

Vernon Economic Impact Study

The Economic Contributions of Vernon To the Los Angeles County Economy



Los Angeles County Economic Development Corporation

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March 2008



*Economic Vitality,
Trade & Jobs*

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VERNON ECONOMIC IMPACT STUDY

INTRODUCTION

Located in the heart of Los Angeles County, the City of Vernon has a small residential population but an active population of businesses. The City's economic reach extends beyond its borders to the rest of the Los Angeles region and is surprisingly significant.

The City of Vernon commissioned the Consulting Practice of the Los Angeles County Economic Development Corporation (LAEDC) to estimate the impacts on the Los Angeles County economy that are attributable to the activities carried on by three groups of Vernon economic "agents:" (1) the City's businesses, (2) its government, and (3) the public and private sector employees who work in Vernon.

Key Findings:

- Vernon is a small City, populated largely by industrial and wholesale businesses.
- About 44,900 private sector employees work in Vernon, representing 1.3% of total employment in Los Angeles County.
- Vernon has a significant presence in several important industries:
 - 15.3% of L.A. County's food industry employment;
 - 10.7% of L.A. County's apparel related employment;
 - 5.5% of L.A. County's furniture industry employment; and
 - 3.4% of L.A. County's employment in the fabricated metal industries.
- The spending of Vernon's firms and its employees indirectly supports sales, *and therefore jobs*, at firms located elsewhere in the region.
- Similarly, construction contractors working on projects in Vernon purchase goods and services from throughout the region, supporting more indirect jobs.
- Further, the spending of Vernon's municipal government and City employees supports still more indirect jobs in Los Angeles County.
- The LAEDC estimates that Vernon-based economic activity provides significant support to the regional economy:

• Total (direct and indirect) FTE employment:	105,500 jobs
• Annual direct and indirect wages and salaries:	\$4,480,000,000
• Annual direct and indirect taxable spending:	\$1,120,000,000
• Annual direct and indirect government revenues:	\$343,000,000

The LAEDC conducted a careful, detailed, bottom-up analysis of the economic activities taking place in the City of Vernon. Specifically,

- The LAEDC investigated the characteristics of the privately owned firms doing business in Vernon and identified the most important industries. Though they are located inside the City's borders, these establishments have a region-wide economic impact because they purchase goods and services from suppliers throughout the Los Angeles metropolitan area. Thus, business firms in Vernon play an indirect role in supporting employment elsewhere in the area.
- Most of the employees working in Vernon live elsewhere. These workers spend their wages and salaries in many locations: in Vernon itself, in their hometowns, along the route between home and work and, indeed, wherever they go to shop and spend.
- Construction contractors working on commercial and industrial projects located in Vernon also have a regional economic impact. Like the City's employers, they purchase goods and services from suppliers located both in- and outside the City. Meanwhile, the construction workers earn wages, which they spend for consumer goods and services across the metropolitan area.
- In addition to the activities carried out by the private sector, the LAEDC analyzed the economic impact of the Vernon City government's activities, including the City's purchases of goods and services, publicly funded construction projects, and spending by City employees.
- Considerable amounts of tax revenue are generated as a result of all the activities described above. The LAEDC estimated the personal income taxes paid annually to the State of California by both direct and indirect employees of private sector firms based in Vernon and the City government. We also calculated the amount of sales taxes paid by these workers to the state and to various local governments based on their purchases of taxable goods and services.

The LAEDC's findings are summarized on the next two pages. Detailed analysis begins on page 5.

SUMMARY OF FINDINGS

Private Sector Impacts. Most of the economic impacts measured by the LAEDC are generated by the activities of Vernon-based businesses. City records indicate that 1,590 establishments are doing business inside the Vernon City limits. These establishments directly employ 44,896 workers. All—establishments and employees—have an indirect economic impact as they go about their daily routines. Firms in Vernon purchase materials, equipment and supplies from vendors located in- and outside of the City. Vernon’s employees earn wages and salaries, pay taxes, and spend their earnings on consumer goods and services. Spending by Vernon’s firms and employees indirectly supports sales, *and therefore jobs*, at firms in other locations that supply them with materials, equipment, supplies, and consumer products. Also, commercial and industrial construction activity takes place in Vernon, which generates its own economic impacts. The LAEDC estimated employment, income, spending and tax revenue impacts attributable to local construction activity as well.

Table 1 below summarizes the LAEDC’s findings as to the size of *all* the private-sector impacts—direct and indirect impacts generated by construction projects and Vernon based business establishments. Details of our calculations are described in the Vernon’s Private Sector section, which begins on page 5.

Table 1 Vernon’s Private Sector Economic & Revenue Impacts	
	Total Impact
Employment (# of FTE Jobs)	103,900
Wages & Salaries	\$4,300,000,000
Taxable Spending	\$1,100,000,000
Tax Revenues	\$334,000,000

Private-sector activities in Vernon today support an estimated total of 103,900 full-time equivalent (FTE) jobs in Los Angeles County¹. Some 44,896 of these are with Vernon’s own firms. An estimated 470 more employees work on privately financed construction projects in the City. In addition, more than 58,500 indirect FTE jobs are attributable to the spending of Vernon based firms, construction contractors working on projects in Vernon, and the direct employees, for a total employment impact of 103,900 Vernon-related direct and indirect jobs².

Jobs are not the whole story, however. The LAEDC estimates that the direct and indirect workers combined earn over \$4.3 billion annually. After taxes, they save some of their earnings, pay their mortgages or rent, and spend the rest on various types of goods and services. An estimated \$1.1 billion of these transactions involve the payment of sales or use taxes. Finally, California and various local governments—counties and cities—together take in an estimated \$334 million in personal income and sales tax revenues every year.

¹ LAEDC measured Vernon related employment in full-time equivalents (FTEs), which understates the actual number of people involved to the extent that Vernon firms and their vendors make use of part-time workers. [Two people each working 20 hours per week count as one FTE.]

²See the Note on Methodology for definitions of direct and indirect workers.

City Government Impacts. Though not as large as the impacts described above, Vernon’s City government also generates direct and indirect economic impacts through its own activities. To measure these impacts, the LAEDC’s economists evaluated City employment, purchases of equipment and supplies, and public construction. The estimated total impacts of Vernon’s government are summarized in Table 2. Details of our calculations are described in the Vernon’s City Government section, which begins on page 14.

