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University of New Mexico
Bureau of Business and Economic Research

The Economic Impact of Businesses Affiliated with the South Valley Economic Development Center on the Bernalillo County Economy

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Doleswar Bhandari

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Executive Summary

SVEDC current tenants or service recipients: 77

SVEDC graduates: 32

Total beneficiaries: 109

Total business employment impact: 298 jobs

Total wages and salary impact: \$3.93 million

Total business activity impact: \$8.97 million

The University of New Mexico's Bureau of Business and Economic Research (BBER) was commissioned by the Rio Grande Community Development Corporation (RGCDC) to estimate the economic impact of businesses affiliated with the South Valley Economic Development Center (SVEDC) on the Bernalillo County economy for Calendar Year 2010. SVEDC-affiliated businesses are defined as businesses that are currently using or have formerly used SVEDC resources.

In 2010, SVEDC-affiliated businesses directly generated \$5.5 million in business activity, 267 jobs and \$2.8 million in salaries and benefits in Bernalillo County, New Mexico. The *total* economic impact of the \$5.5 million in 2010 business activity in Bernalillo County is estimated to be \$8.97 million in business activity, 298 jobs and \$3.93 million in labor income (Table ES.1).

Table ES. 1 Summary of Economic Impacts of Businesses Affiliated with SVEDC

Impact Type	Employment ¹	Labor Income ²	Business Activity ³
Direct	267	\$2,783,390	\$5,496,764
Indirect	12	\$487,792	\$1,447,297
Induced	18	\$660,047	\$2,023,867
Total	298	\$3,931,229	\$8,967,928
Multiplier	1.11	1.41	1.63

¹Employment = Full-time and part-time jobs directly and indirectly supported by SVEDC-affiliated businesses

²Labor Income = Total employee compensation including benefits

³Business Activity = Total sales or expenditures by SVEDC-affiliated businesses

Source: BBER Analysis using IMPLAN Version 3

UNM Bureau of Business and Economic Research, 2011

The estimated business activity multiplier indicates that a total of \$1.60 was generated in the Bernalillo County economy for every \$1.00 (one dollar) that SVEDC-affiliated businesses spent in the County.

The IMPLAN Version 3.0 economic impact model was used to estimate the indirect and induced impacts of SVEDC-affiliated businesses. Data were obtained from SVEDC-affiliated business owners (using a survey), from SVEDC, and by using IMPLAN model software.

There are two limitations to this study. First, BBER estimated revenues and employment for SVEDC-affiliated businesses who did not respond to our survey. As a result, this might cause some margin of error in the impact numbers estimation. Second, BBER assumed that all businesses are either import-substitution-type or export-type industries so that all the impacts are considered net impacts (created by out-of-region funds circulated within the Bernalillo County economy).

1. Introduction

The University of New Mexico's Bureau of Business and Economic Research (BBER) was commissioned by the Rio Grande Community Development Corporation to estimate the economic impacts of SVEDC-affiliated businesses on Bernalillo County for Calendar Year 2010. SVEDC-affiliated businesses are defined as businesses that are currently or have formerly used SVEDC resources. This report contains the results of the study and outlines the data and methods used to arrive at these results.

The SVEDC was founded in 2004 as a collaboration between Bernalillo County and the Rio Grande Community Development Corporation (RGCDC). The Mission of the SVEDC is to provide facilities, resources, and training to support the development of new and expanding small businesses that will create jobs and foster economic revitalization of the South Valley community, while preserving the heritage and culture of the community. The SVEDC is a business incubator, an organization that helps entrepreneurial businesses develop and succeed. After using an incubator's services, a business operating on its own is known as an 'incubator graduate'.

The SVEDC business incubator is currently supporting 55 tenants plus an additional 22 business owners. These businesses can utilize more than 15 types of services from the SVEDC including fully-equipped office and commercial kitchen space at the 15,000 square foot Center. SVEDC also provides networking opportunities with other businesses, help obtaining business licenses, assistance connecting to buyers and suppliers, business startup consulting, marketing help, bookkeeping assistance, and secretarial services.

