

ECONOMIC IMPACT OF ANSALDOBREDA IN LOS ANGELES



Los Angeles County Economic Development Corporation

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EXECUTIVE SUMMARY

AnsaldoBreda, an Italian railway vehicle manufacturer, is proposing to build a manufacturing facility of light and heavy railcars in the city of Los Angeles, and to move its American corporate headquarters to the same site. The facility will be used to build 75 new railcars and refurbish 36 existing railcars annually. The company projects revenues of \$200 million.

IMPACT OF ONGOING OPERATIONS

The LAEDC estimated separately the annual economic impact of the new AnsaldoBreda manufacturing facility and the company's relocated corporate headquarters.

Manufacturing Facility: AnsaldoBreda will employ the full-time equivalent of 535 workers involved in the manufacturing, assembly and refurbishment of railcars. The company's local purchases of goods and services for the business, and their employees' daily spending, will sustain additional employment in Los Angeles County.

- Direct employment: 535 FTE jobs
- Total employment in Los Angeles County: 1,980 FTE jobs
- Total earnings: \$77.5 million

Corporate Headquarters: This category includes the wages of local workers and the purchases of goods and services by the management offices of the corporate headquarters.

- Direct employment: 126 FTE jobs
- Total employment in Los Angeles County: 260 FTE jobs
- Total earnings: \$13.6 million

In total, AnsaldoBreda will sustain continuing economic activity worth \$368.5 million in economic output and 2,240 FTE jobs in Los Angeles County with estimated annual earnings of \$91.1 million.

Tax revenues: We estimate that tax revenues from ongoing operations will be at least \$8 million annually. The city will collect more than \$409,000, not including utility taxes. The CRA will collect roughly \$768,000.

Regional Significance: Building a railcar manufacturing facility in Los Angeles County would recapture in the local economy the economic impact of the Measure R spending that would have been sent elsewhere.

IMPACT OF FACILITY CONSTRUCTION

Construction of the AnsaldoBreda manufacturing facility in the city of Los Angeles will cost \$70 million. The LAEDC estimates that the construction will contribute a one-time boost of \$149 million in total economic output in Los Angeles County, creating employment equivalent to 970 full-time jobs for one year with earnings of nearly \$40.8 million. The economic activity associated with the construction will generate approximately \$6.0 million in state and local taxes.

INTRODUCTION

AnsaldoBreda, a subsidiary of Finmeccanica, is a light and heavy railcar manufacturer based in Italy, with a final assembly facility in Pittsburg, California. It has manufactured and delivered a variety of railcars to mass transit systems around the world, and in 2003 was awarded a contract to deliver 50 light railcars to the Los Angeles County Metropolitan Transportation Authority (Metro). As a part of that contract, Metro has the option to purchase an additional 100 light railcars. AnsaldoBreda is proposing to build a manufacturing facility in Los Angeles to deliver the railcars under this contract if the option is exercised.

In this study, the Los Angeles County Economic Development Corporation (LAEDC) estimates the total economic impact of AnsaldoBreda in Los Angeles County. We include the manufacturing and assembling operations, the corporate headquarters, and the one-time economic impact of the initial construction of the facility and headquarters building.

METHODOLOGY

The LAEDC estimated the impact of the new facilities proposed by AnsaldoBreda in two categories: the annual impact of the ongoing operations of the company in Los Angeles; and the one-time impact of the initial construction. For each category, we estimate the total impact, which includes direct, indirect and induced effects. **Direct activity** includes the employees hired by AnsaldoBreda and its contractors during the construction of the facility and in its ongoing operations. Here we have accounted for construction workers and architects, for production staff such as assemblers, machinists, and engineering, and for operations staff such as management, administration and cleaning staff. **Indirect effects** are those which stem from the purchases made by AnsaldoBreda and their contractors. For example, indirect jobs are sustained by the office supplies purchased by AnsaldoBreda and by the building materials purchased by its contractors. **Induced effects** are those which stem from the spending by employees whose wages are sustained by both direct and indirect spending.

We used models based on multipliers from the Regional Input-Output Modeling System (RIMS II), developed by the Bureau of Economic Analysis at the U.S. Department of Commerce. For the construction impacts, we have proceeded as if the spending will take place within a single year, as is customary when using models based on RIMS II multipliers.¹ The construction will produce a discrete, one-time boost to the local economy.

