



Cost Benefit Analysis

Prepared for Pocatello City Hall

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Executive Summary

The College of Business referred this project to Bengal Solutions for Pocatello City Hall to conduct a cost-benefit analysis evaluating scenarios that would fulfill the need for additional space and upgrade systems for the Pocatello Police Department (PPD) and Administration Departments. Pocatello City Hall is located on the corner of North 7th Avenue and East Sherman St, off Yellowstone Avenue. The location is home to the mayor's office, the Pocatello Police Department (PPD), the Pocatello City Fire Department, and the administration departments. To centralize the city in Historic Downtown Pocatello, and provide all departments with necessary workspace, there is consideration to relocate the administration departments to the federal building downtown, located at 150 South Arthur Ave.

Five scenarios are being considered:

1. Continue operating in the current building with no changes.
2. Continue to operate in the current facility with renovations.
3. Move the city hall operation to a new facility downtown and renovate the current city hall location for the PPD. This option includes renovating the new facility located downtown.
4. Move the city hall operations downtown and tear down the current location to build a new facility in the current location for the PPD. This option includes renovating the new facility located downtown.
5. Move the city hall operations downtown and the PPD to a newly built location so that the current facility can be demolished and sold. This option includes renovating the new facility located downtown.

This analysis provides insights to guide decision-makers toward the most cost-effective,

economically viable, and beneficial option for the city. While each scenario will analyze the unique attributes and relevant cash inflows and outflows, including operational expenses, building expenses, and tax revenue. Each scenario's net present value (NPV) can be formulated and compared using these cash flows. This number is calculated by summing up the current day's value of associated revenues and expenses so that they can be compared.

Financials and NPV should not be the only factors in the decision-making process. Each scenario listed above provides its own benefits to the city and its citizens. Though not measured monetarily, each project provides benefits and brings value to the city in its own way which will be further developed as they arise. Some of the factors to consider are economic impact and development, adequate parking, and Pocatello's plan for development. Each scenario should be examined for its net present value and benefits to Pocatello and its community. Since each scenario has significant costs, anyone will be a long-term investment for the city.

Purpose

Pocatello City Hall is examining multiple scenarios to solve the space issues being faced by the PPD and the city hall operations. Pocatello City Hall has housed all departments throughout the growing number of employees needed to conduct business, which has resulted in cramped office spaces and a need for change. Multiple scenarios have been proposed in order to address this issue, allowing the deciding parties to evaluate the needs of city hall and determine what option provides the best opportunity for resolution.

A Cost Benefit Analysis Excel spreadsheet has been provided with formulas using the inflows and outflows listed for each scenario. These numbers can be adjusted as needed, but the report reflects the costs based on research and what was presented by the Pocatello City Hall

Planning and Development Department.

The Multiplier Effect

When considering economic growth from a spending perspective, more spending in the short term will always lead to higher growth. Thus, when considering immediate economic growth, the highest cost option will lead to the largest growth projection for the Pocatello economy. This analysis will address the assumed money multiplier effect and compounding growth from each spending option. When considering immediate impact, more is always better. However, the long-term impacts of these choices do have more considerations outside of the direct spending of these benefits. The multiplier effect assumes that when spending occurs on either a government or corporate level, a broader economic impact compounds with the spending¹. Determining this effect's impact involves taking the average marginal propensity to consume in an economy and using it to project the total economic growth from the expenditure. This multiplier effect will be evaluated for each scenario and covered in further detail in the respective economic sections.

Scenario One

Scenario one looks at the costs associated with keeping things as is, referred to as “doing nothing.” This is relevant to the analysis because of the needs presented by Pocatello City Hall in order for it to properly function.

¹ Dixon D (2019)

Finances

For this scenario, it will be assumed that immediately, nothing will change, and Pocatello City Hall will operate as is. However, there are still cash flows that need to be analyzed. There is a need for updated utility systems in the facility and a restructuring of the current space that will need to take place eventually. The HVAC and plumbing systems need upgrades and will cost an estimated \$3 million and \$1 million, respectively. The PPD cannot operate in its current location in the long term, so there is an estimated cost of \$14 million to add an additional 46,528 square feet to provide necessary space for employees' regular tasks as well as officer training. These projects will not occur immediately, so the scenario assumes a hypothetical timeline that can be adjusted to examine other timelines or when plans are finalized. This timeline assumes that the increased space would happen one year after the scenario was chosen, the plumbing upgrades would occur during the next year, and the HVAC system would be upgraded after a third year, simply putting that there will be one project a year for three years. The present value for these costs is -\$16.7 million.

