

PREPARED FOR:

Nassau County Industrial Development Agency  
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Mineola, NY 11501

# Economic and Fiscal Impact

120 JERICHO ASSOCIATES, LLC

Nassau County  
Industrial Development Agency

MARCH 20, 2023

PREPARED BY:



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## CAMOIN ASSOCIATES

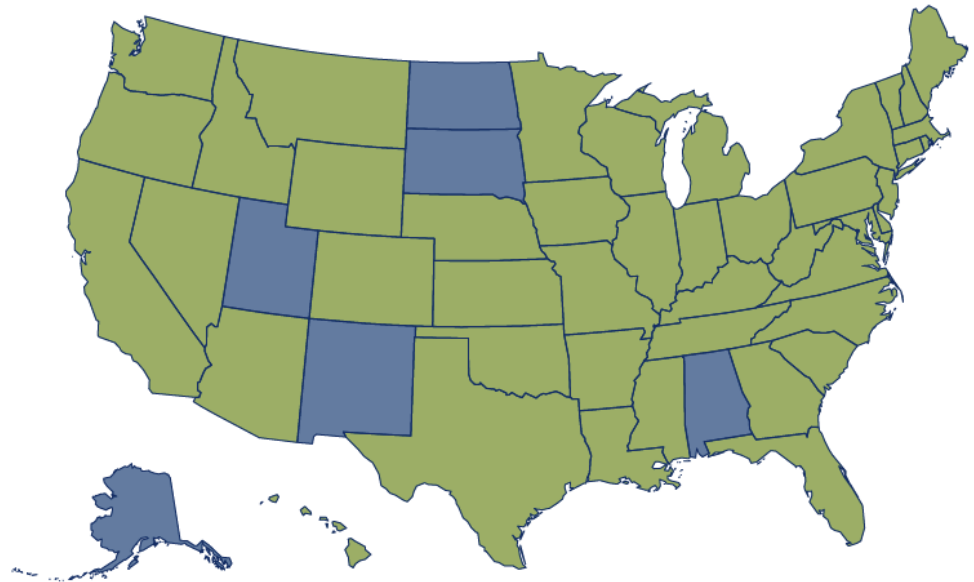
# ABOUT CAMOIN ASSOCIATES

Camoin Associates has provided economic development consulting services to municipalities, economic development agencies, and private enterprises since 1999. Through the services offered, Camoin Associates has had the opportunity to serve EDOs and local and state governments from Maine to California; corporations and organizations that include Lowes Home Improvement, FedEx, Amazon, Volvo (Nova Bus) and the New York Islanders; as well as private developers proposing projects in excess of \$6 billion. Our reputation for detailed, place-specific, and accurate analysis has led to projects in 44 states and garnered attention from national media outlets including Marketplace (NPR), Crain's New York Business, Forbes magazine, The New York Times, and The Wall Street Journal. Additionally, our marketing strategies have helped our clients gain both national and local media coverage for their projects in order to build public support and leverage additional funding. We are based in Saratoga Springs, NY, with regional offices in Portland, ME; Boston, MA; Richmond, VA and Providence, RI. To learn more about our experience and projects in all of our service lines, please visit our website at [www.camoinassociates.com](http://www.camoinassociates.com). You can also find us on Twitter [@camoinassociate](https://twitter.com/camoinassociate) and on [Facebook](https://www.facebook.com/camoinassociate).

## THE PROJECT TEAM

Jessica Tagliafierro  
*Director of Impact Analysis*

Connor Allen  
*Analyst*



# ABOUT THE STUDY

Camoin Associates was retained by the Nassau County Industrial Development Agency to measure the potential economic and fiscal impacts of a project proposed by 120 Jericho Associates, LLC. The proposed project involves the renovation of a 53,000 square foot facility to become 80 student housing units at 120 Jericho Tpke., Jericho, Town of Oyster Bay, Nassau County, New York. The goal of this analysis is to provide a complete assessment of the total economic, employment and tax impact of the project on Nassau County that result from the renovation phase, new resident spending, and on-site operations.