Out of 109 beneficiaries, approximately 32 business owners are 'incubator graduates' meaning they are now successfully operating their business on their own, without SVEDC support. Businesses affiliated with an incubator are significant contributors to the local economy in terms of operations and capital investment. Their impact numbers may not be as impressive as that of larger, mature businesses but their role as a catalyst for business and job creation cannot be underestimated.

This study examines how SVEDC-supported business activities and employment stimulate the economy to support a greater level of economic activity. The economic impacts documented in this report show how these businesses support direct spending on wages and salaries and on local goods and services, and how this local spending supports additional economic activity in the Bernalillo County.

The rest of the report is organized as follows. Chapter 2 discusses methodology, data sources and BBER's modeling of economic impacts using IMPLAN Version 3. Chapter 3 presents the economic impact analysis of SVEDC-supported business on Bernalillo County.

2. Methodology

2.1 Data

Integral to the success of this study was the collection of primary data from business owners on their employment and sales. To collect these data from individual business owners, BBER designed and carried out an internet-based survey.

2.2 Survey of Businesses Affiliated with SVEDC

BBER put significant effort into obtaining survey responses from SVEDC-affiliated businesses. The respondents who could not be reached by email were contacted by phone. Out of 109 business owners provided to BBER by SVEDC, 45 responded to the survey resulting in an initial gross response rate of 41%. While carrying out the survey, however, BBER identified 26 businesses owners who were out-of-business or who could not be reached or notified about the survey. This decreased the total number of businesses that could respond from 109 to 83. With 45 responses out of 83 possible, the net response rate to BBER's survey was 54%.

Table 2.1 is an analysis, by industry, on the distribution of businesses who responded to the survey compared to the industry distribution of all SVEDC-affiliated businesses. Overall, the industry representation of survey respondents was reasonably close to the industry distribution of all SVEDC-affiliated businesses. Manufacturing businesses are very closely represented (44% versus 43%). Food service businesses are under-represented (22% versus 29%). Industries over-represented include agriculture, wholesale, retail trade (2% versus 1%), administrative and support (4% versus 3%).

Table 2.1 Industry of Respondents

Industry	Survey Respondents		All SVEDC-Affiliated Businesses	
	Number	Percent	Number	Percent
Agriculture	1	2	1	1
Construction	0	0	1	1
Manufacturing	20	44	31	43
Wholesale	1	2	1	1
Retail Trade	1	2	1	1
Finance and Insurance	0	0	1	1
Real Estate	0	0	1	1
Professional, Scientific and Technical Servc	2	4	5	7
Administrative and Support	2	4	2	3
Healthcare	0	0	1	1
Food Services	10	22	21	29
Other services	1	2	1	1
Unidentified	7	16	5	7
Total	45	100	72	100

Source: BBER Survey and SVEDC

UNM Bureau of Business and Economic Research, 2011

Employment, expenditures, and sales data for those businesses who could not be contacted or who chose to not participate in the survey were estimated based on the survey response average for each type of business and SVEDC-provided employment data. In many survey responses, sales revenue for 2010 was not provided. To estimate sales revenue in these cases, BBER used the average sales from survey responses for each industry and used this number to estimate sales per employment for those businesses that provided employment numbers and industry codes but not sales. Sales estimates were further verified with SVEDC personnel who had some knowledge of these businesses.

In this analysis, we included data for businesses that were established in 2010 or before. Table 2.2 shows the number of businesses by type of activity and two-digit NAICS sector. Most businesses (70%) are involved in food-related activities: Nearly 40% of the businesses are involved in food product manufacturing and more than 30% are in either catering services or food vending.