Description of costs	PV of costs
Plumbing upgrades expense	(\$898,452.42)
HVAC system upgrade expense	(\$2,554,840.99)
PPD additional SQFT expense	(\$13,230,710.90)
PV Total	(\$16,684,004.31)

Currently, it costs a combined total of \$81,193 for city hall's utility expenses including phone bill, electrical, and water, which is included as a reoccurring cash flow. The model includes the terminal cash flows for these expenses indefinitely. Another factor to consider is the opportunity costs of choosing one scenario over another. By keeping Pocatello City Hall in its current location, roughly \$3,000 in annual tax revenue will be lost from any new commercial

businesses that could operate in the current Pocatello City Hall location after its relocation. This opportunity cost brings the present of cash flows to -\$4.9 million.

Description of costs	PV of costs
Operations	(\$15,352.00)
Power	(\$65,841.00)
Opportunity cost for tax revenue on current facility	(\$2,960.10)
PV Total	(\$4,975,467.24)

Positive cash flows should also be considered for this scenario. Opportunity costs are included in this scenario because of what city hall could save by not purchasing a new facility. The old federal building that city hall is considering moving the city hall operations to is valued at a purchase price of roughly \$830,000. This means that if city hall can use that money set aside for the purchase on other expenses or to earn interest. Assuming this money will not be used on renovation costs, it can earn interest at a rate of 5.5% and can be included as a positive cash flow. This brings the present value to \$3.6 million.

Description of revenues	PV of revenues
Opportunity cost for potential interest earned on federal building savings	\$832,596.80
PV Total	\$3,561,747.62

The combined NPV for this scenario is -\$17.1 million. It is important to note that this is a rough estimate-based number and should be adjusted if the timeline is not accurately reflected. However, any adjustments are likely only to have a minimal impact on the NPV unless a significant expense is removed from the scenario. The multiplier growth is projected to be \$40 million.

Considerations

This scenario has the best NPV, but the feasibility of this course of action remains a concern. Because of the dire need for additional space and utility system upgrades, this scenario can be considered more temporary than permanent. The following scenarios emphasize relevant points that might be key to the final decision.

Scenario Two

Scenario two keeps all city hall operations housed in the current location but allows them to renovate the facility to meet their needs.

Finances

The PPD currently operates using 23,472 square feet for its 150 employees. Chief of Police Officer Roger Shei is looking for a total of 70,000 square feet for daily operations and an additional 118,000 for parking, land, annex, and training space, bringing the total required space to 188,000 square feet. This request for additional space is the best-case scenario for the PPD, which can be adjusted based on the determined need. Using a realistic estimate based on the report from the Chief of Police, 70,000 square feet will be used in the analysis, which gives an additional 46,528 square feet to their current space. Based on the average cost of \$300 per square foot to build new commercial space, an estimated \$14 million is needed to provide additional space for the PPD.

As mentioned in the previous scenario, the HVAC and plumbing systems need upgrades and will cost an estimated \$4 million. Using the \$250 per square foot renovation cost, it will cost roughly \$9.5 million to renovate the facility. This estimate factors in the department's requests

for parking upgrades and general building maintenance. Between the two groups, one-time expenses add up to a present value of roughly -\$27.4 million, considering the discount rate of 5.5% in Year 0.

Description of costs	PV of costs
Plumbing upgrades expense	(\$1,000,000.00)
HVAC system upgrade expense	(\$3,000,000.00)
PPD additional SQFT expense	(\$13,958,400.00)
City Hall renovation	(\$9,472,250.00)
PV Total	(\$27,430,650.00)

The \$81,193 utility operating costs will need to be included as terminal cash flows so that the net present value for this scenario calculates the total expense. The \$3,000 tax revenue opportunity cost of remaining in the current facility is also being included in this scenario. This brings the present value for our recurring cash flows to -\$4.9 million.

Description of costs	PV of costs
Operations	(\$15,352.00)
Power	(\$65,841.00)
Opportunity cost for tax revenue on current facility	(\$2,960.10)
PV Total	(\$4,975,467.24)

Positive cash flows from the previous scenario are also to be considered. This includes opportunity costs of \$832,000 (from the savings from not purchasing the federal building and the interest that would be earned using the same given rate). This brings the present value to a total of \$3.5 million.

Description of revenues	PV of revenues
Opportunity cost for potential interest earned on federal building savings	\$832,596.80
PV Total	\$3,561,747.62

The NPV combines the present values of both cash flows, which came out to be -\$27.3 million in total costs for this scenario. The multiplier effect for this scenario is roughly \$129.8 million for total GDP growth.