The primary tool used in this analysis is the input-output model developed by Lightcast. Primary data used in this study was obtained from the developer's application for financial assistance to the Nassau County Industrial Development Agency and included the following data points: renovation spending, estimated on-site jobs, exemptions, and PILOT schedule. Secondary data was collected by Camoin Associates and used to estimate spending by new residents.

The economic impacts are presented in four categories: direct impact, indirect impact, induced impact, and total impact. The indirect and induced impacts are commonly referred to as the "multiplier effect." Note that previous impact reports commissioned by the Nassau County Industrial Development Agency were presented in only three categories: direct impact, indirect impact, and total impact. Prior to 2020, Camoin Associates included both the indirect and induced impacts in the "indirect impact" category. Beginning in 2020, the indirect and induced impacts will be reported separately to allow for more accurate interpretation of results.

## STUDY INFORMATION

**Data Source:**  
120 Jericho Associates, LLC  
Application for Assistance and the  
Nassau County Industrial  
Development Agency

**Geography:**  
Nassau County

**Study Period:**  
2023

**Modeling Tool:**  
Lightcast

### DIRECT IMPACTS

*This initial round of impacts is generated as a result of spending on operations and new resident spending at county businesses.*

### INDIRECT IMPACTS

*The direct impacts have ripple effects through business-to-business spending. This spending results from the increase in demand for goods and services in industry sectors that supply both the facility and the businesses receiving the new resident spending.*

### INDUCED IMPACTS

*Impacts that result from spending by facility employees, employees of county businesses, and employees of suppliers. Earnings of these employees enter the economy as employees spend their paychecks in the County on food, clothing, and other goods and services.*

# ECONOMIC & FISCAL IMPACT

NASSAU COUNTY INDUSTRIAL DEVELOPMENT AGENCY: 120 JERICHO ASSOCIATES, LLC



TOTAL NUMBER OF  
JOBS CREATED:

**20 JOBS**

4

Permanent  
Applicant Jobs

8

Permanent  
Resident  
Spending Jobs

5

Permanent  
Indirect and  
Induced Jobs

2

Direct  
Construction  
Jobs

1

Indirect and  
Induced  
Construction Jobs



## Assistance

PILOT

25-year

MORTGAGE  
TAX  
EXEMPTION

\$82,500

Annual Earnings:  
\$857,808

\$744,412

renovation  
spending

NET NEW  
STUDENT HOUSING  
UNITS:

80



\$275,853

renovation  
earnings

Increase in Government  
Revenues:

**\$2.6 MILLION**

Total PILOT  
Payments:

**\$2.6 MN**

Total Otherwise  
Applicable  
Property Taxes:

**\$0**



Average Annual  
Sales Tax Revenue:

**\$24,368**



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# EXECUTIVE SUMMARY

The Nassau County Industrial Development Agency (the "Agency") received an application for financial assistance from 120 Jericho Associates, LLC (the "Applicant") for the proposed renovation of a 53,000 square foot facility (the "Project") at 120 Jericho Tpke., Jericho, Town of Oyster Bay, Nassau County, New York (the "Site"). The Project being proposed by the Applicant entails the renovation of the Project into an 80-unit residential facility, with all units to be student housing units. The Agency commissioned Camoin Associates to conduct an economic and limited fiscal impact analysis of the Project on Nassau County (the "County").

Given the nature of the development as a student housing facility, Camoin Associates assumes that 100% of the residents would be considered "net new" to the county (i.e. allowing residents to exist in the county that would otherwise locate elsewhere). Based on the size of the facility and industry standard assumptions of square feet per student resident this analysis it is estimated that the Project would result in 159 net new residents. The total amount of net new spending by these residents was then estimated to derive the economic impacts resulting from the Project.

The following is a summary of our findings from this study, with details in the following sections.

