

# The Economic and Fiscal Impacts of the Port of Centralia's Industrial Parks

Prepared for the Port of Centralia

# Overview

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The Port of Centralia (Port) has two active industrial parks in Centralia, Washington. They are named simply Park I and Park II. The Port engaged ECONorthwest to measure the current economic and tax impacts of these industrial parks. ECONorthwest determined that:

- The 32 businesses operating at the Port's two industrial parks employ 937 people and pay \$53.5 million a year in salaries, wages, and benefits.
- Local spending by the 32 businesses and their workers will trigger economic impacts throughout Lewis and Thurston counties in 2016. An estimated 1,734 jobs and \$294.4 million in economic output are attributable to Park I and Park II.
- The industrial parks bring in nearly \$2.1 million in local taxes a year and nearly \$4.8 million statewide.

This report explains in more detail the analysis of the economic and tax impacts of the two industrial parks.

## Description of the Industrial Parks

The Port of Centralia was created soon after voters in Centralia, Washington, approved its creation in 1986. The Port is a municipal corporation governed by a three-member elected commission. It is tasked with acquiring and improving industrial land and recruiting business tenants.

The Port's industrial parks are located near Interstate 5, halfway between Portland and Seattle. Built on relatively uncongested flat land with direct rail and utility access, the parks are shovel-ready, competitive, and attracting new employers to Centralia.

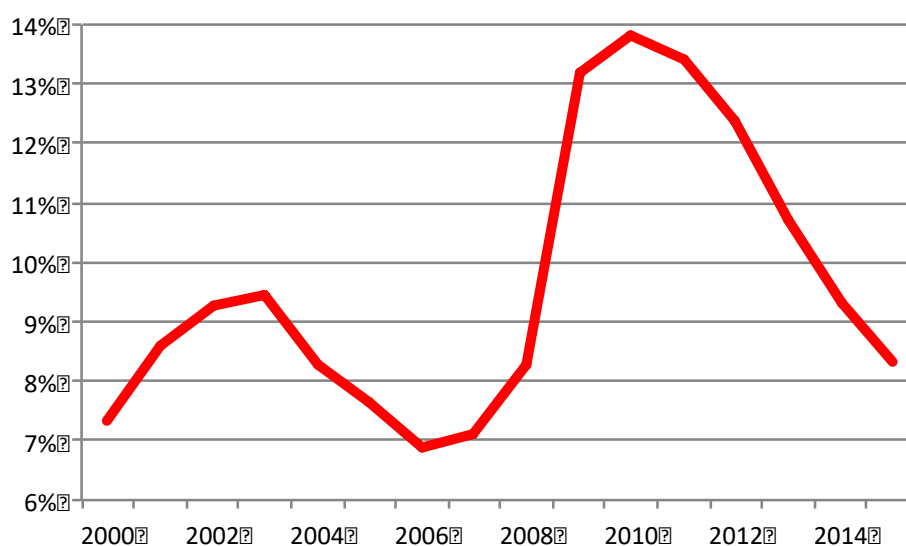
In 1990, the first tenant of Park I, Roger's Machinery Company, opened its doors. Others followed.

The Port responded to this success with a second industrial park. On land formerly used as a cow pasture, Park II opened in 2003. Given its desirable location and business-friendly cooperation from the community, several businesses relocated to Park II. Among them was Sierra Pacific, a major wood products manufacturer, which acquired and then expanded a sawmill there.

The need for creating jobs became particularly urgent after Centralia lost its largest employer: when the Centralia Coal mine closed, over 550 well-paid jobs were lost. The city, county, and school district sustained a major loss in their local property tax base. The local economy in 2008 struggled as a result.<sup>1</sup>

The county's unemployment spiked after the closure and later worsened as the impacts of those job losses filtered throughout the economy. The national recession compounded matters. In 2011, Lewis County had the second highest unemployment rate in Washington. Fortunately, having established the two industrial parks with room to grow, the Port attracted several new businesses, which helped reduce unemployment (Figure 1).

**Figure 1: Lewis County Unemployment Rate, 2004 - 2015**



Source: U.S. Bureau of Labor Statistics.