Table 2 Vernon’s City Government Economic & Revenue Impacts	
	Total Impact
Employment (# of Jobs)	1,500
Wages & Salaries	\$80,300,000
Taxable Spending	\$57,000,000
Tax Revenues	\$9,300,000

The City of Vernon has 292 employees on its payroll, including office personnel, police and firemen, and those operating the municipal electric power facilities. City purchases of supplies and equipment plus City-financed construction projects support an additional indirect 1,210 jobs with City vendors, contractors, and subcontractors for a total employment impact of 1,500 jobs. The direct and indirect workers earn an estimated \$80.3 million annually, out of which they spend about \$20 million for sales-taxable consumer goods and services. In addition, public construction contractors purchase an estimated \$37 million of sales-taxable equipment and construction supplies. State and local governments collect \$9.3 million in tax revenues every year due to Vernon’s City government activities.

This report is divided into three sections. The first section describes the industrial profile of Vernon. Then we estimate the economic impact of all private-sector activities, including firms doing business in Vernon and construction projects located in Vernon. The economic impact is measured by the number of employees associated (directly and indirectly) with business activities in Vernon and the wages and salaries they earn. We then provide estimates of total sales-taxable spending by the direct and indirect employees and construction contractors. Finally, we estimate the state and local income and sales tax revenues associated with the incomes earned and taxable spending of all the employees.

We follow a similar procedure in the second section, which focuses on the economic impact generated by activities of Vernon’s City government. Using financial records provided by the City, we first identify and calculate direct spending by the City (e.g., wages and salaries of City employees, purchases of goods and services, infrastructure construction). Then, we estimate the total economic impact of the City’s spending—again measured in employment and earnings of the direct and indirect workers. We follow up by calculating the amount of sales-taxable spending by the City and its employees, as well as the state and local taxes associated with those streams of income and spending.

The report concludes with a brief section describing LAEDC’s methodology and the key assumptions that underpin our estimates of the City’s economic impact.

I. VERNON’S PRIVATE SECTOR

Vernon’s Industrial Profile

Vernon’s industrial base is heavily weighted toward manufacturing. Table 3 below compares employment in Vernon’s major industry groups with industry employment in Los Angeles County. About 29,600 of Vernon’s private-sector employees work in manufacturing establishments, almost two-thirds of the total. However in Los Angeles County, only 13.4% of private-sector employees work for manufacturing firms. The difference between Vernon and the surrounding region is most marked among manufacturers of nondurable goods, which account for close to 54% of total employment in Vernon, an incredible 9.1 times as large as nondurable manufacturing’s share in all of L.A. County. The shares of Vernon’s transportation & warehousing and wholesale trade employees also are significantly higher—2.9 times as large for the former and 2.5 times for the latter—than the rest of the county.

Sector	VERNON		LOS ANGELES COUNTY		Vernon Employment % of LA County
	Number of Employees	% of Total	Number of Employees	% of Total	
Nondurable Manufacturing	24,141	53.7%	205,165	5.9%	11.8%
Wholesale Trade	7,364	16.4%	225,113	6.5%	3.2%
Durable Manufacturing	5,437	12.1%	260,162	7.5%	2.1%
Transportation & Warehousing	5,312	11.8%	142,918	4.1%	3.7%
Other Services	826	1.8%	126,967	3.7%	0.7%
Administrative & Support Services	403	0.9%	260,057	7.5%	0.2%
Waste Mgmt & Remediation Svcs.	198	0.6%	9,056	0.3%	2.2%
Retail Trade	255	0.4%	419,530	12.1%	0.1%
Accommodation & Food Services	176	0.4%	316,201	9.1%	0.1%
Construction*	163	0.4%	156,019	4.5%	0.1%
Prof/Sci/Tech Svcs. & Mgmt. of Cos	149	0.3%	326,510	9.4%	0.0%
Real Estate & Rental & Leasing	144	0.3%	79,078	2.3%	0.2%
Information	109	0.2%	209,293	6.0%	0.1%
Education, Health Care, Social Asst	74	0.2%	465,420	13.4%	0.0%
Finance & Insurance	54	0.1%	168,481	4.9%	0.0%
Other Industries (incl. Unknown)	111	0.2%	94,392	2.7%	0.1%
Total	44,896	100.0%	3,464,359	100.0%	1.3%

*Note: Construction industry in Vernon includes only Vernon-based enterprises.

Sources: City of Vernon, California Employment Development Department (QCEW data series), LAEDC

Looking at a more detailed industry list, Table 4 below identifies Vernon’s Top 20 industries in terms of employment. [A total of 65 industries were defined for this purpose, using the 3-digit North American Industry Classification System (2002 version).]

Employment Rank	NAICS Code	Industry Name	Establishments (#)	Employees (#)	Employees per Establishment
#1	311	Food Manufacturing	85	8,738	103
#2	315	Apparel Manufacturing	189	7,408	39
#3	424	Wholesalers—Nondurable Goods	261	4,886	19
#4	493	Warehousing and Storage	201	2,545	13
#5	423	Wholesalers—Durable Goods	199	2,473	12
#6	313	Textile Mills	62	2,364	38
#7	492	Couriers and Messengers	3	1,769	590
#8	332	Fabricated Metal Products	48	1,537	32
#9	326	Plastics Product Manufacturing	34	1,157	34
#10	325	Chemical Manufacturing	24	1,145	48
#11	337	Furniture & Related Products	29	1,096	38
#12	323	Printing & Related Support Activities	26	1,092	42
#13	322	Paper Manufacturing	20	962	48
#14	333	Machinery Manufacturing	13	840	65
#15	314	Textile Product Mills	24	764	32
#16	484	Truck Transportation	32	749	23
#17	327	Nonmetallic Mineral Products	13	567	44
#18	811	Repair & Maintenance Services	33	505	15
#19	561	Administrative & Support Services	70	403	6
#20	312	Beverage & Tobacco Products	7	400	57
		Subtotal--Top 20 Industries	1,373	41,400	30
		Other Vernon Industries	217	3,496	16
		Grand Total--All Vernon Industries	1,590	44,896	56

Sources: City of Vernon, Los Angeles Economic Development Corporation

As Table 4 shows, there are 1,373 business establishments in the twenty largest industries with operations in Vernon, about 86% of the City’s total. Larger than average, these firms employ 41,400 workers, or 92% of the private-sector total. The Food Manufacturing industry occupies the number one spot, with 85 establishments doing business in Vernon and employing 8,738 workers. The second and third largest industries in Vernon are Apparel Manufacturing (with 189 establishments and 7,408 employees) followed by Wholesalers—Nondurable Goods (261 establishments and 4,886 workers). Warehousing and Storage and Wholesalers—Durable Goods round out the “Top Five” list of Vernon industries, which collectively employ over one-half (actually 58%) of the City’s private-sector workforce. Manufacturing activities —mostly nondurable— dominate the Top 20 list, occupying 12 of the top 20 spots in the industry rankings.