Table 1

## Summary of Benefits to County

<b>Renovation Phase</b>	
Total Jobs	3
On-Site Jobs	2
Total Earnings	\$ 275,853
On-Site Earnings	\$ 193,985
One-Time Sales Tax Revenue to County	\$ 2,052
<b>Annual Impacts</b>	
Total Jobs	17
Direct Jobs	12
Indirect and Induced Jobs	\$ 5
Total Earnings	\$ 857,808
Direct Earnings	\$ 525,607
Indirect and Induced Earnings	\$ 332,202
Average Annual Sales Tax Revenue to County	\$ 24,368
Average Annual PILOT Payment	\$ 102,497

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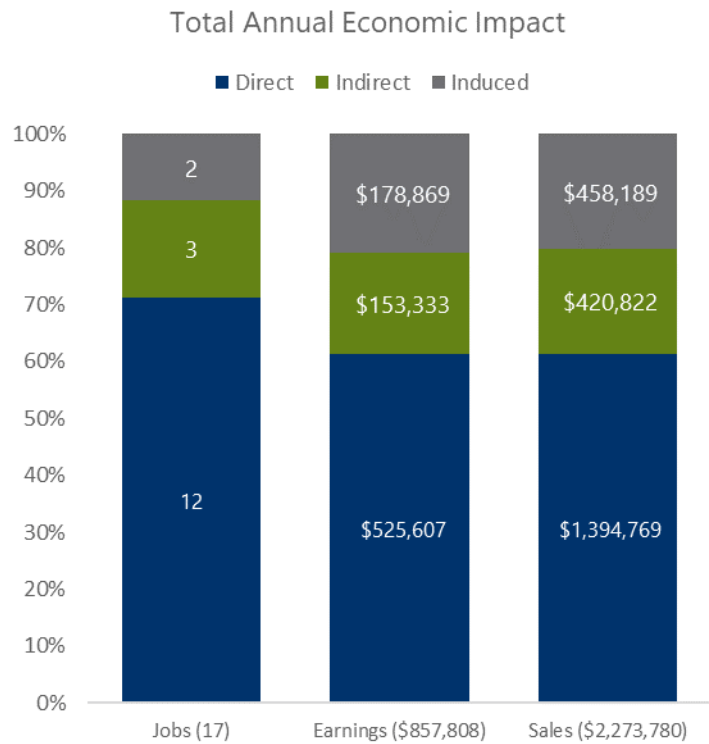
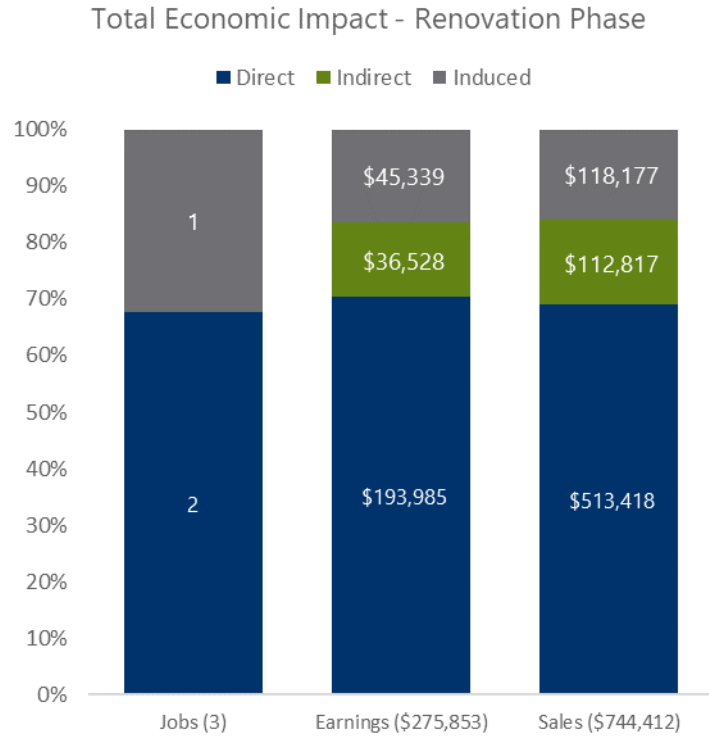
**Renovation Impact**

- ◆ The renovation of the Project would result in approximately 2 new direct renovation jobs generating \$193,985 in direct new earnings on-site and an additional \$81,867 in indirect and induced earnings. The figure to the right displays more detail on the economic impact of renovation.
- ◆ Sales associated with the renovation phase would be taxed, and therefore generate sales tax revenue for the County. Sales associated with the renovation phase of the Project are estimated to contribute approximately \$2,052 to the County.

