

## Benefit/Cost vs. Economic Impact

What is the difference between a benefit-cost analysis (BCA) and an economic impact analysis (EIA)? Both are often used in federal environmental impact statements (EISs) to provide an economic perspective of the potential changes associated with infrastructure projects. However, an EIA examines the distributional consequences (e.g., who gains and who loses from the project) associated with this change, while a BCA studies the positive effects (economic benefits) of an action and the associated costs, including opportunity costs. With an EIA, the consequences examined are often evaluated at the local level but can be national as well. A BCA typically examines things from a national perspective.

An EIA generally addresses such items as changes in employment, income, and government revenues, and considers the transfer payments from the state and federal government as income to the community. EIAs also consider the secondary or multiplier effects of monetary changes in the economy.

A BCA conducted for a federal agency will examine things from a national perspective, but the analysis

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## Effective Use of a Consultant

When governments, businesses, and other organizations study the feasibility of a project, they must consider a great deal of information in order to make a reliable decision on whether to proceed past the planning stage.

Consultants may be used in a variety of capacities, including the preparation of business plans, market analyses, technical and engineering feasibility studies, financial feasibility studies, funding and financing plans, operational recommendations, and performance evaluations. Bringing consultants into the process can be very valuable, but it may also create some difficulties. In this issue we discuss the advantages and disadvantages of using a consultant.

### Advantages of Using a Consultant

- ◆ A well-picked consulting team can provide experience, expertise, efficiency, and guidance.
- ◆ Consultants are independent third parties, and bring credibility when dealing with potential lenders. This is important in the implementation phase, when some organizations may not have available capital, proven experience, or adequate funding.
- ◆ Consultants have no direct stake in the situation, and are able to offer an objective assessment. A good consultant will not only be honest and tell you when a project does not make sense, but may offer insights and other guidance regarding changes to make an idea work.
- ◆ Consultants have experience in conducting market analyses and can provide realistic assessments of how large a market is, and how much of

that market might be captured by a new venture. Many business plans and market studies often take an optimistic view about how much of the market a project will serve, and a consultant can verify that assumptions are reasonable.

- ◆ Consultants can analyze assumptions about market size and operations to determine how sensitive a project's success is to changing prices of inputs and other factors. For instance, if a project is being considered to develop a local resource, a consultant might create models to evaluate the appropriate size of a facility given uncertainty about the level of annual production.
- ◆ Consultants have connections with key players in industry and can gain access to information that might not be readily available. While competing projects or businesses might be reluctant to divulge information to a potential competitor, a consultant might have access to information on a confidential basis and be able to check the validity of assumptions.
- ◆ Consultants that have experience with similar projects, businesses, and facilities can offer suggestions about

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## NEXT ISSUE

The next issue will feature findings from our recent report, Alaska Economic Outlook 2004, presented at World Trade Center Alaska's First Annual Statewide Economic Forecast Luncheon.



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## Effective Use of a Consultant continued

how to make them work. Often this experience can help an owner avoid common mistakes and challenges associated with a new project.

- ◆ Even when an organization has developed a business plan or project proposal, a consultant can offer assistance by performing a due diligence review of the assumptions. This is a way to identify issues that a potential lender might see and address them before seeking funding. The fewer obstacles a lender sees, the easier it is for them to loan money.
- ◆ Consultants can assist with filling out documentation when applying for loans and grants, when experience with grant writing and attention to detail is important.

## Limitations to Using a Consultant

- ◆ A consultant won't tell you your goals and objectives. You must decide why you want to pursue a project.
- ◆ A consultant won't make your decisions. Consultants provide information and guidance, but the

ultimate decision must come from the project's owner(s).

- ◆ A consultant won't decide on the appropriate level of risk for a client. Likewise, a consultant won't tell you how much you should commit to a project. If the project is expected to lose money, the owner needs to make the decision whether to proceed. Likewise, the owner needs to decide if breaking even is sufficient, or if a particular amount of profit is necessary.
- ◆ A consultant won't give you buy-in and commitment. This is something that must come from the owner, the community, or other affected parties. A potential disadvantage to using a consultant to develop a business plan or feasibility study is that it could lead to a lack of buy-in by necessary parties, if they do not feel they had sufficient input in the project's development. Owners and operators must be committed to the success of a project in order for the value of a consultant's work to be realized.

## Benefits vs. Impacts continued

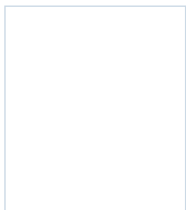
could be done at a state or local level as well.

A BCA conducted for a public agency can and should address items for which there is no direct market price, such as the value of human life or the value of time, as well as the monetary costs.

An important distinction between BCA and EIA is the treatment of project expenditures. In a BCA, these expenditures are considered a cost because of other forgone opportunities. In EIA, the proportion of these expenditures that affect employment, income, and other measures in the local community would be regarded as a monetary gain to the local community. In addition, the multiplier effects of these direct project expenditures are also estimated in EIA.

In practice, both of these types of economic analyses are employed to provide information to facilitate decision-making.

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