Considerations

Choosing this scenario is advantageous because it allows both groups to utilize familiar territory and meet their necessary standards. The large parking lot would allow the PPD to extend its operations. While the administration department does have adequate spacing, there is an expressed concern that departments need to be moved around to improve efficiency within the facility. It is important to recognize that the NPV is an estimate and can be changed based on what is granted to Pocatello City Hall.

The current facility does have the potential to be upgraded to meet Pocatello City Hall's requirements. Considering the NPV and the city's direction for development and growth, this might not be the best investment for the long-term.

Scenario Three

Scenario three requires the purchase of the old federal building in downtown Pocatello, located at 150 S Arthur Ave. This property would house the city hall operations, allowing the

PPD to renovate the entirety of the current building to meet its operational needs.

Finances

Scenario three will involve the most moving parts but provide each department with their own space. Starting with the PPD staying at the current location, it will acquire the HVAC and plumbing upgrades, costing \$4 million. The renovation cost will be \$16.2 million based on what space is built and the desired additions.

The city hall operations group will require \$832,000 to purchase the federal building. This number was found by compiling the markup prices of nearby buildings for sale compared to their assessed value. Renovation costs for this building will be \$10.3 million. There is an opportunity cost here because the money that would be used to purchase the federal building cannot earn interest. The total present value of the one-time costs is -\$31.3 million.

Description of costs	PV of costs
Federal Building Cost	(\$832,596.80)
Current Facility renovation expense	(\$16,199,000.00)
Federal Building renovation expense	(\$10,331,000.00)
Plumbing upgrades expense	(\$1,000,000.00)
HVAC system upgrade expense	(\$3,000,000.00)
PV Total	(\$31,362,596.80)

Reoccurring costs include operating expenses, opportunity costs for loss of tax revenue for the federal building being purchased, and the opportunity cost for losing the interest earned from the money used to purchase the federal building. Considering these costs' terminal cash flow value, the total present value is -\$8.5 million.

Description of costs	PV of costs
Operations	(\$15,352.00)
Power	(\$65,841.00)
Opportunity cost for potential interest earned on federal building savings	(\$832,596.80)
Opportunity cost for tax revenue on federal building	(\$2,960.10)
PV Total	(\$8,537,214.86)

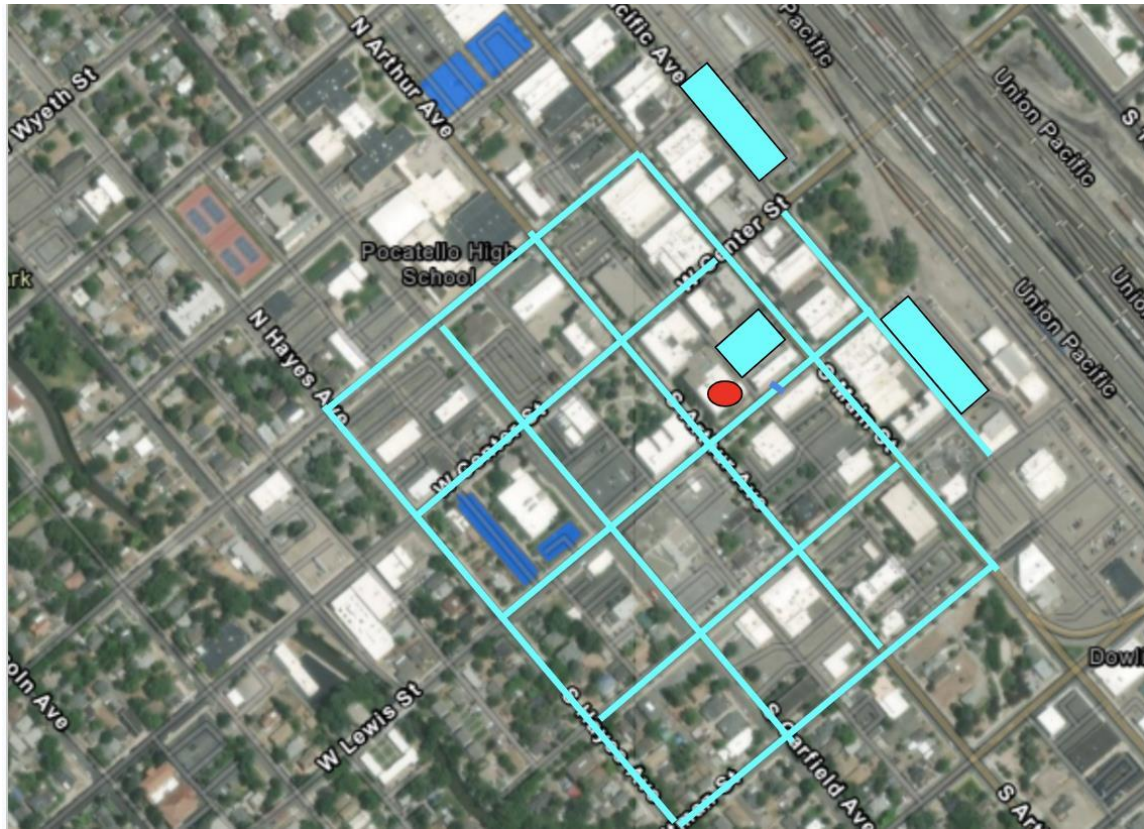
The increased tax revenue from increased consumer spending is projected to generate a value of \$1 million. The total NPV for scenario three is -\$36.9 million. The GDP growth is \$152.2 million based on the multiplier effect.