**Annual Impact**

- ◆ The Project would support 17 net new jobs in the county, with approximately \$857,808 in associated earnings. These figures are composed of net new jobs resulting from maintenance and operation of the facility and new economic activity from resident spending. The figure to the right summarizes the annual economic impact of the Project.
- ◆ Sales associated with the on-site operations and new resident spending are estimated to generate \$24,368 in sales tax revenue to the County annually.
- ◆ The Applicant has negotiated terms of a proposed PILOT agreement with the Agency, which includes a 25-year PILOT agreement (years 1-15 are the PILOT, 16-20 are a potential extension period, and years 21-25 are a potential second extension period). Under this proposed PILOT agreement, the Applicant would pay approximately \$2.6 million over the 25-year PILOT term, or an average of \$102,497 per year.
- ◆ Through negotiations with the Agency, the Applicant could have a mortgage tax exemption valued at up to \$82,500. However, if we assume that the Project would not occur absent IDA benefits, this is not actually a “cost” to the County since no future revenue stream would exist without the exemptions.
- ◆ The schedule of payments to be made by the Applicant under the draft PILOT agreement would be approximately \$2.6 million more generated by the Site than if the Project were not to occur and the site was purchased by the New York Institute of Technology. In other words, the PILOT represents a benefit to the affected taxing jurisdictions averaging \$102,497 per year.

Figure 1





# ECONOMIC IMPACT ANALYSIS

The estimates of direct economic activity generated during the renovation phase, facility operation, and new resident spending as provided by the Applicant were used as the direct inputs for the economic impact model. Camoin Associates uses the input-output model designed by Lightcast to calculate total economic impacts. Lightcast allows the analyst to input the amount of new direct economic activity (spending or jobs) occurring within the county and uses the direct inputs to estimate the spillover effects that the net new spending or jobs have as these new dollars circulate through the Nassau County economy. This is captured in the indirect and induced impacts and is commonly referred to as the “multiplier effect.” See Attachment A for more information on economic impact analysis.

The Project would have economic impacts upon the County as a result of Project renovation, new permanent jobs, and spending by new residents.

## RENOVATION PHASE IMPACTS

The Applicant anticipates that private sector investment in the renovation of the Project (excluding land acquisition, legal fees, financial fees, and reserves) would cost approximately \$513,418<sup>1</sup>. The Applicant estimates that 100% of the renovation spending would be sourced from within the county. Therefore, it is projected that there will be \$513,418 in net new spending in the county associated with the renovation phase.

Table 2

<b>Renovation Phase Spending</b>	
Total Renovation Cost	\$ 513,418
Percent Sourced from County	100%
<b>Net New Renovation Spending</b>	<b>\$ 513,418</b>

**Source:** Applicant, Camoin Associates

Based on \$513,418 worth of net new direct spending associated with the renovation phase of the Project, Camoin Associates determined that there would be nearly \$744,412 in total one-time renovation related spending supporting 3 jobs over the 44-day renovation period throughout the county and \$275,853 in earnings<sup>2</sup>. Table 3 outlines the economic impacts of renovation.

Table 3

<b>Economic Impact - Renovation Phase</b>			
	<b>Jobs</b>	<b>Earnings</b>	<b>Sales</b>
Direct	2 \$	193,985 \$	513,418
Indirect	0 \$	36,528 \$	112,817
Induced	1 \$	45,339 \$	118,177
<b>Total</b>	<b>3 \$</b>	<b>275,853 \$</b>	<b>744,412</b>

**Source:** Lightcast, Camoin Associates

<sup>1</sup> Includes project costs as provided by the Applicant in Part III of the application, excluding land acquisition, legal fees, and financial fees.

<sup>2</sup> The Applicant estimated 10 renovation jobs, however, Camoin Associates estimates there to be two direct jobs based on the \$513,418 in net new renovation spending.