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The LAEDC has identified and tracks the progress of 16 individual industry clusters in Los Angeles County. These industry clusters are important drivers of the regional economy because they “export” goods and services to the rest of the state, the nation, and indeed the world. In doing so, these industries bring “new money” into Los Angeles that helps the regional economy grow. Table 5 below lists the sixteen industry clusters and describes the role played by Vernon’s firms in each. The industry clusters in the table are ranked according to Vernon’s employment share, in percent, of total county employment in the cluster.

Table 5			
Vernon’s Place in the Los Angeles Economy			
(Clusters Ranked by Vernon’s Share of County Employment)			
Industry Cluster	Cluster Employment		Vernon % of L.A. County
	LA County	Vernon	
Food Products Manufacturing & Wholesale	69,700	10,668	15.31%
Fashion--Apparel & Textile Design / Manuf’g / Wholesale	105,500	11,246	10.66%
Furniture & Home Furnishings Manufacturing / Wholesale	36,500	2,018	5.53%
Fabricated Metal Products & Industrial Machinery	61,300	2,061	3.36%
Toy Manufacturing & Wholesale	6,800	165	2.43%
Auto Design & Aftermarket Parts Manuf’g / Wholesale	26,600	627	2.36%
Wholesale Trade & Logistics (not counted elsewhere)	228,900	4,502	1.97%
Average for All Industries	3,477,651	44,896	1.29%
Biomedical / Health Services	34,200	439	1.28%
Direct International Trade	315,100	3,271	1.04%
Jewelry Manufacturing & Wholesale	7,600	37	0.49%
Technology	154,700	216	0.14%
Tourism	252,900	231	0.09%
Business & Professional Services	218,000	133	0.06%
Entertainment Industries	262,900	91	0.03%
Banking & Finance	115,300	22	0.02%

Sources: City of Vernon, California Employment Development Department (EDD), LAEDC

Given its industrial profile, it is not surprising that Vernon plays its biggest role in the Food Manufacturing cluster. Vernon-based food products companies employ almost 10,700 workers, more than 15% of the Los Angeles County total for this cluster. Vernon also plays an important role in the region’s Fashion--Apparel and Textile Design/Manufacturing/ Wholesale industry cluster, with more than 11,200 employees or 10.66% of the L.A. County total. Other regional industry clusters in which Vernon plays an outsized role include Furniture and Home Furnishings (with an employment share of 5.53%), Fabricated Metal Products and Industrial Machinery (with 3.4%), Toys (with 2.4%), Auto Parts (also 2.4%), and Wholesale Trade and Logistics (with nearly 2%).

Private Sector Economic Impact: Jobs, Earnings and Spending

Economic activity in Vernon creates jobs in two ways: directly (workers on the payrolls of business firms located in the City) and indirectly (people holding jobs supported by buying decisions associated with Vernon, including spending by Vernon based firms and by Vernon’s direct workers). Note: Vernon based firms that purchase materials and supplies from *local* Vernon suppliers have a smaller *regional* impact than do firms that buy these items from suppliers located outside the City.

The LAEDC has estimated the number of indirect jobs supported by Vernon’s business firms and workers, as shown in Table 6 below.

Table 6				
Employment Impact of Vernon’s Private-Sector Industries				
(Industries Ranked by Number of Direct Employees)				
NAICS Code	Industry Name	Number of FTE Employees*		
		Direct	Indirect	Total
311	Food Products Manufacturing	8,738	14,925	23,663
315	Apparel Manufacturing	7,408	6,492	13,900
424	Wholesalers—Nondurable Goods	4,886	6,143	11,029
493	Warehousing and Storage	2,545	1,696	4,241
423	Merchant Wholesalers, Durable Goods	2473	3,109	5,582
313	Textile Mills	2,364	2,509	4,873
492	Couriers and Messengers	1,769	964	2,733
332	Fabricated Metal Product Manufacturing	1,537	1,718	3,255
326	Plastics and Rubber Products Manufacturing	1,157	1,292	2,449
325	Chemical Manufacturing	1,145	4,011	5,156
337	Furniture and Related Product Manufacturing	1,096	1,012	2,108
323	Printing and Related Support Activities	1,092	1,271	2,363
322	Paper Manufacturing	962	1,703	2,665
333	Machinery Manufacturing	840	1,673	2,513
314	Textile Product Mills	764	682	1,446
484	Truck Transportation	749	1,083	1,832
327	Nonmetallic Mineral Product Manufacturing	567	824	1,391
811	Repair and Maintenance	505	359	864
561	Administrative and Support Services	403	171	574
312	Beverage and Tobacco Manufacturing	<u>400</u>	<u>1,525</u>	<u>1,925</u>
	Subtotal--Top 20 Industries	41,400	53,200	94,600
	Other Vernon Industries	3,496	4,800	8,300
	Grand Total--All Vernon Industries	44,900	58,000	102,900

* Details may not add to totals due to rounding.

* Indirect and Total Employment are measured on a full-time equivalent (FTE) basis.

Sources: City of Vernon, LAEDC

Table 6 indicates that the 44,900 employees based in Vernon support 58,000 additional indirect jobs throughout the Los Angeles region for a total employment impact of 102,900 jobs. The indirect workers are employees of the firms that supply Vernon’s businesses with goods and services and also of the firms that supply consumer goods and services to Vernon’s workers.

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The Top 20 industries in Vernon, with 41,400 workers on their payrolls, support about 53,200 indirect employees working for business and consumer supplier firms for a total impact of 94,600 jobs. The other Vernon-based industries, with about 3,500 workers on their payrolls, support 4,800 indirect employees and have a combined total impact of 8,300 jobs.

Of course, jobs are not the whole story. All those workers earn wages and salaries. After taxes are withheld, they save some of the remainder, pay their mortgages or rent, and spend the rest on various types of consumer goods and services. The LAEDC's estimates of total wages and the amounts spent specifically on sales-taxable goods and services are shown in Table 7 below.