Table 2.2 2010 Sales, Employment and Number of Businesses by NAICS Sector

NAICS	Sector/Activity	No. of Businesses	No. of Employment	Sales
31	Food Product Manufacturing	25	48	\$603,883
72	Catering Services and Food Vending	20	76	\$1,160,327
54	Professional, Scientific and Technical Svcs.	5	9	\$155,970
56	Administrative and Support	2	84	\$1,675,000
42	Food Brokerage	1	2	\$23,000
23	Construction	1	1	\$18,896
11	Mushroom Farm	1	1	\$18,000
52	Financial Services	1	4	\$60,776
53	Real Estate	1	1	\$15,194
81	Fund Raising Service	1	3	\$5,000
62	Hospice Care	1	34	\$1,750,000
	Unidentified	5	0	\$0
	Total	64	262	\$5,486,046

Source: BBER Survey and SVEDC

UNM Bureau of Business and Economic Research, 2011

There were 64 SVEDC-affiliated businesses operating in 2010 with 262 in total employment and \$5.49 million in sales. Nearly 60% of the businesses employed one or fewer employees in 2010 since many of these jobs are part-time in nature (Table 2.3). Forty-two percent of these businesses accounted for 90% of jobs whereas 62% of the sales are accounted for by only three businesses. As a result, the economic impacts are disproportionately captured by a few businesses that are relatively large.

Table 2.3 Business Size by Number of Employees

No. of Employees	No. of Businesses	Total Employment
0	10	0
0.5	4	2
1	25	25
2	9	18
3	2	6
4	2	8
5	4	20
6	1	6
8	2	16
16	1	16
24	1	24
27	1	27
34	1	34
60	1	60
Total	64	262

Source: BBER Survey and SVEDC

UNM Bureau of Business and Economic Research, 2011

BBER asked business owners about how much was spent constructing or remodeling their place of business in the last five years. Only 14 business owners responded to the question. According to these responses, a total of \$1.6 million was spent in construction work over the last four years (Table 2.4). Expenditures made during 2006 were negligible or lacked responses. The most complete construction data BBER collected was for 2007 through 2010. The average amount spent annually on construction was \$405,760 a year from 2007 to through 2010. BBER did not venture to estimate additional construction expenditures because construction expenditures are very erratic and many of these businesses are operating on a very small scale. As a result, capital expenditures only account for 7% of the total impact in terms of expenditures.

When asked about how much was spent equipping their business in the last four years, 31 respondents responded to this question. The average annual expenditure in equipment was \$118,000 (Table 2.4).

Table 2.4 Capital Outlay and Expenditures on Equipment by Year

Expenditure Type/Year	2010	2009	2008	2007	Annual Average
Capital Outlay (N=14)	\$97,500	\$1,517,915	\$6,468	\$1,155	\$405,760
Purchase of Equipment (N=31)	\$174,037	\$83,271	\$110,266	\$105,497	\$118,268

Source: BBER Survey

UNM Bureau of Business and Economic Research, 2011

Sources of funding are critically important for businesses in the start-up or expansion phase. When asked what the sources of funding were for their business, 34 respondents provided information (Table 2.5). Personal savings appeared to be the major source of funding followed by borrowing from friends and relatives. However, in terms of amount, businesses funded from personal savings was the highest (i.e. \$414,000) followed by other sources (\$377,000), and borrowed from bank and micro-lender (\$135,000).

Table 2.5 Sources of Funding

Sources of Fund	No. of Respondents	Percent	Amount (\$)	Percent
Personal savings	21	62	\$414,000	41
Friends and relatives	5	15	\$87,000	9
Borrowed from bank and micro-lender	3	9	\$135,000	13
Venture capital	1	3	\$1,000	0
Other sources	4	12	\$377,000	37
Total	34	100	\$1,014,000	100

Source: BBER Survey

UNM Bureau of Business and Economic Research, 2011

As part of this survey, business owners affiliated with SVEDC were asked to indicate what kind of services they used from SVEDC. Forty respondents responded to this question (Table 2.6). The survey gave them an opportunity to choose more than one type of service that is offered by the SVEDC. The most commonly used services are networking with other business owners (n=25); use of internet and utility services (n=22); help getting insurance, permits and licenses (n=19); business startup consulting (n=16); marketing help (n=15); connections to buyers (n=14); kitchen (n=14); and connection to suppliers (n=13).