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Based solely on information in the application, the project timeline should allow the Agency to reach the conclusion that there is a likelihood of accomplishing the Project in a timely manner. Although we are not renovation experts, nothing has come to our attention that would cause us to reach a contrary conclusion.

## IMPACTS OF NEW RESIDENT SPENDING

Given an industry standard assumption of 333 square foot per resident, it is assumed that there will be 159 students housed in this facility upon completion<sup>3</sup>. It is assumed that all 159 students will be net new to Nassau County.

### SPENDING BY NEW TENANTS

New residents would make purchases in the region, thereby adding dollars to the Nassau County economy. For this analysis, we researched spending patterns by age of those in the household to estimate spending by Project tenants.

Likely tenant spending was estimated using a spending basket from the 2020 Consumer Expenditure Survey, which details household spending in individual consumer categories by age.<sup>4</sup> Given the nature of the Project as student housing, tenants are assumed to fall in the Consumer Expenditure Survey's consumer bracket of 25 years or younger. From this, an average annual per person spending amount of \$9,658 was derived. It is assumed that 70% of this spending would occur in Nassau County.<sup>5</sup> Total spending in Nassau County by the 159 net new residents is estimated to be \$1,074,935.

Table 4

#### Tenant Spending Basket

Category	Annual per Person Spending Basket	Amount Spent in County (70%)	Total Net New County Spending (159 net new Students)
Food	\$ 2,155	\$ 1,509	\$ 239,852
Household furnishings and equipment	\$ 775	\$ 543	\$ 86,258
Apparel and services	\$ 554	\$ 388	\$ 61,660
Transportation	\$ 3,476	\$ 2,433	\$ 386,879
Health care	\$ 643	\$ 450	\$ 71,566
Entertainment	\$ 1,078	\$ 755	\$ 119,981
Personal care products and services	\$ 603	\$ 422	\$ 67,114
Education	\$ 223	\$ 156	\$ 24,820
Miscellaneous	\$ 151	\$ 106	\$ 16,806
<b>Annual Discretionary Spending</b>	<b>\$ 9,658</b>	<b>\$ 6,761</b>	<b>\$ 1,074,935</b>

Source: 2020 Consumer Expenditure Survey, Bureau of Labor Statistics

The total net new spending in the county was calculated by multiplying the amount spent in the county by the number of net new residents. As shown in the table above, spending in the county by all new residents would total

<sup>3</sup> Source: College Housing Annual Report, A Special Supplement to College & Planning Management, 2018

<sup>4</sup> Source: Bureau of Labor Statistics 2020 Consumer Expenditure Survey

<sup>5</sup> Source: Based on industry supply and demand data from Lightcast.

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approximately \$1,074,935 per year. We used the above spending basket amounts to calculate the direct, indirect, and total impact of the Project on the county.

Using \$1,074,935 as the new sales input, Camoin Associates used Lightcast to determine the indirect, induced, and total impact of new resident spending. Table 55 outlines the findings of this analysis.

Table 5

**Economic Impact - Resident Spending**

	<b>Jobs</b>	<b>Earnings</b>	<b>Sales</b>
Direct	8 \$	356,488 \$	1,074,935
Indirect	2 \$	116,816 \$	327,077
Induced	2 \$	144,551 \$	369,192
<b>Total</b>	<b>12 \$</b>	<b>617,855 \$</b>	<b>1,771,204</b>

**Source:** Lightcast, Camoin Associates

**IMPACTS OF ON-SITE EMPLOYMENT**

The Applicant anticipates that there will be four jobs on-site within three years of Project completion.<sup>6</sup> Using the new jobs as the direct input, Lightcast was used to calculate the indirect and induced economic impact of the on-site activity. Table 6 details the impact that the on-site activity will have on Nassau County in terms of employment, earnings, and sales.

Table 6

**Economic Impact - On-Site Operations**

	<b>Jobs</b>	<b>Earnings</b>	<b>Sales</b>
Direct	4 \$	169,119 \$	319,834
Indirect	1 \$	36,516 \$	93,745
Induced	0 \$	34,318 \$	88,997
<b>Total</b>	<b>5 \$</b>	<b>239,954 \$</b>	<b>502,575</b>

**Source:** Lightcast, Camoin Associates

**TOTAL ANNUAL ECONOMIC IMPACT**

The complete economic impact of both new resident spending as well as on-site operation and maintenance of the Project is displayed in Table 7.

