.
- Operations and production labor wages have risen from **\$18/hr** to **\$28/hr**
- The cost of an average production has risen from **\$325,000** to nearly **\$500,000**
- Management Fee has remained flat during the same period



Management Agreement Increase

Overview

The Colony Theatre management agreement is in its final extension.

Miami New Drama is seeking an increase to the management fee commensurate with its impact and current economic conditions.

Shared Investment and Returns



Return on Investment

- The proposed renewal rate delivers a **1,328% ROI** to the GDP.
- Sustained Colony Theatre activity is **crucial to the survival** of many **Lincoln Rd. businesses**.



Public Benefit

- **Sustainable** infrastructure growth **opens the Colony doors** to more of the **community**.
- Activation = G.O. Bond facility **investment** can be **fully utilized** and shared with the **public**.



Miami New Drama's Investment

- MiND stakeholders have invested millions in Covid **debt retirement** and **capacity building**.
- MiND invests **\$4.5M/yr** to create world-class **theater**, educate thousands of our community's **children**, and **support** an operating **staff** in one of the nation's highest **cost of living** centers.

Increase Options

Agreement	Rate	Description
Current Fee	\$420,000 + \$80,000 utility reimbursement (annually)	Current 6 year old rate that is unsustainable for the level of activation of the Colony Theatre.
OPTION A Proposed Fee	\$620,000 + \$80,000 utility reimbursement (annually)	Sustainability of current activation levels of world-class theater, robust education program, expanded community benefit, and expected expense increases throughout the term.
OPTION B Proposed Fee	\$670,000 + \$80,000 utility reimbursement (annually)	Additional increased activity and community benefit in the form of Colony Theatre Movie Nights . 25 events per year exploring films curated to reflect our community, in conversation with world events and the theatrical work presented on the Colony Theatre stage.

Right-sized partnership between MiND and CoMB ensures sustainability and growth of one of the city's premier cultural facilities for year to come.

Miami Economic Associates, Inc.

July 11, 2024

Mr. Nicolas Richberg
Managing Director
Miami New Drama
1040 Lincoln Road
Miami Beach, FL 33139

Re: Colony Theatre Benefits Analysis

Dear Mr. Richberg:

Pursuant to your request, Miami Economic Associates, Inc. ("MEAI") performed an analysis to estimate the economic and fiscal benefits that the Colony Theatre on Lincoln Road generates for the City of Miami Beach and Miami-Dade County. The purpose of this letter report is to apprise you of the findings of our analysis. We further understand that this letter report may be shared with officials of both the City and the County. It is organized as follows:

Section	Page
Context	1
Economic Benefits	3
Fiscal Benefits	4
Closing	5

Context

The Colony Theatre, which is located on the 1000 block of Lincoln Road between Michigan and Lenox Avenues, is a City-owned facility, which means that it is exempt from paying ad valorem taxes to any governmental entity including the City, the County and the Miami-Dade Public School District. The Theater has been managed for the past seven years by Miami New Drama ("MiND") under the terms of a contract with the City of Miami Beach, which is due to be renegotiated. In addition to managing the theater property itself, MiND has been responsible for the preponderance of the performances

occurring at the theater by using it as the primary stage for its critically acclaimed theatrical productions. MiND currently also maintains its offices within the building and uses it as the venue for educational and camp programs for children of school age. It should, however, be noted that the MiND expects to relocate its offices and the youth programs to a new facility in Collins Park Arts District in the next year or two. The theater also serves as the venue for performances by other cultural organizations and is rented to organizations for non-performance events.

The Covid-19 pandemic, which was at its most virulent in 2020 and 2021, occurred during the period that MiND has managed the Colony Theatre, with result that it was unlit for performances during that period. In that period however, MiND did stage one production, *Seven Deadly Sins*, which was performed 61 times using vacant store fronts in the vicinity of the theater as stages and having the attendees, who totaled over 6,000 people, sit outside in clusters in front of the stores that served as the stages. The ingenuity of the staging as well as the quality of the play attracted attention well beyond Miami-Dade County and *Seven Deadly Sins* was performed in New York.