Description of revenues	PV of revenues
Increased shopping revenue	\$16,800.00
PV Total	\$993,283.07

Considerations

Ensuring that there is enough parking for all employees and patrons is a crucial aspect of the functionality of the federal building and any scenario that involves it. If the city hall operations move to this location, it is imperative that there is enough parking. Adequate parking will be defined as having available options within two blocks of the facility that will serve the many needs of Pocatello City Hall, keeping in mind the constantly changing weather, the flow of citizens stopping by on a temporary basis, and the needs of those with disabilities. An estimate of the total parking spaces within the radius is between 900 and 1,000 total parking spaces. The existing lot ranges from 300 to 400 hundred spaces. This includes parking directly outside of the building that can be used as short-term parking for those who need quick services provided by

the City Hall, such as paperwork or billing. The picture below shows the parking options in blue, along with the location of the federal building in red.



Pocatello adopted a downtown development plan in 2022 to increase the success of a vital portion of the city often referred to as “old town.” The idea is to shift business and engagement to downtown, which will allow it to be the center of Pocatello. This will increase engagement through community events, allow current local businesses to benefit from increased foot traffic, and encourage new businesses to find a home in Downtown Pocatello². Old Town has a rich history and a variety of businesses but lacks community support. By moving the city hall operations downtown, there is increased engagement from citizens and employees. On average, Pocatello City Hall employees will spend an increased \$3,500 on neighboring

² Ziegelbauer, R (2004)

businesses within a short distance of their facility. The current location does not offer as many opportunities for employees as the old town would.

Pocatello City Hall has the potential to impact the health of the city with a new location downtown. Revitalizing this area can turn Downtown Pocatello into a more active part of the city. Numerous benefits come from having a centralized part of town, such as increased walkability, higher property values, and further incentives for economic growth. All around, citizens can reap benefits from community involvement, so moving the city hall operations would be a key move in starting this journey for Pocatello.

Scenario Four

Scenario four is similar to scenario three in that the city hall operations will move to the old federal building, leaving the current facility for the PPD. However, this scenario involves the demolition of the building and construction of a new facility.

Finances

Scenario four has nearly identical cash flows as scenario three but considers the cost of demolishing the current building and rebuilding a facility for the PPD. Based on the \$300 per square foot cost to build new commercial buildings, this project would cost \$262,000 in demolition costs and \$21 million in rebuilding costs. This brings the total NPV of all costs associated with this project to -\$37.9 million. The multiplier growth effect is \$102.4 million.

Description of costs	PV of costs
Federal Building Cost	(\$832,596.80)
PPD cost of new building	(\$21,000,000.00)

Federal Building renovation expense	(\$10,331,000.00)
Demolition cost	(\$261,397.86)
PV Total	(\$32,424,994.66)

Considerations

This scenario has the highest NPV but also provides each department with the needed space. The city hall operations would reap all the benefits from the new building, which is in line with the downtown development plan. The PPD would receive its own space in a completely new facility that can be custom-built to meet its needs

Both scenarios three and four open the door for future commercial business opportunities. While there is no guarantee, another business could move into the leftover space the PPD does not utilize for their facility. This new venture provides an opportunity for increased tax revenue for the city and increased spending from citizens, which further benefits the local economy.

A drawback to this scenario is that the PPD does not have a facility to relocate to during demolition and rebuilding. A plan must be in place for its operations, as it is a vital element to the city.