Full-time Equivalent (FTE) Employment

RIMS II input-output models are based on full-time equivalent (FTE) employment, or one year's worth of full-time work. FTEs measure the amount of work involved, *not* the actual number of *workers*. For instance, one FTE could be two people each working half-time (20

¹ U.S. Department of Commerce, Bureau of Economic Analysis, "Regional Multipliers: A User Handbook for the Regional Input-Output Modeling System (RIMS II)," March 1997, p.8.

hours a week) for a year, or twelve people each working full-time for a month. Because the work associated with both construction activities and manufacturing may involve term contracts or part-time work, each FTE likely represents several people.

Approach

At the LAEDC, our estimates typically represent the lower bound of probable economic impact. Our results are understated because of data limitations and constraints inherent in economic impact analysis work. We must of necessity rely on estimates for many of our inputs, introducing a level of uncertainty into our results. There can be as much art as science to selecting the appropriate estimates. When faced with a choice among plausible estimates, we prefer to adopt the one(s) that will produce the *lowest* impact in terms of jobs, wages and taxes. Occasionally, we will omit economic activity we *know* exists if we are unable to document a satisfactorily narrow (and hence credible) range of plausible estimates. Throughout, our goal has been to solidly establish a baseline of economic activity. Accordingly, the report should be read with an implied “not less than” or “at least” preceding all economic, employment, and fiscal impact estimates.

IMPACT OF ONGOING OPERATIONS

In addition to the contract with Metro, AnsaldoBreda intends to compete to supply the growing demand for rail transit in cities across the United States, particularly in the west. AnsaldoBreda expects to manufacture, assemble and deliver approximately 75 new railcars and refurbish 36 railcars annually, and anticipates annual revenues of \$200 million. However, if the company is particularly successful in capturing additional contracts, the number of railcars produced and the economic and fiscal impacts would be higher than reported here.

Economic Impact

The company projects employment of 535 direct FTE jobs with earnings of \$29.4 million. Additionally, the company will move its American corporate headquarters to Los Angeles, with projected employment of 126 FTE jobs earning about \$7.9 million annually. Based on this direct economic activity, the LAEDC estimates that AnsaldoBreda will sustain total annual economic impacts as shown in Table 1.

Table 1 Annual Economic Impact of Ongoing Operations	
Direct Economic Impact	
Annual revenue (\$ million)	\$ 200.0
Number of employees (FTEs)	661
<i>Manufacturing</i>	<i>535</i>
<i>Headquarters</i>	<i>126</i>
Earnings (\$ million)	\$37.4
<i>Manufacturing</i>	<i>29.4</i>
<i>Headquarters</i>	<i>7.9</i>
Total Economic Impact	
Output (\$ million)	\$ 368.5
Employment (FTEs)	2,240
Earnings (\$ million)	\$ 91.1

Sources: AnsaldoBreda, LAEDC

In all, we estimate that the ongoing operations of AnsaldoBreda will generate annual economic activity of \$368.5 million and sustain 2,240 FTE jobs in Los Angeles County with earnings of over \$91.1 million.

The economic impact will spill across industries in Los Angeles County through the indirect and induced effects. Of the \$368.5 million in new economic output, the majority will be in the manufacturing industry primarily at AnsaldoBreda itself. In addition to the expected \$200 million projected by AnsaldoBreda, \$49.3 million will be earned annually by other manufacturing firms in Los Angeles County as a result of the new plant. Employment in the manufacturing industry will increase by 785 FTE jobs, which is 124 more than those employed directly by AnsaldoBreda. Firms in the wholesale trade industry will earn \$16 million annually, and sustain 109 FTE jobs with earnings of \$5.1 million. Real estate concerns will earn \$15.8 million annually and sustain 57 FTE jobs with earnings of \$1.4 million. The complete list of impacts by industry sector appears below.

Table 2			
Industry Breakdown of Annual Economic Impact - Ongoing Operations			
Industry	Output (\$ million)	Jobs (FTEs)	Earnings (\$ million)
Agriculture	\$ 0.4	6	\$ 0.1
Mining	1.0	2	0.2
Utilities	4.5	9	0.8
Construction	0.7	8	0.3
Manufacturing	249.3	785	39.2
Wholesale trade	16.0	109	5.1
Retail trade	7.1	146	2.9
Transportation and warehousing	8.2	83	2.8
Information	5.9	39	2.0
Finance and insurance	11.7	69	3.7
Real estate	15.8	57	1.4
Professional, scientific and technical services	12.2	169	9.4
Management of companies	11.3	93	6.2
Administrative and waste management	3.8	187	6.6
Education services	1.4	37	0.8
Health care and social assistance	7.6	133	4.5
Arts, entertainment and recreation	1.5	42	0.8
Accommodations and food services	4.6	165	2.3
Other services	5.5	82	2.0
Households		19	0.1
Total *	\$ 368.5	2,240	\$ 91.1