Table 1 lists all of the businesses operating out of the two industrial parks, their industries, and their 2015 employment levels. They cover a wide range of businesses from manufacturing to warehousing. Park I businesses employ 353. There are 584 working at Park II. Collectively, the 32 firms directly employed 937 workers at the two industrial parks. That equals one out of every twenty private sector jobs in the entire county.

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<sup>1</sup> Bernton, Hal. "State's last coal mine shuts; Centralia hit hard." The Seattle Times. December 1, 2006.

**Table 1: Port of Centralia Industrial Park-I and Park-II, Current Businesses and Employment**

<b>Location/Company</b>	<b>Business Activity</b>	<b>Jobs</b>
<b>Park 1:</b>		
4Legz	Pet food product manufacturer	1
Acrow Bridge	Bridge manufacturer	1
Assured Home Health & Hospice	Health services	65
Blue Rhino	Propane distribution	20
Building Material Distributors, Inc.	Building supplies distributor	2
Cascade Mental Health Care	Health services	43
CenturyLink	Telecommunications	8
Dick's Brewing Company	Brewery	6
Fagerness Law Office	Legal services	3
Gorham Printing	Book printer	10
Inland Environmental Resources	Magnesium product distributor	4
Innerspace Systems Corp	Diving apparatus manufacturer	7
Linden Comansa America	Crane manufacturer	1
Mega Arms, LLC	Firearm component manufacturer	36
Plastic Services and Products, LLC	Plastic pipe manufacturer	16
Puget Sound & Pacific Railroad	Railroad administrative headquarters	5
Reichert's Meat Distributing	Meat distributor	6
RJ's Specialty Foods	Food products distributor	5
Rogers Machinery Company, Inc.	Industrial compressed air equipment manufacturer	40
Saylor Custom Controls	Control systems manufacturer	1
The Chronicle	Newspaper printer	30
United States Postal Service	Postal service	30
WildBlue Communications	Telecommunications	1
WP Sign Systems	Sign and display manufacturer	2
Zev Technologies	Firearm component manufacturer	10
<b>Park 1 Subtotal</b>		<b>353</b>
<b>Park 2:</b>		
Brazel's RV Performance Center	RV sales and maintenance	11
Lineage Logistics	Commercial cold storage & distribution	85
Lowe's	Building supplies distributor	30
Michaels	Craft supplies distributor	250
Mowat Construction Company	Construction equipment	3
Scot Industries	Honed tubing manufacturer	75
Sierra Pacific Industries	Wood products manufacturer	130
<b>Park 2 Subtotal</b>		<b>584</b>
<b>Grand Total</b>		<b>937</b>

*Source: Port of Centralia, September 13, 2016.*

## Assumptions and Data

ECONorthwest used data and certain assumptions for this analysis using the employment data the Port provided for each business operating at the industrial parks. Employment and business type are indicators of other economic data. In addition, property tax data was gathered and used in this analysis. The data and assumptions used include:

1. We calculated the economic impacts of the businesses located at the two industrial parks using the latest employment figures for the businesses and the standard, 2014 version of an economic model called IMPLAN. The model allows us to estimate the sales, output, and payroll of the businesses based on U.S. Economic Census data.
2. Economic impacts are measured over a year. The results in this report are estimates for 2016. Impacts in future years may be higher or lower. However, ECONorthwest considers 2016 a normal year for the economy and, thus, the estimates presented here are likely typical of what we will see in future years.
3. ECONorthwest used publically available property tax data for the businesses at the industrial parks. Other taxes, such as sales and use taxes, paid by businesses are confidential. ECONorthwest estimated these taxes by applying statewide state tax receipts by industry in proportion to the particular size of the businesses in the industrial parks.
4. By definition, the direct impacts of Park I and Park II businesses occur in Centralia but these initial impacts then trigger additional impacts throughout the regional economy. Most of these other impacts would occur where workers at the industrial parks live and shop, and where local suppliers to the industrial park businesses can be found. ECONorthwest believes the affected communities are largely in Lewis and Thurston counties and built an IMPLAN model of the two-county economy.