The differences between the current facility and the federal building must also be considered. The Arthur Ave location has roughly 3,000 square feet more space, three more stories, and 117 windows compared to the one at the 7th Street location, which makes it a more opportune building. Pocatello City Hall has expressed the desire to increase the amount of natural light employees are exposed to based on the benefits found from research on the matter. These benefits include increases in productivity, energy, satisfaction, and overall employee health. Regardless of whether the employees remain at the current location, renovations must

include adding windows to the facility.

Scenario Five

Scenario five provides both the PPD and the city hall operations with the opportunity to move to new facilities to sell the current location to a for-profit commercial business. In this scenario, the city hall operations would move to the old federal building, and the PPD would build a new facility on city-owned land.

Finances

This scenario has the same cashflows as scenario four, but because the property is sold, there is no need to pay for the HVAC or plumbing upgrades. This scenario includes building a new facility for the PPD and purchasing and renovating the federal building for the city hall operations. In addition to these costs, there are operating costs, loss of tax revenue because of the purchase of the federal building, and loss of interest earned from the previously mentioned opportunity cost. The NPV of these costs is valued at -\$40.7 million.

Description of costs	PV of costs
Federal Building Cost	(\$832,596.80)
PPD cost of new building	(\$21,000,000.00)
Federal Building renovation expense	(\$10,331,000.00)
PV Total	(\$32,163,596.80)

A new cash flow to be included in this scenario is the money earned from the sale of the current facility. The property is valued at \$1.3 million, so this, along with the tax revenue, would bring the present value for this set of cash flows to \$2.3 million.

Description of revenues	PV of revenues
Revenue from current location sale	\$1,300,000.00
Increased shopping revenue	\$16,800.00
Tax revenue from new business in current facility	\$1,821.60
PV Total	\$2,400,983.34

The NPV for this scenario is -\$36.3 million. The projected multiplier effect would be \$145.2 million.

Considerations

This scenario allows each group to move to new locations for a fresh start. A unique benefit to this scenario is the increase in tax revenue that would be generated when a new business moves into the location where city hall is currently housed. This scenario is the only one that includes the opportunity for new business at the current location and the potential for downtown development.

Conclusions

Comparing each NPV to one another, scenario one is the only one that stands out from the rest as shown on the table below. The other scenarios all have very similar NPVs, stressing the importance of considering all factors when making a decision on which project to pursue. While initially, the least expensive decision seems the most attractive, it is important to look at the long-term instead of the short-term. Spending more money on the current facility might not reap the best benefits if Pocatello City Hall could start fresh. The current location is past its

design life, which gives the stakeholders a reason to explore other options. Financially, scenarios three through five have very similar costs, so it's important to look at the added value in other aspects for each scenario. Getting public opinions and perspectives can help to make a decision, as they can help clear a path best supported by the community. The downtown development plan and the increased health, wealth, and wellness that can come from a centralized downtown show that the location of Pocatello City Hall can greatly impact the community.

Scenario	Description	NPV
1	Operate as is	\$(17,154,240.68)
2	Renovate current location	\$(27,340,634.70)
3	Renovate for PPD	\$(36,878,226.15)
4	Demolition	\$(37,885,238.34)
5	Sell current facility	\$(36,303,154.81)

An important goal of the city would be to keep consistent with averages and trends around the country. Employees need to have the necessary space to operate, which includes things such as office space, conference rooms, and storage, as well as break rooms and training spaces. When a building is first built, it is good practice to add roughly 10%-20% additional space to account for future growth, that way there is time to fill in as the business needs it. It also allows for a business to plan ahead as they are outgrowing their environment. On average, for government employees, there is a need to 312 SQFT to operate comfortably. The table below breaks down cities across the United States with a similar sized population to Pocatello and how much space their city hall has. This number only includes operations departs, and not emergency services.

City	City Hall SQFT
Twin Falls, ID	50,000
Coeur d'Alene, ID	21,396
Idaho Falls, ID	22,170
Logan, UT	137,214
Burlington, NC	21,000
Maricopa, AR	48,000
Casper, WY	53,685
DeSoto, TX	123,880
Owensboro, KY	35,632
North Miami, FL	67,627
St Cloud, FL	58,830
Average	58,130

Pocatello's facility does not have as much space as this average shows. Additionally, Twin Falls, ID, most recently moved its city hall facility to the downtown part of the city. This project cost \$15 million and increased the working space by 20% for employees. Their building is located within walking distance of businesses and opens the door to opportunity for the city, as opposed to the previous one.

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