Table 7			
Economic Impact of Vernon's Private-Sector Industries			
(Industries Ranked by Total Employment)			
Industry Name	Total (Direct + Indirect) Employment*	Total Wages & Salaries	Total Taxable Spending
Food Products Manufacturing	23,663	\$1,114,500,000	\$278,000,000
Apparel Manufacturing	13,900	\$482,600,000	\$120,700,000
Wholesalers-Nondurable Goods	11,029	\$421,200,000	\$105,300,000
Merchant Wholesalers, Durable Goods	5,582	\$270,400,000	\$67,600,000
Chemical Manufacturing	5,156	\$177,800,000	\$44,500,000
Textile Mills	4,873	\$153,700,000	\$38,400,000
Warehousing and Storage	4,241	\$173,500,000	\$43,400,000
Fabricated Metal Product Manufacturing	3,255	\$137,500,000	\$34,400,000
Couriers and Messengers	2,733	\$114,500,000	\$28,600,000
Paper Manufacturing	2,665	\$118,400,000	\$29,600,000
Machinery Manufacturing	2,513	\$104,700,000	\$26,200,000
Plastics & Rubber Product Manufacturing	2,449	\$100,100,000	\$25,000,000
Printing and Related Support Activities	2,363	\$102,400,000	\$25,600,000
Furniture & Related Support Manufacturing	2,108	\$76,600,000	\$19,200,000
Beverage and Tobacco Manufacturing	1,925	\$86,100,000	\$21,500,000
Truck Transportation	1,832	\$67,100,000	\$16,800,000
Textile Product Mills	1,446	\$55,500,000	\$13,900,000
Nonmetallic Mineral Product Manufacturing	1,391	\$53,900,000	\$13,500,000
Repair and Maintenance	864	\$30,800,000	\$7,700,000
Administrative and Support Services	574	\$19,100,000	\$4,800,000
Subtotal--Top 20 Industries	94,600	\$3,860,000,000	\$965,000,000
Other Vernon Industries	8,300	\$400,000,000	\$100,000,000
Grand Total--All Vernon Industries	102,900	\$4,260,000,000	\$1,065,000,000

* Details may not add to totals due to rounding

* Employment is measured on a full-time equivalent (FTE) basis

Sources: City of Vernon, LAEDC

Table 7 shows that the total amount paid out annually in wages and salaries by Vernon-based industrial firms, their suppliers, and the suppliers of consumer goods and services purchased by their employees is close to \$4.3 billion. Out of this amount, the LAEDC estimates that the direct and indirect workers spend almost \$1.1 billion annually on taxable consumer goods and services, a considerable sum indeed.

Construction

Thus far, the analysis has focused on the impact of the industrial, distribution, and service firms doing business in plants, offices, and warehouses located in Vernon. A significant amount of privately financed commercial and industrial construction also takes place in the City every year. Table 8 below presents LAEDC’s estimates of the economic impacts related to activity at construction sites located in Vernon. [Note: this table deals only with privately funded construction. Public construction projects are covered below in the City Government Section beginning on page 14.]

Table 8 Vernon’s Economic Impact Privately Financed Construction						
Year	Total Private Construction Permit Value	Number of Employees*			Total Wages & Salaries	Employees’ Taxable Spending
		Direct	Indirect	Total		
2002	\$88,873,000	575	672	1,247	\$50,620,000	\$12,660,000
2003	\$70,134,000	454	530	984	\$39,950,000	\$9,990,000
2004	\$52,702,000	341	398	739	\$30,020,000	\$7,510,000
2005	\$50,831,000	329	384	713	\$28,950,000	\$7,240,000
2006	\$99,178,000	642	750	1,392	\$56,490,000	\$14,120,000
Average 2002-2006	\$72,344,000	470	545	1,015	\$41,200,000	\$10,300,000

* Details may not add to totals due to rounding

* Indirect and Total Employment are measured on a full-time equivalent (FTE) basis

Sources: City of Vernon, LAEDC

The value of construction permits issued in Vernon during 2006 was about \$99 million, a substantially higher amount than the \$50.8 million valuation issued during 2005. The workers involved in 2006 construction projects earned wages and salaries exceeding \$56 million. The LAEDC estimates that private construction spending in 2006 supported a total of 1,392 direct and indirect jobs. Furthermore, the direct and indirect workers spent about \$14.1 million for taxable goods and services in 2006.

Over the course of an economic cycle, construction activity can vary widely from one year to the next. For this study, the LAEDC is using the average of 2002-2006 to estimate the economic impact of private nonresidential construction activity that takes place in Vernon. The average value of construction permits issued during 2002-2006 was \$72.3 million. The LAEDC estimates that private construction spending projects supported on average 1,015

full-time equivalent jobs each year. Construction related wages and salaries were a little over \$41.2 million per year, and total taxable spending was approximately \$10.3 million.

NOTE: Construction contractors purchase a considerable amount of sales-taxable materials and supplies for every project they undertake. The LAEDC does not know the exact amounts involved, but these purchases could be as much as \$30 million to \$35 million of the \$99 million in permitted construction value during 2006. To be conservative, we assume construction contractors, working on projects in Vernon, purchased \$25 million of sales-taxable construction materials and supplies in an average year.

Table 9 below summarizes the LAEDC’s estimates of the total private sector economic impact of the City of Vernon (Vernon-based industries and privately financed construction). Combining the LAEDC’s estimates, total private earnings are estimated to be about \$4.3 billion, total private taxable spending about \$1.1 billion, and total employment associated with Vernon-based firms and construction projects is estimated to be about 103,900 employees.

Table 9 Vernon’s Economic Impact Total Private Sector*			
	Total Private Employment*	Total Private Earnings	Total Private Taxable Spending
Vernon-based Industries	102,900	\$4,259,000,000	\$1,065,000,000
Vernon Construction Projects	1,015	\$41,200,000	\$10,300,000
Taxable Construction Purchases	N/A	N/A	\$25,000,000
Private Sector Total	103,900	\$4,300,000,000	\$1,100,000,000

* Details may not add to totals due to rounding

* Employment is measured on a full-time equivalent (FTE) basis

Private Sector Impact on Government Revenues

Much of the income and spending generated by Vernon related economic activity is subject to taxation by the state and various municipal governments in California. The LAEDC has estimated the state income tax revenues due to the earnings of Vernon’s employees and also of all indirect jobholders located within the region. In addition, the LAEDC estimated sales and use taxes paid on purchases of taxable goods and services by the direct and indirect workers associated with Vernon-based firms and construction contractors doing business inside the City limits. **About \$334 million in total revenues are generated annually from income, sales and use taxes related directly and indirectly to private-sector economic activity in Vernon.** The tax details that make up this total are described in the next two sections.