# Economic Impact Terminology

In this report, ECONorthwest presents the results of four of the most important economic impacts. They are:

**Output** is the value of goods and services produced. Output is the broadest measure of economic activity. For most industries, output roughly equals their sales. For stores and wholesalers, output is their gross margin (difference between their sales and what they paid to buy the goods they later sold).

**Value added** is the difference between a business's output and what it bought from other businesses to make that output. Put simply, it is the business's contribution to the gross domestic product or "GDP" —a commonly used measure of the U.S. economy's size. When measuring the local economy, value added approximates a similar statistic called gross regional product or GRP.<sup>2</sup>

**Labor income** is employee compensation (wages, salaries, and most benefits) plus income earned by working small-business owners and the self-employed.

**Jobs** are measured as full-year-equivalents (FYE). Twelve months of work for one person equals one job. It can be full-time or part-time, seasonal or permanent; IMPLAN counts the jobs of both employees and the self-employed.

IMPLAN divides impacts into three broad categories according to their sources. The three are:

**Direct impacts** are, as the name implies, the jobs, output, value, and labor income at businesses in the Port's two industrial parks.

**Indirect impacts** are those that happen elsewhere in Lewis and Thurston counties from spending by businesses linked to the businesses at the industrial parks. For example, the purchase of fuel from a supplier in Chehalis by a company in one of the industrial parks is an indirect impact.

**Induced impacts** are similar, except they come about from spending by jobholders. When a forklift operator working in one of the industrial parks spends some of their pay on school supplies at a store elsewhere in Lewis County, that spending is an induced impact.

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<sup>2</sup> The U.S. Bureau of Economic Analysis calculates the national GDP and the GP for local areas, such as states and counties.

Indirect and induced impacts multiply because spending triggers additional spending. As money originating at the industrial parks gets spent and re-spent, the economic impacts multiply in the local economy. It eventually diminishes because some money is taxed, saved, or spent outside the two-county area.

## Section II

# Economic Impacts

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Tenants located at the Port's industrial parks generate output, labor income, and jobs. These businesses stimulate the local economy by purchasing goods and services, and paying wages. Using IMPLAN, we measured these and all subsequent impacts as they rippled through the economies of Lewis and Thurston counties.

ECONorthwest used the list of businesses and the related number of jobs for each, shown in Table 1, and estimated the sales, output, and payrolls of each firm. This was done using industry statistics, from the 2014 IMPLAN model, comparing employment to economic output. For companies that operate regional offices or wholesale distribution centers, ECONorthwest used U.S. Economic Census data for the local area, which provides more reliable sales estimates due to the specificity of the Census. Although output, as opposed to sales, is used by IMPLAN models, the analysis required sales for calculating tax impacts, which follow on Page 10.

The results are the estimated 2016 direct economic impacts of Park I and Park II businesses, as summarized in Table 2. Although shown as combined, the IMPLAN model was run for each business type (individual data are not shown due to confidentiality concerns).

**Table 2: Industrial Park-I and Park-II Direct Impacts, 2016**

<b>Direct Impact</b>	<b>Value</b>
Jobs	937
Sales and revenues (MN \$)	\$218.9
Economic output (MN \$)	\$188.4
Wages, benefits & other labor income (MN \$)	\$53.5

*Sources: Port of Centralia and estimates by ECONorthwest using the 2014 IMPLAN model and the U.S. Economic Census.*

The direct impacts from Table 2 are the jobs, labor income, output and GRP contribution expected in 2016. Using the IMPLAN model, ECONorthwest determined the total impacts on the local economy that are traceable back to those direct impacts.

As shown on Table 3, the \$188.4 million in direct economic impact occurring at the industrial parks triggers \$61.2 million in indirect output in Lewis and Thurston counties. That comes from businesses, starting with those at the industrial parks, buying goods and services from other businesses located elsewhere in the two counties.