Table 7

**Total Annual Economic Impact**

	<b>Jobs</b>	<b>Earnings</b>	<b>Sales</b>
Direct	12 \$	525,607 \$	1,394,769
Indirect	3 \$	153,333 \$	420,822
Induced	2 \$	178,869 \$	458,189
<b>Total</b>	<b>17 \$</b>	<b>857,808 \$</b>	<b>2,273,780</b>

**Source:** Lightcast, Camoin Associates

<sup>6</sup> According to Schedule C of the application.

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# FISCAL IMPACT ANALYSIS

In addition to the economic impact of the Project on the local economy (outlined above), there would also be a fiscal impact in terms of annual property tax and sales tax generation. The following section of the analysis outlines the impact of the completion of the Project on the local taxing jurisdictions in terms of the cost and/or benefit to municipal budgets.

## PAYMENT IN LIEU OF TAXES (PILOT)

The Applicant has applied to the Agency for a Payment In Lieu of Taxes (PILOT) agreement. The Applicant has proposed a 25-year payment schedule based on the current tax rate, taxable value, and assessed value of the Project, as shown in Table 8. In this schedule, years 1-15 are the PILOT, 16-20 are a potential extension period, and years 21-25 are a potential second extension period.

Table 8

<b>Tax Payments with PILOT</b>	
<b>Year</b>	<b>PILOT Payments</b>
1	\$ 80,000
2	\$ 81,600
3	\$ 83,232
4	\$ 84,897
5	\$ 86,595
6	\$ 88,326
7	\$ 90,093
8	\$ 91,895
9	\$ 93,733
10	\$ 95,607
11	\$ 97,520
12	\$ 99,470
13	\$ 101,459
14	\$ 103,489
15	\$ 105,558
16	\$ 107,669
17	\$ 109,823
18	\$ 112,019
19	\$ 114,260
20	\$ 116,545
21	\$ 118,876
22	\$ 121,253
23	\$ 123,678
24	\$ 126,152
25	\$ 128,675
<b>Total</b>	<b>\$ 2,562,424</b>
<b>Average</b>	<b>\$ 102,497</b>

Source: Nassau County IDA, Camoin Associates

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**TAX POLICY COMPARISON**

Without financial assistance from the Agency, Camoin Associates assumes the Applicant would not undertake the Project. The alternative to undertaking the IDA transaction is that the tenant, New York Institute of Technology, would buy the subject property and, therefore, the property would be removed from the tax rolls and become exempt from property taxes.

Table 9 calculates the cost to the affected taxing jurisdictions as the difference between the PILOT payments associated with the Project and the lack of property tax payments without the Project. Over the course of the proposed PILOT term, the average annual collection by local jurisdictions would be approximately \$102,497 more in PILOT revenue than property taxes without the Project. The total benefit to the affected taxing jurisdictions of the PILOT agreement over 25 years would be nearly \$2.6 million.