In 2021 – 2022, MiND went back to staging its productions within the Colony Theatre and attracted 22,501 to its 113 performances, However, the number of attendees was limited by the need to observe health protocols in terms of spacing in how the audience was seated. Eight non-performance events also used the theater that year. In 2022 – 2023, the Colony Theatre was used for 130 performances that attracted over 34,900 attendees and 20 non-performance events. In 2023 -2024, the number of performance events staged by MiND is projected to increase to 137 the end of the fiscal year, however, the number of attendees to the events staged in Colony Theatre will be fewer than 2022 -2023 for two reasons, which are as follows:

- One production which was staged during the period when Miami Beach was experiencing Spring Break used the Rubell Museum in Wynwood as the venue so that attendees would not have to contend with the City of Miami Beach's Spring Break policies with respect to traffic control and the price of parking. The decision to stage that production at a venue off Miami Beach reflected the fact that the residents of the Miami-Dade County mainland constitute a sizable portion of the audiences that attend MiND's performances. Accordingly, the theater is a cultural resource of import not only to residents of Miami Beach but to the entirety of Miami-Dade County.
- One of the productions that MiND will stage in the Colony Theatre this summer will require an expanded stage, which in turn will mean that a portion of the normal seating configuration will not be available.

Looking ahead, MiND is projecting that the Colony Theatre will house 150 performance days in 2024 - 2025 that will attract an estimated audience of 39,000 people. The increase in the number of performances reflects the fact that MiND will be placing a higher priority in attracting other cultural organizations to use the theater. MiND also projects that the theater will host 25 non-performance events in 2024 – 2025.

In summary, the Colony Theatre under MiND’s management has rebounded from the dark days of the Covid-19 pandemic and has become a significant cultural asset for the residents of Miami Beach and the remainder of Miami-Dade County.

Economic Benefits

The term “economic benefits” refers to the positive impact that the Colony Theatre generates for the community in which it is located in terms of job creation, labor income and value added. The table below estimates the economic benefits generated by the Colony Theatre. The table was created using the Minnesota IMPLAN Input-Output Model, which was initially formulated over 40 years ago and constantly updated ever since. A description of the model is provided in the appendix to the report.

The table is based on the financial data from 2022 -2023, which is the latest full fiscal year for which a full year of data is currently available since the current fiscal year will not end until September 30, 2024. For this analysis, the “community” in which the Colony Theatre is located is considered Miami-Dade County since reliable employment data is not published for smaller geographic areas. However, MEAI believes that residents of Miami Beach likely comprise a significant percentage of the workers shown in the table.

Estimated Annual Economic Benefits Colony Theatre (2023 Dollars)	
Benefits	Recurring
Jobs Created	
Direct	54
Indirect	18
Induced	18
Total	90
Labor Income (All workers)	\$ 5,362,700
Value-added	\$ 7,100,500
Total Economic Output	\$ 9,687,200
Source: Miami New Drama; Minnesota IMPLAN; Miami Economic Associates, Inc.	

The Colony Theatre is a not-for-profit entity that had both revenues and expenses in 2022 – 2023 approximating \$6.0 million. Payroll was the largest expense that year when it employed 14 people on a full-time basis, who were mostly involved with administrative duties but also janitorial work and the educational programs that occurred within the theater. It also employed 162 part-time workers, all but a few of whom were involved with the performances staged in the theater as actors, sound, electrical and costume technicians and stagehands. Since the objective of MEAI’s analysis was to estimate the annual economic benefits generated, the IMPLAN model converted the part-time employees into full-time equivalents (“FTE’S) on the basis that 4 part-time workers would

equate to 1 FTE. Accordingly, the table shows the number of direct workers as 54 (14 plus 40).

The table also shows the impact of the multiplier effect. The 18 indirect workers are the FTE's who were employed by businesses that would support the on-site activity at the Colony Theatre such as firms that supply the costumes used in the theatrical productions, companies that supply the lighting and sound equipment and that print of the programs distributed at performances. The 18 induced workers are the FTE's employed by businesses across the economy at which the direct workers and the indirect workers spent their wages and salaries. The IMPLAN model estimated that wages and salaries of the direct, indirect and induced workers in combination totaled \$5.36 million, with the direct workers earning approximately \$3.5 million, or 65 percent of that amount.

The above table is focused on the economic benefits generated by the Colony Theatre itself. It does consider the economic benefits generated by the people attending performances and non-performance events at that Colony Theatre. According to an audience survey conducted for MiND among people attending performances at the theater, 86 percent have dinner and/or drinks in the Lincoln Road area before or after the performance they attend. On that basis, in 2022 - 2023 when approximately 34,900 people attended performances at the Colony Theatre, approximately 30,000 people would have patronized an eating and drinking establishment in the vicinity of the theater. Assuming the average expenditure was \$40 per person, they would have generated \$1,200,00 in revenue for those establishments. They would also have provided income to the establishments' serving staffs in the form of gratuities.