State of California

The State of California collects the lion’s share of tax revenues associated with private-sector activities carried out in the City of Vernon—about \$310 million annually. Most of these revenues are actually paid by the employees, in the form of state personal income taxes and sales taxes. Both direct and indirect workers pay the personal income taxes shown below in Table 10. The \$67.2 million in sales tax revenues shown in the table represents the state’s 6.25% share of the current 8.25% sales tax rate applied to the same workers’ taxable spending. Also, the State of California collects about \$49 million in the form of SUI and SDI (State Unemployment Insurance and State Disability Insurance).

Table 10 Vernon’s Revenue Impacts State of California		
Total FTE Employment (Direct & Indirect Jobs)		103,900
Total Wages & Salaries		\$4,300,000,000
Taxable Spending		\$1,100,000,000
Type of Tax	Tax Rate	Tax Revenues
Personal Income Tax	4.50%	\$193,500,000
Sales Tax- State Share	6.25%	\$67,200,000
SDI	0.80%	\$34,400,000
SUI (applied to the first \$7,000)	2.00%	\$14,600,000
Total State Taxes		\$309,700,000

*Details may not add to totals due to rounding.

Note that the state revenue estimates shown in Table 10 are incomplete. For one thing, LAEDC could not estimate the corporate profits taxes paid by Vernon-based firms, as no such information is publicly available. In addition, Vernon-based firms purchase an unknown amount of sales-taxable goods and services every year as part of their normal operations.

Los Angeles County and Surrounding Cities

Spending by all employees related to Vernon-based firms generates sales tax revenues for the cities and counties in which the purchases take place. These revenues are shown in Table 11 below. The sales tax amount shown for LA County includes the county’s 0.25 percentage point share and the 1.00 percentage point transportation surcharge collected in the county for LA Metro. The local cities’ share is the 0.75 percentage points of the tax collected on sales made within their jurisdictions plus 0.25 percentage points due to California’s allocation of property taxes under the “triple flip.”³ The last two lines also include taxes generated by taxable sales in unincorporated places, which accrue to LA County.

³ Following passage of Proposition 57 in 2004, revenues from 0.25% of the cities’ share of sales and use tax were shifted to the state to repay the Economic Recovery Bonds. In exchange, cities received matching amounts of property tax revenues from the counties which, in turn, were reimbursed by the State’s General Fund. This triple shift or “flip” will continue in force until the bonds have been repaid.

Table 11		
Vernon’s Revenue Impacts		
Los Angeles County & Surrounding Cities		
Total FTE Employment (Direct & Indirect Jobs)		103,900
Total Wages & Salaries		\$4,300,000,000
Total Taxable Spending		\$1,100,000,000
Type of Tax	Tax Rate	Revenues
Sales Tax – Los Angeles County’s Share	0.25%	\$2,700,000
LA County MTA	1.00%	\$10,700,000
Sales Tax – Local Cities’ Share	0.75%	\$8,100,000
Cities’ Property Tax (under the “triple flip”)	0.25%	\$2,700,000
Total Local Sales Taxes*		\$24,200,000

*Details may not add to totals due to rounding

Note again that sales taxes attributable to purchases by Vernon-based firms are omitted.

Except for revenues reallocated through the “triple flip” process, property taxes also have been omitted from the LAEDC’s analysis. The total assessed value of property in Vernon is about \$3.56 billion or 0.35% of the Los Angeles County total. The property tax revenue generated by Vernon properties (using the 1% “general levy” rate) is thus about \$35.6 million annually. This revenue is allocated to LA County, the City of Vernon, and other special districts having jurisdiction in Vernon.

II. VERNON'S CITY GOVERNMENT

The City government of Vernon makes a contribution to the regional economy by paying wages and salaries to the employees who live in Los Angeles County and by purchasing goods and services from businesses located throughout Los Angeles County. The LAEDC analyzed Vernon's financial records for fiscal year 2006-2007 (ended June 30, 2007) and estimated the City's direct spending for operations purposes and for investment in equipment and construction of infrastructure⁴. The results of this analysis are summarized in Table 12.

Table 12	
Vernon City Government – Direct Spending	
Fiscal Year 2006-2007	
Type of Spending	\$ Amount
<i>General Fund Operations</i>	
Wages & Salaries	\$21,730,000
Services and Supplies	\$6,350,000
Contract Services	<u>\$4,410,000</u>
General Fund Direct Spending*	\$32,490,000
<i>City Utility Operations</i>	
Wages & Salaries	\$5,360,000
Services and Supplies	\$5,270,000
Contract Services	\$4,480,000
Purchased Energy Services	<u>\$19,270,000</u>
City Utility Direct Spending*	\$34,380,000
<i>Other City Operations</i>	
Wages & Salaries	\$1,710,000
Services and Supplies	\$700,000
Group Insurance Benefits	<u>\$1,780,000</u>
Other City Operations Direct Spending*	\$4,190,000
<i>Capital Expenditures</i>	
Direct Capital Outlays*	\$46,650,000
Total – Vernon City Government Direct Spending*	\$118,000,000

*Note: Details may not add to totals due to rounding

Direct spending by the Vernon City government for employee wages, benefits, and purchases of goods and services totaled \$118 million during fiscal year 2006-2007, a considerable sum. Direct operations spending for the core government activities counted in the general fund—police, fire, street operations, etc.—came to \$32.5 million during FY2006-2007, of which over \$21.7 million was wages and salaries for the City's 292 employees.

Vernon owns and operates its own electric, gas, water, and fiber optic utilities. At more than \$34 million, operations spending by the municipal utilities accounted for 29% of total direct

⁴ Direct spending by the City includes amounts spent for employee wages and salaries, operational goods and services (office supplies, uniforms, etc), purchases of capital equipment (police cars, fire trucks, computers, electrical distribution equipment), and construction of infrastructure. This figure excludes internal transfers (from one department to another) and non-cash expenses like depreciation. In addition, it also excludes debt service payments and purchases of land or existing buildings.

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spending by the City. Purchased energy services, 16% of total direct spending, accounted for more than \$19 million in FY2006-2007.

Direct Capital Outlays is the largest spending category in the table. Vernon spent more than \$46 million for purchases of capital equipment (cars and trucks, computers, various types of electrical and non-electrical equipment) and construction of infrastructure (roads, street lighting, etc).

Direct spending for operations of other City departments totaled nearly \$4.2 million. The largest item in this category is the City's purchases of insurance.

City Government Economic Impact

Table 13 summarizes the government-related employment and economic impacts of the City of Vernon. Activities of the City government support a total of 1,500 direct and indirect annual jobs. The employees' combined wages and salaries are estimated to exceed \$80 million. The workers spend more than \$20 million on sales-taxable goods and services.