Table 9

**Tax Policy Comparison**

Year	Property Tax Payment Without Project	PILOT Payment	Benefit (Cost) To County of Project
1	\$ -	\$ 80,000	\$ 80,000
2	\$ -	\$ 81,600	\$ 81,600
3	\$ -	\$ 83,232	\$ 83,232
4	\$ -	\$ 84,897	\$ 84,897
5	\$ -	\$ 86,595	\$ 86,595
6	\$ -	\$ 88,326	\$ 88,326
7	\$ -	\$ 90,093	\$ 90,093
8	\$ -	\$ 91,895	\$ 91,895
9	\$ -	\$ 93,733	\$ 93,733
10	\$ -	\$ 95,607	\$ 95,607
11	\$ -	\$ 97,520	\$ 97,520
12	\$ -	\$ 99,470	\$ 99,470
13	\$ -	\$ 101,459	\$ 101,459
14	\$ -	\$ 103,489	\$ 103,489
15	\$ -	\$ 105,558	\$ 105,558
16	\$ -	\$ 107,669	\$ 107,669
17	\$ -	\$ 109,823	\$ 109,823
18	\$ -	\$ 112,019	\$ 112,019
19	\$ -	\$ 114,260	\$ 114,260
20	\$ -	\$ 116,545	\$ 116,545
21	\$ -	\$ 118,876	\$ 118,876
22	\$ -	\$ 121,253	\$ 121,253
23	\$ -	\$ 123,678	\$ 123,678
24	\$ -	\$ 126,152	\$ 126,152
25	\$ -	\$ 128,675	\$ 128,675
<b>Total</b>	<b>\$ -</b>	<b>\$ 2,562,424</b>	<b>\$ 2,562,424</b>
<b>Average</b>	<b>\$ -</b>	<b>\$ 102,497</b>	<b>\$ 102,497</b>

Source: Nassau County IDA, Camoin Associates

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**OTHER EXEMPTIONS**

The PILOT program would offer the Applicant savings in terms of property tax benefits, but there are other benefits to working with the Agency including a mortgage recording tax exemption.

Table 40

**Summary of Costs to County**

Mortgage Tax Exemption	\$	82,500
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**Source:** Applicant, Camoin Associates

The additional incentives offered by the County will benefit the Applicant but will not negatively affect the County because, without the Project, the County by definition would not be receiving any associated sales tax or mortgage tax revenue.

**SALES TAX REVENUE****SALES TAX REVENUE – RENOVATION PHASE**

The one-time renovation phase earnings described by the total economic impact of the renovation work (described in above section) would lead to additional sales tax revenue for the County. It is assumed that 70%<sup>7</sup> of the renovation phase earnings would be spent within Nassau County and that 25% of those purchases would be taxable.

Table 51

**One-Time Sales Tax Revenue****Renovation Phase**

Total New Earnings	\$	275,853
Amount Spent in County (70%)	\$	193,097
Amount Taxable (25%)	\$	48,274
County Sales Tax Rate		4.25%
New County Tax Revenue	\$	2,052

**Source:** Nassau County, Camoin Associates

As a result of the renovation phase employment, the County would receive approximately \$2,052 in new sales tax revenue from the economic impacts of renovation.

<sup>7</sup> A retail leakage analysis of Nassau County suggests that a vast majority of the goods and services that employees will be purchasing are available within the county (food, clothing, vehicles, computers, etc.), but there still will be some outside spending on travel and through purchases made online and in neighboring counties. Based on third party proprietary retail spending data, 70% is a reasonable assumption for the amount of in-county spending. (Source: Esri Business Analyst Online Retail Market Profile)

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**SALES TAX REVENUE – NEW RESIDENT SPENDING**

In addition to sales tax generated by the renovation phase, the County would also receive sales tax revenue from the purchases made by the new residents. Table 12 displays the new sales tax revenue that Nassau County would receive annually based on in-county spending by new residents.

Table 12

<b>Annual Sales Tax Revenue</b>	
<b>Resident Spending</b>	
Total New Spending	\$ 1,771,204
Amount Taxable (30%)	\$ 531,361
County Sales Tax Rate	4.25%
<b>New County Tax Revenue</b>	<b>\$ 22,583</b>

**Source:** Nassau County, Camoin Associates

Note that the res spending figure has already been adjusted to account for 70% of total spending occurring within the county (see table entitled “Tenant Spending Baskets”). Also note that we have used a higher value for “Amount Taxable” as compared to the previous tables (30% rather than 25%) since certain non-taxable items (related to housing expenses) have been removed from the total spending line, this increasing the remaining portion taxable.

**SALES TAX REVENUE – EMPLOYEE EARNINGS**

The new earnings generated by on-site jobs that will occur as a result of building occupation at the Project (described under Impacts of On-Site Employment) would lead to additional annual sales tax revenue for the county. It is assumed that 70% of the earnings would be spent within Nassau County and that 25% of those purchases will be taxable. Table 13 displays the annual tax revenue that the County will receive.