Source: LAEDC

* May not sum due to rounding

Fiscal Impact

The new business activity sustained by the manufacturing facility and headquarters will generate considerable tax revenue. Income taxes are collected on the earnings of workers, both direct and indirect, as are unemployment insurance and disability insurance taxes. Sales taxes are generated by the purchases of goods and services by AnsaldoBreda and by all workers whose earnings are sustained by the additional economic activities of AnsaldoBreda. The LAEDC estimates the fiscal impact of all ongoing operations by type of tax and by level of government as shown in Table 3.

Table 3 Annual Fiscal Impact of Ongoing Operations	
Revenue by Type of Tax (\$ million)	
State income tax	\$ 3.8
Sales tax	2.0
CA SDI and SUI	1.2
Property taxes	0.8
Gross receipts tax	0.2
Total *	\$ 8.0
Tax Revenue by Level of Government (\$ million)	
State	\$ 6.4
County (includes Metro)	0.4
Local government (cities)	0.4
CRA (property tax)	0.8
Total *	\$ 8.0

Source: LAEDC

* May not sum due to rounding

We estimate that sales taxes generated on all purchases related to the ongoing operations of the AnsaldoBreda will reach \$2.0 million. This amount does *not* include sales taxes on Metro's purchase of railcars. This would amount to \$34.1 million over the course of the \$350 million contract. We exclude this since a comparable sales or use tax would be payable by Metro regardless of where they purchase the cars. However, to the extent that revenues from AnsaldoBreda would be earned from non-Metro contracts, any taxes earned thereon would represent additional fiscal impact.

Direct and indirect workers will pay more than \$3.8 million in income taxes and almost \$1.2 million in state disability and unemployment insurance taxes. AnsaldoBreda will pay an estimated \$768,000 annually in incremental property taxes and gross receipts taxes of \$202,000. In total, we estimate that almost \$8.0 million in tax revenues will be generated annually in relation to AnsaldoBreda. This is an *underestimate* because we do not account for corporate income taxes or utility taxes.

Annual tax revenues are shared as follows:

- The state of California collects all payroll taxes (including income taxes, state disability insurance, and state unemployment insurance taxes), and seven percentage points of the 9.75 percent sales tax on purchases;²
- The counties share one quarter of one percentage point of the sales tax revenue, with an additional 1.5 percentage points allocated to Metro;
- The city of Los Angeles will collect the gross receipts tax of \$202,000, a share of the \$207,000 in sales tax revenue (which depends on the spending patterns of local direct and indirect wage-earners), plus utility taxes (not estimated); and
- The CRA district in which the facility will be located will collect the incremental property taxes of \$768,000.

Regional Significance

In 2008, the LAEDC estimated the economic impact of transportation projects that would be funded by the ½ cent sales tax increase under the proposed Measure R. Our analysis omitted the impact of spending on rail vehicle purchases because such products are not currently made in the county. By building a manufacturing facility of railcars in Los Angeles County, we will be *recapturing* in the local economy the economic impact of spending that would have been sent elsewhere. In other words, the operation will directly generate 661 FTE jobs in Los Angeles County and indirectly sustain an additional 1,579 indirect FTE jobs. This additional activity is new to Los Angeles County, as it would be for any new railcars built and sourced locally.

These jobs are especially important considering the demographic profile and trends of the City of Los Angeles. Since 2000, the population in Los Angeles has increased by more than 315,000 yet fewer than 80,000 jobs have been added. The AnsaldoBreda operation will sustain 2,240 FTE jobs. The 535 FTE jobs at the manufacturing facility will pay an average of \$55,000 annually, which compares favorably with the county average of \$48,000. Significantly, many of these good-paying jobs will not require a university degree. At the corporate headquarters, the average wage will be \$63,000, thirty percent higher than the county average.

² The 2009-10 California Budget raised the Los Angeles County sales tax of 8.25 percent to 9.25 percent effective April 1, 2009, and Measure R will increase it to 9.75 percent on July 1, 2009.