Table 2.6 Type of SVEDC Services used by SVEDC-Affiliated Businesses Owners

Types of services	No. of respondents
Networking with other business owners	25
Help getting insurance, permits and licenses	19
Business startup consulting	16
Marketing help	15
Connections to buyers	14
Kitchen	14
Connections to suppliers	13
High speed Internet access	12
Utilities	10
Receptionist services	10
Office equipment	8
Product development	7
Phone services	7
Conference room	7
Training opportunities	5
Others	4

Source: BBER Survey

UNM Bureau of Business and Economic Research, 2011

2.3 Economic Modeling Using IMPLAN

The IMPLAN Version 3.0 economic impact model was used to measure the direct, indirect and induced impacts of businesses affiliated with SVEDC on the Bernalillo County economy.

The IMPLAN Model databases draw from a variety of data sources to develop an input-output table appropriate for an individual state or other geographic unit and can be used in estimating the total economic impacts of economic activity. **Direct impacts** come from business operations and capital expenditures. Indirect impacts are a result of spending by suppliers of these businesses. This spending creates a demand for the goods and services of local companies, which must then subsequently purchase their own goods and services to produce their product. The sum totals of these iterative purchases are termed **indirect impacts**. **Induced impacts** result when the employees supported by businesses affiliated with SVEDC spend their earnings on items such as housing, food, clothing, or childcare. This spending induces additional employment in many sectors of the economy, such as jobs at the local grocery store. Indirect and induced impacts are estimated using economic impact models, such as IMPLAN.

3. Economic Impacts of Businesses Affiliated with SVEDC

In 2010, SVEDC-affiliated businesses directly and indirectly generated economic activity totaling \$8.97 million with 298 jobs and \$3.9 million in labor income (Table 3.1). Sales, income, employment, and capital investments are direct economic impacts of these businesses. Direct impacts generate additional impacts as these businesses purchase goods and services from their suppliers (indirect impacts) and their employees spend their wage income to purchase goods and services (induced impacts). These 2010 numbers include both businesses affiliated with SVEDC that are currently using SVEDC services and businesses that previously used SVEDC services and are now operating on their own within Bernalillo County.

The 267 direct jobs with SVEDC-affiliated businesses stimulated a total of 298 jobs in the county economy in 2010. The estimated employment multiplier is 1.1 which means that every one job results in the addition of 0.1 jobs in the economy. This is less than industry averages because most of these jobs are part-time in nature.

The nearly \$2.8 million in estimated salary and wages that these businesses paid to their employees in 2010 resulted in an estimated \$3.9 million in total income in Bernalillo County. The estimated income multiplier is 1.4 which means that every one dollar increase in wage and salary income generates an additional \$0.40 dollars of income in the county economy.

The \$5.5 million in output (i.e. business activity) that these businesses generated resulted in an estimated \$8.97 million in total business activity with a 1.6 economic multiplier. This indicates that every one dollar increase in business activity generates additional business activity of \$0.60 dollars.

Table 3.1 Total Economic Impact of SVEDC-Affiliated Businesses on Bernalillo County, 2010

Impact Type	Employment ¹	Labor Income ²	Business Activity ³
Direct	267	\$2,783,390	\$5,496,764
Indirect	12	\$487,792	\$1,447,297
Induced	18	\$660,047	\$2,023,867
Total	298	\$3,931,229	\$8,967,928
Multiplier	1.11	1.41	1.63

¹Employment = Full-time and part-time jobs directly and indirectly supported by SVEDC-affiliated businesses

²Labor Income = Total employee compensation including benefits

³Business Activity = Total sales or expenditures by SVEDC-affiliated businesses

Source: BBER Analysis using IMPLAN Version 3

UNM Bureau of Business and Economic Research, 2011

The total impact numbers include capital expenditures and purchases of equipment totaling \$524,028 incurred by these businesses in 2010 (Table 2.4). Capital expenditure impacts accounted for about 8% of the total business activity. BBER used the average capital expenditures of the last four years to minimize the uneven distribution of capital expenditures over time. Table 3.2 presents the economic impacts of capital expenditure activities by SVEDC-affiliated businesses in 2010.