**Table 3: Economic Impacts of Park I and Park II Businesses on Lewis and Thurston Counties in 2016**

<b>Economic Impacts (MN \$ except jobs)</b>	<b>Direct</b>	<b>Indirect</b>	<b>Induced</b>	<b>Total</b>
Output	\$188.4	\$61.2	\$44.8	\$294.4
Value Added (GRP)	80.4	34.1	26.4	140.8
Labor Income	53.5	21.3	13.9	88.7
Jobs, FYE	937	444	353	1,734

*Sources: Port of Centralia using the 2014 IMPLAN model adjusted for inflation using price index data from the U.S. Bureau of Labor Statistics.*

Another \$44.8 million in induced output arises in Lewis and Thurston counties because the industrial parks support jobs and those jobholders spend the money they earn locally. That brings more activity into the economy and, thus, results in higher economic output. In total, the \$188.4 million in direct output at the industrial parks multiplies as money is spent and re-spent throughout the economy, resulting in total output of \$294.4 million.

That multiplier effect on output also happens to other direct impacts. The \$80.4 million in value added to the local economy by the industrial parks triggers more value in other parts of the two counties. In total, \$140.8 million in value added is linked to the industrial park businesses and workers. That is 1.1 percent of the value of the entire GRP of the two counties.

Labor income similarly multiplies. The jobs and business activities at the industrial parks trigger \$88.7 million in labor income economy-wide. They also lead to 1,734 jobs, even though 937 are actually at the industrial park businesses.



# Tax Impacts

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ECONorthwest calculated the state and local taxes, other than payroll taxes, that businesses operating out of Park I and Park II would pay in 2016. The analysis used a combination of known tax amounts and estimated taxes. Property and leasehold taxes are publically available.

Businesses pay property taxes for the real property (land and buildings) and personal property (equipment) they own. Property taxes for 2016 were \$2,222,243. But 21 of the 32 businesses, mostly small ones, rent property from the Port instead of owning property.

Businesses that lease from the Port do not pay property tax. Instead, they pay rent to the Port. Washington imposes a leasehold excise tax on the use of public property by a private party. This tax is in lieu of the property tax. We estimate businesses renting will pay the Port \$752,192 in 2016. They will also pay an additional 12.84 percent leasehold excise tax totaling \$96,581.

Since ECONorthwest does not have access to private company confidential data, our analysis had to estimate other taxes. We did this using the detailed tax data files from the Washington Department of Revenue. They sort taxes paid by companies from individual combined excise tax returns by industry and then publish a report showing taxes by industry. Using that report and the impact analysis, ECONorthwest approximated most other taxes paid by the businesses. For the business and occupation “B&O” tax, ECONorthwest used the current B&O tax rates and applied them to the sales estimates from the impact analysis.

ECONorthwest estimates the businesses will pay \$1,287,565 in B&O taxes to the state. State sales and use taxes will be \$858,609 and \$72,838, respectively. Local sales and use taxes are forecast at \$214,949 and another \$28,660 would accrue to the local transportation benefit district. In addition, businesses pay a variety of other taxes to the state. This includes a litter tax, a refuse collection tax, motor vehicle taxes and fees, a tax on tires, a syrup tax, and various utility taxes.

Table 4 is a summary of the \$4,806,283 in state and local taxes, other than payroll, that ECONorthwest estimates businesses at Park I and Park II will pay for 2016. Of these taxes, approximately 57 percent would go to the state and 43 percent directly to local government. Local government, especially the Centralia School District, will receive a portion of the state school property tax levy.

**Table 4: Forecast of 2016 Taxes to be Paid by Businesses Located at Port of Centralia Park I and Park II**

<b>Category</b>	<b>Estimated 2016 Taxes Paid</b>
Property Tax:	
City of Centralia	\$27,454
Port of Centralia	94,647
TimberlandLibrary	89,476
Centralia School District	623,880
Riverside Fire District	124,571
Lewis County roads	393,111
Lewis County general levy	368,645
State school levy	500,459
Property tax subtotal	\$2,222,243
Other Taxes:	
State sales taxes	\$858,609
Local sales and use taxes	214,949
Transportation Benefit District	28,660
Leasehold excise tax	96,581
State use taxes	72,838
B&O taxes	1,287,565
Miscellaneous state taxes	24,837
Other taxes subtotal	\$2,584,040
Total state & local taxes	\$4,806,283
Estimated direct local taxes	2,061,975

*Sources: Port of Centralia, Lewis County Assessor's Office, the Washington Department of Revenue Detailed Tax Data by Industry and Tax Classification report, and the ECONorthwest IMPLAN analysis.*