

# Measuring the Impact of New Industry in Town

Many factors determine the total impact of a new industry on a community. Some of these factors include type of new industry, wage rates at the new plant, availability of local labor, availability of local shopping facilities, support services demanded by the new plant, and the local transportation network.

Economic developers often respond to questions from local officials and citizens about the number of potential jobs that will be created and potential income and wages the county's economy may see. These are valid concerns because most cities and counties rely on public resources to promote economic development.

Typically county officials learn from economic developers about a new plant's desire to locate in town. The level of employment and wage impacts will depend on the type of positions (high-tech or low-tech) created by the new plant. Economic and government officials often like for most of the new employees to come from the local labor force, thereby reducing the number of unemployed workers.

## Public and Private Investments

Companies are more likely to relocate when local officials offer economic incentives. Such incentives typically include tax abatements, expenditures for building construction and renovation, roads, water and sewer, employee training, and other services.

Once in the community, the company will invest in developing and equipping the building to make the desired products. Sometimes the annual output will not be known but can be estimated.

## Assessing the Impacts

Analysts typically focus their attention on addressing the above previous location factors by using primary and secondary data and some type of economic model of the local economy. Information about the new firm's local investment, payroll, employment, output, and sectors relevant to plant operations allow ana-

lysts to estimate the economic impact of such development in the area. The following provides an example of such an analysis.

First, one should assess the impact of local officials' decision to invest in attracting the new firm to the area. This assessment should focus on identifying additional secondary spending in the local area. These direct and indirect expenditures will create new jobs, salaries, and wages for local residents. Before relocating, a new firm will negotiate with local officials in the host town to obtain needed concessions. The new firm asks town officials to spend \$250,000 to renovate the proposed plant facility plus provide training and technical support to the new employees. Potential economic results could resemble those found in Table 1. In this scenario, the local economic developer identifies an existing building that would satisfy the prospective firm's needs.

In return, the firm will invest in equipment, supplies, and other goods that create more secondary expenditures, causing total investments to rise in the local economy. These expenditures also will create jobs and income for area residents. Table 2 shows how an initial investment of \$4 million by ABC Plastics will generate additional employment, income, and spending in the local economy.

**Table 1. Economic impact of Building Renovation for ABC Plastics in My County, USA 2004**

ABC Impact	Direct	Indirect	Total
Output	\$250,000	\$81,579	\$331,579
Income	\$147,652	\$25,549	\$173,201
Employment	6	.6	7

**Table 2. Economic impact of ABC Plastics' Investments in My County, USA 2004**

ABC Impact	Direct	Indirect	Total
Output	\$4,000,000	\$1,003,964	\$5,003,964
Income	\$831,578	\$220,716	\$1,144,498
Employment	28.10	15	43

Once operational, the firm will hire and pay new workers to make products for sale in its markets. Thus labor compensation in the form of payroll could include salaries and wages plus the employer portion of fringe benefits. For example, a \$1 million payroll would produce secondary salaries and wages in the local community. The secondary spending (direct and indirect) of these salaries and wages would create additional jobs, beyond the initial firm's employment in the area.

Table 3 illustrates how these impacts might play out in a local community. The initial \$1 million payroll would produce additional expenditures of almost \$300,000, income of \$386,620, and employment of 14 new jobs in the area. This result means that as workers receive wages for their labor, they tend to purchase consumer goods and services with their income, producing new income and employment for area merchants and residents. This process continues until all of the initial impact of the new firm is expended. Economists refer to this process as the number of times a new dollar turns over in a local economy, giving rise to the term "turnover ratio."

**Table 3. Economic Impact of ABC Plastics' Payroll in My County, USA, 2004**

ABC Impact	Direct	Indirect	Total
Output	\$1,000,000	\$278,388	\$1,278,388
Income	\$302,785	\$83,835	\$386,620
Employment	9.30	4.3	14

The direct and indirect effects of new payroll, investment, and other spending will provide increased tax revenues for local, state and federal governments. Typically, about 25 to 28 percent of all investments and income will be taxed, while most retail spending is taxable. Whatever the level of tax revenues, a good rule of thumb is that some of the receipts will go to the federal government and the remainder to state government.

Most citizens, however, do not often think of taxes as beneficial to a local economy. Property taxes in particular directly translate into governmental services including public education and municipal services like police and fire protection, libraries, roads, sewer, and water. In Mississippi, employees of a new firm may contribute up to 20 percent of their gross wages to taxes of various kinds such as federal income tax withholdings. The state in which the new firm locates will receive both income taxes and sales taxes. In most towns, the level of sales tax revenues will depend on consumption patterns of local employees.

The municipality in which the new firm locates generally receives property and sales tax receipts. In Mississippi, municipalities receive 18.5 percent of sales taxes and the state 81.5 percent. The host county does not receive sales taxes, only property taxes. The level of these taxes will depend on the abatements given by the county. Other tax revenues will include social security (FICA) contributions, various federal taxes such as alcohol, tobacco, gasoline, and vehicle taxes, fines, licenses, and others, which will leak out in the local area.

## Summary

The immediate economic impact of a new firm can be significant, depending on the level of investments and tax abatements given to attract the plant to a community. Any level of employment by a new firm will boost total employment by creating additional jobs in the local economy. Salaries and wages paid by the new workers will produce secondary spending, income, and employment for area residents. In the short run, economic conditions should improve in the local community.

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