Table 13 Vernon City Government Employment & Economic Impacts	
Direct Jobs — City Government Employees	292
Indirect Jobs	<u>1,210</u>
Total Jobs*	1,500
Total Annual Payroll (Direct <i>and</i> Indirect Jobs)	\$80,300,000
Total Taxable Spending (Direct <i>and</i> Indirect Jobs)	\$20,100,000

*Note: Details may not add to totals due to rounding.

City Government Revenue Impact

Much of the income and spending associated with the activities of Vernon's City government is subject to taxation by the State of California and various municipal governments. The LAEDC has estimated the state and local income tax and sales tax revenues associated with the City's activities. About \$9.3 million in tax revenues are generated annually from income, sales and use taxes related directly and indirectly to activities of the Vernon City government.

State of California

The State of California collects \$8 million in annual tax revenues due to activities of the City of Vernon. Most of the additional revenue is generated by state income and sales taxes, as shown in Table 14 below.

Table 14 Vernon City Government's Revenue Impacts State of California		
Total Employment (Direct & Indirect)		1,500
Total FTE Wages & Salaries		\$80,300,000
Total Taxable Spending		\$57,000,000
Type of Tax	Tax Rate	Tax Revenues
Personal Income Tax	4.50%	\$3,600,000
Sales Tax	6.25%	\$3,600,000
SDI	0.80%	\$600,000
SUI (applied to the first \$7,000)	2.00%	\$200,000
Total State Taxes		\$8,000,000

* Details may not add to total due to rounding.

The employee income tax is paid by the direct workers—i.e., City employees—including those at the City-owned electric utility, as well as the indirect workers supported by the purchases of both the City and its employees. The sales tax revenues shown in Table 14 represent the State's 6.25 percentage point share of the 8.25 percent sales tax that is assessed on taxable purchases by direct and indirect employees as well as City purchases of most types of capital equipment and construction materials. Also, the State of California collects nearly \$850 thousand in the form of SUI and SDI (State Unemployment Insurance and State Disability Insurance).

LA County and Surrounding Cities

Economic activity sustained by the spending of Vernon's City government generates additional tax revenues that add nearly \$1.3 million annually to the coffers of Los Angeles County and cities in the county. This additional tax revenue comes from the county's and cities' shares of sales taxes, as shown in Table 15 below.

The sales tax revenues in Table 15 are collected on the same purchases described in the state section and include both the county's 0.25 percentage point share *and* two 0.50 percentage point transportation surcharges (collected for Los Angeles County Metro) in the 8.25 percent local sales tax rate.

Table 15		
Vernon City Government's Revenue Impacts		
Los Angeles County and Surrounding Cities		
Total Employment (Direct & Indirect)		1,500
Total FTE Wages & Salaries		\$80,300,000
Total Taxable Spending		\$57,000,000
Type of Tax	Tax Rate	Tax Revenues
Sales Tax – Los Angeles County's Share	0.25%	\$140,000
LA County MTA	1.00%	\$570,000
Sales Tax –Cities' Share	0.75%	\$430,000
Property Tax (under the "triple flip")	0.25%	\$140,000
Total Local Sales Taxes		\$1,280,000

*Details may not add to total due to rounding.

The local cities' share is the 0.75 percentage points of the taxes collected on sales made within their jurisdictions plus 0.25 percentage points due to California's allocation of property taxes under the "triple flip". The share of sales tax revenues that accrues to the county from sales in unincorporated areas is counted as part of the cities' share of taxes shown in the last two lines of the table. Since only a few of the people who work in Vernon – in both the public and private sectors – actually live in Vernon, most of the local sales taxes shown in Table 15 are generated elsewhere in the region.

III. GEOGRAPHIC DISTRIBUTION OF VERNON’S EMPLOYEES

To complement the analysis performed by the LAEDC, the City of Vernon commissioned the Vernon Chamber of Commerce to conduct a survey of Vernon-based firms. The purpose of the survey was to learn where the City’s private-sector employees reside. The LAEDC’s summary of the survey’s results and their implications appears below.

The City of Vernon is the smallest City of Los Angeles County when ranked by population. Vernon’s economic impact, however, is far larger than one would expect. Indeed, as one of the county’s “industrial cities” – along with the cities of Commerce and Industry – Vernon is an important economic center. Firms located within Vernon’s borders actually employed 44,896 people when the Vernon Chamber of Commerce took their survey (during October and November 2007). Of this number, the Chamber was able to account for 29,881 workers who resided in Southern California, about two-thirds of the total. In addition, another 292 employees worked for the City of Vernon. Relying on the survey results for the private-sector employees and City records for the public workers, the LAEDC classified all 45,188 employees according their home zip codes. Not surprisingly, most Vernon-based workers live somewhere in Los Angeles County. Table 16 below reveals that only 7.7 percent of the workers commute into Vernon from outside Los Angeles County.

Table 16 Vernon-Based Employees By County of Residence		
County	# of Employees	% of Total
Los Angeles	41,715	92.3%
Orange	1,609	3.6%
San Bernardino	1,200	2.7%
Riverside	431	1.0%
San Diego	141	0.3%
Ventura	92	0.2%
Total	45,188	100.0%

* Details may not add to totals due to rounding

Sources: Vernon Chamber of Commerce Survey, City of Vernon, LAEDC

Table 17 on the next page provides more details, showing the distribution of Vernon’s employees by community of residence. [The zip codes used to define each community are listed in Appendix A.] This table focuses on communities with 500 or more Vernon-based employees.

Table 17 Vernon-Based Employees By City of Residence (Cities with more than 500 Vernon Employees)		
City	Employees	% of Total
<u>Los Angeles</u>	<u>15,938</u>	<u>35.3%</u>
South Central	3,863	8.5%
USC and Vicinity	3,540	7.8%
Boyle Heights	1,890	4.2%
Northeast L.A.	1,535	3.4%
Wilshire	1,452	3.2%
Central L.A.	952	2.1%
Rest of L.A.	2,705	6.0%
Huntington Park	3,276	7.2%
Bell/Bell Gardens/Cudahy	2,335	5.2%
South Gate	1,923	4.3%
Maywood	1,515	3.4%
Long Beach	965	2.1%
Whittier	953	2.1%
City Terrace	931	2.1%
East L.A.	895	2.0%
Downey	876	1.9%
Lynwood	844	1.9%
Compton	747	1.7%
Montebello	605	1.3%
Pico Rivera	532	1.2%
Norwalk	507	1.1%
All Other Cities	12,346	27.3%
Total	45,188	100.0%

* Details may not add to totals due to rounding

*Sources: Vernon Chamber of Commerce survey, City of Vernon, LAEDC

Note: Vernon-based workers who live in Bell, Bell Gardens, and Cudahy are grouped together because they all share the same 90201 zip code. If Vernon-based workers were drawn from these three cities in proportion to their respective populations (not necessarily the case but a good guess given the available information), then an estimated 816 Vernon workers live in Bell, while 978 live in Bell Gardens and 541 live in Cudahy.