With respect to the above table, it should be noted that the estimate of total economic output is conservative because it does not account for the full economic output of the eating and drinking establishments that those who attend the Colony Theatre patronize before and/or after performances. It also does not account for the unknown number of incidences when people attending performances patronize business establishments other than eating and drinking establishments while on Lincoln Road attending a performance at the Colony Theatre. Finally, its estimate of the amount of money spent to park a vehicle while attending performance at the theater is based on the rate structure in the City-owned parking facilities but some vehicles may be parked in privately-owned garages which charge higher rates. Accordingly, MEAI believes that it would be reasonable to assume that the total economic output of the Colony Theatre exceeds \$10.0 million.

Fiscal Benefits

As previously stated, no ad valorem taxes are paid to the City of Miami Beach, Miami-Dade County or the Miami-Dade County Public School District because the fact that it is owned by the City of Miami Beach renders it tax-exempt. However, the facility does contribute the fiscal well-being of the City in two ways, which are as follows:

Mr. Nicholas Richberg, Managing Director
Miami New Drama
July 11, 2024
Page 5

- A City of Miami Beach tourism tax of 2 percent was levied in 2022 – 2023 on \$1,200,00 spent by attendees of performances at the Colony Theatre in eating and drinking establishments in its vicinity, generating \$24,000 for the City. As attendance increases above the level recorded in that year, as is expected, the tourist taxes collected will also increase.
- According to an audience survey conducted for MiND, 77 percent of attendees at Colony Theatre attendees drive to the venue and park in the vicinity of Lincoln Road. Assuming each vehicle parked in a City of Miami Beach parking lot or garage in 2022 - 2023 carried 2.5 theater attendees and that the average vehicle was parked for a period of 5 hours, City parking receipts totaled approximately \$107,500. As with the tourist taxes discussed above, this amount with the expected increase in attendance at the Colony Theatre.

Closing

In the period since the covid-19 pandemic eased, the Colony Theatre has become a valued cultural resource for City of Miami Beach and Miami-Dade County residents. In the process, it has generated economic and fiscal benefits for the City that MiND expects to increase under its future management.

Sincerely,
Miami Economic Associates, Inc.



Andrew Dolkart
President

Appendix Minnesota IMPLAN Input-Output Model

The Minnesota IMPLAN Input-Output Model relies on multiplier analysis which quantifies the cumulative effect of dollars inserted into the regional economy. As a dollar moves through the region, it creates additional revenue for linked businesses and/or their employees who also spend that money. More simply, expenditures dispersed by one entity become revenue to another, continuing an economic cycle which ultimately dissipates, bleeding into other regions or areas. Although several economic models are available, they work in fundamentally similar ways and center on the same indicators. The Minnesota IMPLAN model was initially created over 35 years ago at the University of Minnesota and has been upgraded on a continuing basis in the ensuing years.

The multiplier impacts calculated by the Minnesota IMPLAN model are based on input-output methodology, which explicitly considers the inter-industry linkages that exist within an economy. Each industry needs labor and inputs from other industries to produce economic output. Whenever an industry experiences an increase in the demand for its output, many other industries within that economy indirectly experience an increase in demand as well because of these inter-industry linkages. This increase in demand that results from the need for material inputs is called the *indirect effects*. In addition, an increase in production within a region also leads to an increase in household income through the hiring of workers, which in turn generates further demands for goods and services within the region. Firms also need to expand their base of physical capital to meet higher levels of demand, and this too stimulates regional economic growth. The latter effects are referred to as *induced effects*. The inter-industry linkages and the induced effects on consumer and capital spending lead to successive rounds of production, and this process results in an increase in output that exceeds the initial change in demand, or a *multiplier effect*. Similarly, the increase in household income will exceed the initial payroll increase encountered in the industry that experienced the original increase in demand. The total change in employment in the regional economy is a multiple of the direct change in employment.

In addition to estimating employment, MEAI also used the Minnesota IMPLAN model to quantify the total earnings or labor income of the direct, indirect and induced workers as well as the total gross domestic product, or value added, that would result from the efforts of the direct, indirect and induced employees. Labor income consists of all forms of employment income including wages and salaries and proprietor income. Gross domestic product (GDP), also known as value-added, is the increased value of a product or service as the result of the economic inputs (labor and capital) expended at a given stage, GDP is the sum of wages and salaries, proprietor income, interest and indirect business taxes.