Table 13

<b>Annual Sales Tax Revenue</b>	
<b>On-Site Operations</b>	
Total New Earnings	\$ 239,954
Amount Spent in County (70%)	\$ 167,967
Amount Taxable (25%)	\$ 41,992
County Sales Tax Rate	4.25%
<b>New County Tax Revenue</b>	<b>\$ 1,785</b>

**Source:** Nassau County, Camoin Associates

**TOTAL ANNUAL SALES TAX REVENUE**

The total annual sales tax revenue that the County will receive is summarized in Table 14.

Table 14

<b>Total Annual Sales Tax Revenue</b>	
Resident Spending	\$ 22,583
On-Site Operations	\$ 1,785
<b>New County Tax Revenue</b>	<b>\$ 24,368</b>

**Source:** Nassau County, Camoin Associates

## ATTACHMENT A: WHAT IS ECONOMIC IMPACT ANALYSIS?

The purpose of conducting an economic impact study is to ascertain the total cumulative changes in employment, earnings and output in a given economy due to some initial “change in final demand”. To understand the meaning of “change in final demand”, consider the installation of a new widget manufacturer in Anytown, USA. The widget manufacturer sells \$1 million worth of its widgets per year exclusively to consumers in Canada. Therefore, the annual change in final demand in the United States is \$1 million because dollars are flowing in from outside the United States and are therefore “new” dollars in the economy.

This change in final demand translates into the first round of buying and selling that occurs in an economy. For example, the widget manufacturer must buy its inputs of production (electricity, steel, etc.), must lease or purchase property and pay its workers. This first round is commonly referred to as the “Direct Effects” of the change in final demand and is the basis of additional rounds of buying and selling described below.

To continue this example, the widget manufacturer’s vendors (the supplier of electricity and the supplier of steel) will enjoy additional output (i.e. sales) that will sustain their businesses and cause them to make additional purchases in the economy. The steel producer will need more pig iron and the electric company will purchase additional power from generation entities. In this second round, some of those additional purchases will be made in the US economy and some will “leak out”. What remains will cause a third round (with leakage) and a fourth (and so on) in ever-diminishing rounds of industry-to-industry purchases. Finally, the widget manufacturer has employees who will naturally spend their wages. Again, those wages spent will either be for local goods and services or will “leak” out of the economy. The purchases of local goods and services will then stimulate other local economic activity. Together, these effects are referred to as the “Indirect Effects” of the change in final demand.

Therefore, the total economic impact resulting from the new widget manufacturer is the initial \$1 million of new money (i.e. Direct Effects) flowing in the US economy, plus the Indirect Effects. The ratio of Total Effects to Direct Effects is called the “multiplier effect” and is often reported as a dollar-of-impact per dollar-of-change. Therefore, a multiplier of 2.4 means that for every dollar (\$1) of change in final demand, an additional \$1.40 of indirect economic activity occurs for a total of \$2.40.

Key information for the reader to retain is that this type of analysis requires rigorous and careful consideration of the geography selected (i.e. how the “local economy” is defined) and the implications of the geography on the computation of the change in final demand. If this analysis wanted to consider the impact of the widget manufacturer on the entire North American continent, it would have to conclude that the change in final demand is zero and therefore the economic impact is zero. This is because the \$1 million of widgets being purchased by Canadians is not causing total North American demand to increase by \$1 million. Presumably, those Canadian purchasers will have \$1 million less to spend on other items and the effects of additional widget production will be cancelled out by a commensurate reduction in the purchases of other goods and services.

Changes in final demand, and therefore Direct Effects, can occur in a number of circumstances. The above example is easiest to understand: the effect of a manufacturer producing locally but selling globally. If, however, 100% of domestic demand for a good is being met by foreign suppliers (say, DVD players being imported into the US from Korea and Japan), locating a manufacturer of DVD players in the US will cause a change in final demand because all of those dollars currently leaving the US economy will instead remain. A situation can be envisioned whereby a producer is serving both local and foreign demand, and an impact analysis would have to be careful in calculating how many “new” dollars the producer would be causing to occur domestically.



# Leading action to grow your economy

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