Jobs in Vernon are important to other communities. Table 18 on the next page focuses on Vernon-based employees in relation to employment, unemployment and poverty in the 14 communities where they reside. Maywood’s 1,515 Vernon-based employees represent 13.4% of that City’s employed population. Huntington Park also registers in double digits; its 3,276 Vernon employees account for 13.4% of that City’s employed residents. In addition, Vernon is a significant source of employment for residents of the communities of Bell/Bell Gardens/Cudahy (where the employment share is 5.9%) and South Gate (5.0%).

Six of the 14 communities in Table 18 have high unemployment rates, ranging from 7.0% (East L.A.) to 8.9% (Compton). Many are also high-poverty areas. Four cities have individual poverty rates above 20%. Four more are in the high teens, ranging from 18.7% (Lynwood) to 19.9% (Maywood). Plainly, the residents' jobs in Vernon are vital to their cities' welfare.

Table 18
Vernon-Based Employees
Compared to Home City Employment, Unemployment & Poverty
 (Communities with more than 500 Vernon Employees)

Home City	Vernon-Based Employees	Home Community Employed Population	Vernon % of Community Employed Population	Home Community Unemployment Rate (%)	Home Community Poverty Rate (%)
Los Angeles	15,938	1,831,200	0.9%	5.5%	19.0%
Huntington Park*	3,276	24,500	13.4%	7.7%	20.5%
Bell/Bell Gardens/Cudahy*	2,335	39,700	5.9%	7.5%	21.5%
South Gate	1,923	38,800	5.0%	6.5%	12.9%
Maywood*	1,515	11,300	13.4%	7.5%	19.9%
Long Beach	965	226,900	0.4%	5.5%	19.8%
Whittier	953	43,500	2.2%	3.5%	6.9%
East LA	895	46,200	1.9%	7.0%	23.8%
Downey	876	53,200	1.6%	4.0%	6.8%
Lynwood	844	25,200	3.4%	8.2%	18.7%
Compton	747	32,600	2.3%	8.9%	24.0%
Montebello	605	27,600	2.2%	5.6%	13.8%
Pico Rivera	532	28,300	1.9%	4.6%	10.2%
Norwalk	507	47,200	1.1%	5.3%	11.2%

* 1999 Poverty Rate from Census 2000.

Sources: Vernon Chamber of Commerce survey, City of Vernon, CA LMID, Census 2000, American Community Survey-2006, LAEDC

Table 19 on the next page provides order-of-magnitude estimates for the earnings of Vernon's workforce, aggregated by community of residence. These estimates are based on LAEDC's estimate of average annual employee earnings in the City of Vernon, \$41,577 per employee, and assume employees are distributed among local cities without regard to their earnings. [Where employees live, however, is in fact influenced by how much they earn and their ability to afford housing. These area-based aggregate income estimates should therefore be treated as rough guides only.]

Collectively, the direct employees of firms based in the City of Vernon earn close to \$1.9 billion dollars annually. Workers living in the City of Los Angeles, for example, comprise over 35% of the total Vernon workforce and together make approximately \$662.7 million.

Table 19 Aggregate Earnings Estimates For Employees of Vernon-Based Firms By City of Residence (Communities with at least 500 Vernon employees)		
City of Residence	Employees	Total Wages & Salaries
<u>Los Angeles</u>	<u>15,938</u>	<u>\$662,700,000</u>
South Central	3,863	\$160,600,000
USC and vicinity	3,540	\$147,200,000
Boyle Heights	1,890	\$78,600,000
Northeast L.A.	1,535	\$63,800,000
Wilshire	1,452	\$60,400,000
Central L.A.	952	\$39,600,000
Rest of L.A.	2,706	\$112,500,000
Huntington Park	3,276	\$136,200,000
Bell/Bell Gardens/Cudahy	2,335	\$97,100,000
South Gate	1,923	\$80,000,000
Maywood	1,515	\$63,000,000
Long Beach	965	\$40,100,000
Whittier	953	\$39,600,000
City Terrace	931	\$38,700,000
East L.A.	895	\$37,200,000
Downey	876	\$36,400,000
Lynwood	844	\$35,100,000
Compton	747	\$31,100,000
Montebello	605	\$25,200,000
Pico Rivera	532	\$22,100,000
Norwalk	507	\$21,100,000
All Other Cities	12,346	\$513,300,000
Total	45,188	\$1,878,800,000