IMPACT OF INITIAL CONSTRUCTION

AnsaldoBreda estimates that it will spend \$70 million on the construction of a new LEED certified manufacturing facility and headquarters building on 18 acres of land in Los Angeles.

Economic Impact

The LAEDC estimated the one-time economic impact in Los Angeles County of the initial construction spending. These results, which include direct and indirect economic output, jobs and earnings, are shown in Table 4.

Table 4 Economic Impact of Initial Construction of AnsaldoBreda	
Project Spending	
Direct spending (\$ million)	\$ 70
Total Economic Impact	
Output (millions)	\$ 149.0
Employment (FTE)	970
Earnings (millions)	\$ 40.8

Sources: AnsaldoBreda, LAEDC

During the construction period, the estimated total economic impact associated with the development of the AnsaldoBreda manufacturing facility and headquarters building in Los Angeles County will be \$149 million. The project will temporarily create 970 direct and indirect full-time equivalent jobs in Los Angeles County with wages of \$40.8 million.

This construction project will be governed by a project labor agreement. Under the terms of this agreement, at least 30 percent of direct construction employment must be sourced locally. This is an important consideration since the unemployment rate in the city of Los Angeles in January 2009 was 12 percent and 14.8 percent in East Los Angeles, where the facility will be built.

As with the ongoing operations, the construction impact will spill across industries in Los Angeles County. The estimated impacts by industry sector are shown in Table 5 on the following page. Of the total additional economic activity sustained in Los Angeles County of \$149 million, the majority will be in the construction, manufacturing and professional and scientific services sectors.

Table 5			
Industry Breakdown of Economic Impact – One-time Construction			
Industry	Output (\$ million)	Jobs (FTEs)	Earnings (\$ million)
Agriculture	\$ 0.3	3	\$ 0.1
Mining	0.5	1	0.1
Utilities	2.0	2	0.2
Construction	66.8	440	19.8
Manufacturing	16.8	52	2.6
Wholesale trade	5.1	22	1.3
Retail trade	7.5	89	2.2
Transportation and warehousing	3.3	20	0.9
Information	3.1	11	0.7
Finance and insurance	6.7	23	1.6
Real estate	9.3	20	0.6
Professional, scientific and technical services	11.6	81	4.5
Management of companies	1.9	9	0.7
Administrative and waste management	2.7	38	1.1
Education services	0.9	13	0.4
Health care and social assistance	4.7	47	2.0
Arts, entertainment and recreation	0.8	14	0.3
Accommodations and food services	2.5	51	0.9
Other services	2.9	27	0.8
Households	n/a	7	0.1
Total *	\$ 149.0	970	\$ 40.8

Source: LAEDC

* May not sum due to rounding

Our models estimate this industry distribution based on typical activity in the county. However, under the terms of the project labor agreement, wages paid to the direct workers will be higher than the county average for these occupations. As a result, we would expect the distribution of economic impact by industry sector to shift somewhat from that shown in Table 5.

Fiscal Impact

The construction of the manufacturing facility and headquarters building will involve actual spending of \$70 million and generate earnings of about \$41 million. Both spending and earnings will generate tax revenue for the local, county and state governments. Table 6 on the following page presents the overall estimated fiscal impact of the construction project.

We estimate that economic activity in Los Angeles County related to the construction will generate almost \$6.0 million in state, county and local taxes. Sales and use tax revenues account for more than \$3 million of this amount. Workers will contribute more than \$1.7

million in state income taxes and \$500,000 in state disability and unemployment insurance taxes; local governments will earn approximately \$560,000 in gross receipts taxes and construction permits and fees.

Table 6	
Fiscal Impact of Initial Construction of AnsaldoBreda	
Revenue by Type of Tax (\$ million)	
Sales tax	\$ 3.1
State income tax	1.7
CA SDI and SUI	0.5
Permits and fees, gross receipts tax	0.6
Total *	\$ 6.0
Tax Revenue by Level of Government (\$ million)	
State	\$ 4.4
County (includes Metro)	0.6
Local government (cities)	1.0
Total *	\$ 6.0

Sources: AnsaldoBreda, LAEDC

* May not sum due to rounding

Tax revenues are shared by three levels of government. The LAEDC estimates that the state of California will receive more than \$4.4 million in taxes as a result of economic activity generated in Los Angeles County by the construction, primarily from income taxes. The county of Los Angeles will receive \$550,000, and city governments almost \$1.0 million. The city of Los Angeles will collect most of the local share of sales tax revenue and all of the permits, fees and gross receipts tax.