Table 3.2 Economic Impacts of Capital Expenditure Activities by SVEDC-Affiliated Businesses, 2010

Impact Type	Employment ¹	Labor Income ²	Output ³
Direct	5	\$205,755	\$455,502
Indirect	1	\$48,723	\$128,828
Induced	1	\$52,497	\$161,132
Total	7	\$306,975	\$745,462
Multiplier	1.52	1.49	1.64

¹Employment = Full-time and part-time jobs directly and indirectly supported by SVEDC-affiliated businesses construction activities

²Labor Income = Total construction employee compensation including benefits

³Output = Total amount of construction expenditure made by these businesses

Source: BBER Analysis using IMPLAN Version 3

UNM Bureau of Business and Economic Research, 2011

Table 3.3 shows the annual economic impact from Table 3.1 broken out by industry. The impact is much broader than just the type of businesses affiliated with SVEDC. The impacts are spread across many industries because of indirect and induced impacts associated with these businesses. In terms of business activity, the largest impacts are in administrative & waste services (\$1.9 million), health and social services (\$1.7 million), accommodation and food services (\$1.4 million), and manufacturing (\$0.8 million). Among other industries, real estate & rental, retail trade, and finance & insurance industry have the next largest impacts.

Table 3.3 Total Annual Economic Impacts by Industry from SVEDC-Affiliated Businesses

Industry	Total Business Activity Impact	Total Labor Income Impact	Total Employment Impact
Ag, Forestry, Fish & Hunting	\$32,947	\$7,622	1.1
Mining	\$7,910	\$2,207	0
Utilities	\$42,734	\$8,867	0.1
Construction	\$447,617	\$200,866	4.3
Manufacturing	\$822,639	\$75,706	47.7
Wholesale Trade	\$184,627	\$69,869	3.1
Retail trade	\$345,997	\$142,915	4.8
Transportation & Warehousing	\$116,606	\$43,388	0.8
Information	\$185,283	\$40,417	0.8
Finance & insurance	\$356,061	\$93,684	5.4
Real estate & rental	\$614,176	\$80,294	4.8
Professional- scientific & tech svcs	\$349,360	\$180,876	6.2
Management of companies	\$148,715	\$54,954	0.7
Administrative & waste services	\$1,879,674	\$1,342,927	97.5
Educational svcs	\$26,763	\$13,905	0.5
Health & social services	\$1,675,185	\$962,723	30
Arts- entertainment & recreation	\$41,764	\$14,034	1.1
Accomodation & food services	\$1,354,187	\$435,956	78.3
Other services	\$224,441	\$99,937	10.1
Government & non NAICs	\$111,241	\$60,083	0.7
Total	\$8,967,927	\$3,931,230	298

Source: BBER Analysis using IMPLAN Version 3

UNM Bureau of Business and Economic Research, 2011

3.1 Gross Receipt Tax Impacts

The economic activity associated with businesses affiliated with SVEDC stimulates revenue growth for the state, city and county. A total of \$132,708 state and local gross receipt tax (GRT) is estimated from the business activities associated with SVEDC-affiliated businesses. When BBER applied the respective GRT rate for the state, the City of Albuquerque and Bernalillo County, each entity is estimated to have received \$74,404, \$44,753 and \$13,550 GRT respectively in 2010. GRT was estimated using the IMPLAN model for Bernalillo County.