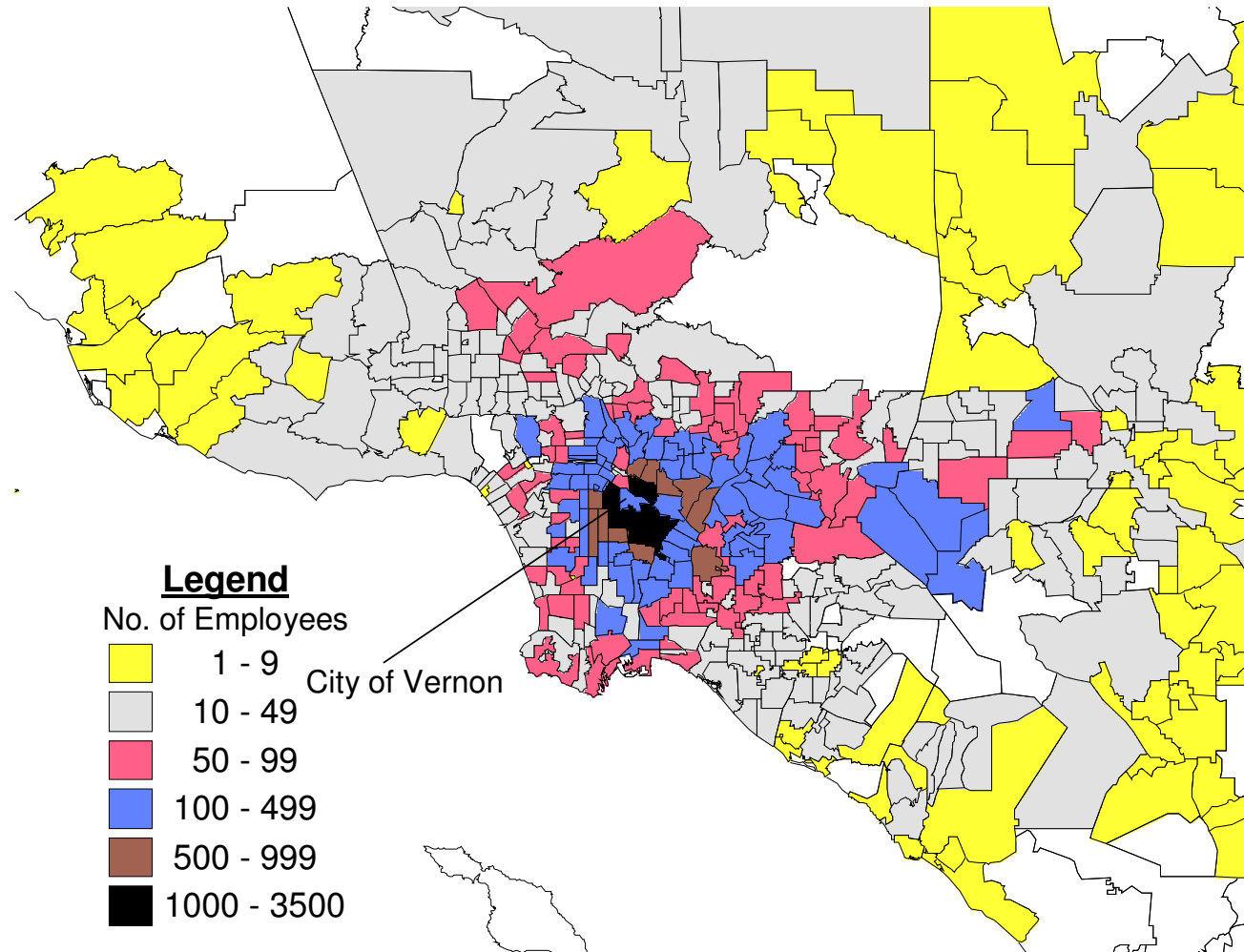
Sources: Vernon Chamber of Commerce Survey, City of Vernon,
California Labor Market Information Division, LAEDC

The map on the next page shows the geographic distribution of Vernon’s workforce by home zip code within the five-county Southern California area (Los Angeles, Orange, Riverside, San Bernardino, and Riverside). The map is important because it shows the wide dispersal of Vernon’s economic impact. Employee spending tends to be concentrated in locations near where they live, where they work, and at points in between.

With a small retail sector, Vernon offers its surprisingly large workforce little opportunity to spend their collective earnings within the City limits. The employee spending still takes place, of course, just with a higher-than-usual proportion being spent in areas near the workers’ homes and in the areas adjacent to the City of Vernon.

Where Vernon's Workforce Lives:

Distribution of Employees Based in Vernon by Home ZIP Code



IV. METHODOLOGY

The LAEDC collected information from the City of Vernon on privately-owned business establishments and employment, construction permit valuations, and the City's own employment and spending. We used this information to estimate the number of direct and indirect public- and private-sector employees whose jobs depend upon economic activities taking place in Vernon.

For the City's private-sector employees, we estimated wages and salaries based on figures for Los Angeles County available from the California Labor Market Information Division. Then we estimated the amounts spent by all of the public- and private-sector direct and indirect employees for sales-taxable consumer goods and services. Finally, the LAEDC used an in-house tax-revenue model to estimate the personal income tax and state tax revenues associated with the various spending streams.

Direct employees are the people who work for private business establishments operating in Vernon, or as employees of the City government, or on construction projects located in the City.

Indirect employees are those who owe their jobs to the purchases of goods and services made by the City, its business firms, and by their employees. All of the indirect and total job estimates are reported in annual full-time equivalents (FTEs), or one year's worth of full-time work.

The LAEDC used the RIMS II (Regional Input-Output Modeling System) model to estimate the number of indirect workers. This model was developed by the U.S. Department of Commerce, Bureau of Economic Analysis. For the private businesses operating in Vernon, we used RIMS II direct-effect multipliers to estimate total (direct and indirect) employment. We used final-demand multipliers to estimate the employment associated with City government spending and construction projects.

NOTE: Some of the textiles purchased by Vernon-based apparel firms were manufactured in Vernon-based textile mills. To avoid double counting (of indirect apparel industry employees who also happened to be direct textile employees), the LAEDC reduced the RIMS II direct-effect multipliers for apparel manufacturing by 10%.

The LAEDC used RIMS II direct-effect multipliers to estimate total (direct and indirect) earnings associated with private-sector businesses based in Vernon. For earnings associated with Vernon's City government, we applied RIMS II final demand multipliers. This gave us an estimate of total wages generated by these industries and Vernon City government employees. Subsequently, we subtracted wages of actual direct employees from the total number to estimate the wages generated by indirect employees.

Taxes: Activities of the Vernon-based businesses, their direct and indirect employees, and the City government generate considerable amounts of (direct and indirect) tax revenue for the state and various local governments. The LAEDC used a customized in-house model to estimate annual state income and sales taxes generated by the Vernon-related economic activity. First, we estimated the state income, disability and unemployment insurance taxes

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paid by the workers—private-sector, construction, City government employees, and their suppliers—based on their Vernon-related wages and salaries.

We also estimated the annual taxable spending of these workers and the resulting sales tax revenue. To the sales taxes paid by the direct and indirect workers, we added our estimates of the sales taxes paid on purchases of taxable construction materials and supplies. Finally, we estimated the portion of cities' property tax revenues attributable to the so-called "triple flip."

Overall, the LAEDC's estimates of potential tax revenues, generated as a result of economic activities in Vernon are low, because we excluded purchases of sales-taxable goods and services by private business firms and the Vernon City government. Also, we have not considered revenues generated by other types of state and local taxes.

Indeed, at the LAEDC, *our estimates typically represent the lower bound of possible economic and revenue impact.* Our results are understated because of data limitations and constraints inherent in economic impact analysis work. We must rely on estimates for many of the inputs, introducing a level of uncertainty in our results. To compensate, 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 not able 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 stated economic impact related to each category of economic activity should be read with an implied "not less than" or "at least" preceding all employment, wages, and tax impact estimates.