

The Economic Impacts of Closure of Pontiac Correctional Center

An IMPLAN-based Analysis Prepared by the
Rural Economic Technical Assistance Center - Illinois Institute for Rural Affairs

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1. Introduction

The following is an analysis of the economic impacts associated with the proposed closure of the Pontiac Correctional Center, located in Livingston County, IL. The Rural Economic Technical Assistance Center (RETAC), a unit within the Illinois Institute for Rural Affairs, conducted the analysis per requests by the Illinois Commission on Government Forecasting and Accountability.

Estimates of the closure's effect were developed with the IMPLAN economic impact modeling program. IMPLAN estimates the annualized effects resulting from a change (i.e., a new business or industry closure) introduced to an economy in a specified study area. The following analysis models the impacts on two study areas representing PCC's primary labor-shed: Livingston County and a four-county region (LaSalle, Livingston, McLean, and Woodford Counties).

The study identified the closure's possible impacts by introducing two sets of "shocks" to the economies of each study area. For the first scenario, the economies were "shocked" by removing amounts equal to PCC's annual contractual and commodity purchases within Livingston County (\$5.4 million) and the four-county region (\$5.6 million). The second scenario featured a "shock" to the economies representing a loss equal to PCC employees' annual spendable income¹ (Livingston County/ \$18,225,916 and four-county region/ \$29,855,616).

An area's economy is best described as a matrix of supply and demand linkages. As such, a shock experienced by one industry is experienced by other business through consumer and supply relationships. Accordingly, the consequences stemming from the facility's closure will extend far beyond the loss of its employees and sales to local vendors. The impacts will reverberate through the supply chains of local vendors, their workforces, and beyond.

The impacts as reported do not represent the entire economic impacts associated with the facility. The results represent an analysis conducted for study areas in which up to 84 percent of PCC employees reside. Had the study areas had been expanded to include the entire workforce, the impacts would increase relative to the additional spendable income and the additional opportunities for business interactions stemming from commodities and contractual



¹ Spendable income is the full compensation (salaries, wages, benefits, employer paid retirement contributions less taxes and savings).

purchases. However, it was decided to limit the size of the study areas so as to more realistically reflect regional economic interactions in proximity to the facility.

Even so, considering all of the potential losses mentioned, it is expected that closing Pontiac Correctional Center would result in substantial negative impacts to the Central Illinois economy. Changes associated with the closure would include job losses, reduced economic activity, and declines in public revenues. The consequences would be experienced by residents, businesses, and governments throughout the area.

A summary of the impacts linked to the closure include:

	<u>Livingston County</u>	<u>Region</u>
<u>Direct losses</u>		
Loss of PCC Employees:	284 positions	466 positions
Annual reduction in Spendable Income:	\$18.2 million	\$29.9 million
Local contractual/commodity purchases	\$5.4 million	\$5.6 million
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<u>Related losses</u>		
Decline in FT/PT employment:	214 positions	366 positions
Annual loss of Labor Income:	\$6.64 million	\$12.1 million
Annual loss in Output:	\$26.6 million	\$45.2 million
Annual loss in Total Value-Added:	\$11.2 million	\$21.3 million
Annual loss in public (local/state/federal) revenues:	\$2.9 million	\$5.75 million

2. Data & Methodology

The analysis utilizes data distributed by the Minnesota IMPLAN Group featuring a complex collection of secondary data from Regional Economic Information Systems (REIS), Bureau of Economic Analysis, Bureau of Labor Statistics, US Census Bureau, and Department of Labor. In addition, data on facility employment, payroll, and operating costs was provided by the Illinois Department of Corrections and the Commission on Government Forecasting and Accountability.

The economic impacts generated in IMPLAN modeling are reported as annualized changes in a variety of categories, including

- **Output:** represents the value of production. **Output= Sales +/- Inventory Change (note: only local operating costs and purchases were included as PCC's Output);**
- **Employment:** full-time and part-time employment;
- **Labor Income:** Employee compensation (Total payroll costs including salaries, wages, bonuses, benefits and employer-paid retirement), proprietor (self-employed) income;
- **Total Value-Added:** Include Employee Compensation, Proprietors Income, Other Property Type Income, and Indirect Business Taxes;
- **Public Revenues/Tax Impact:** Include payroll taxes, property taxes, sales taxes, and other business taxes at local/state and federal levels.

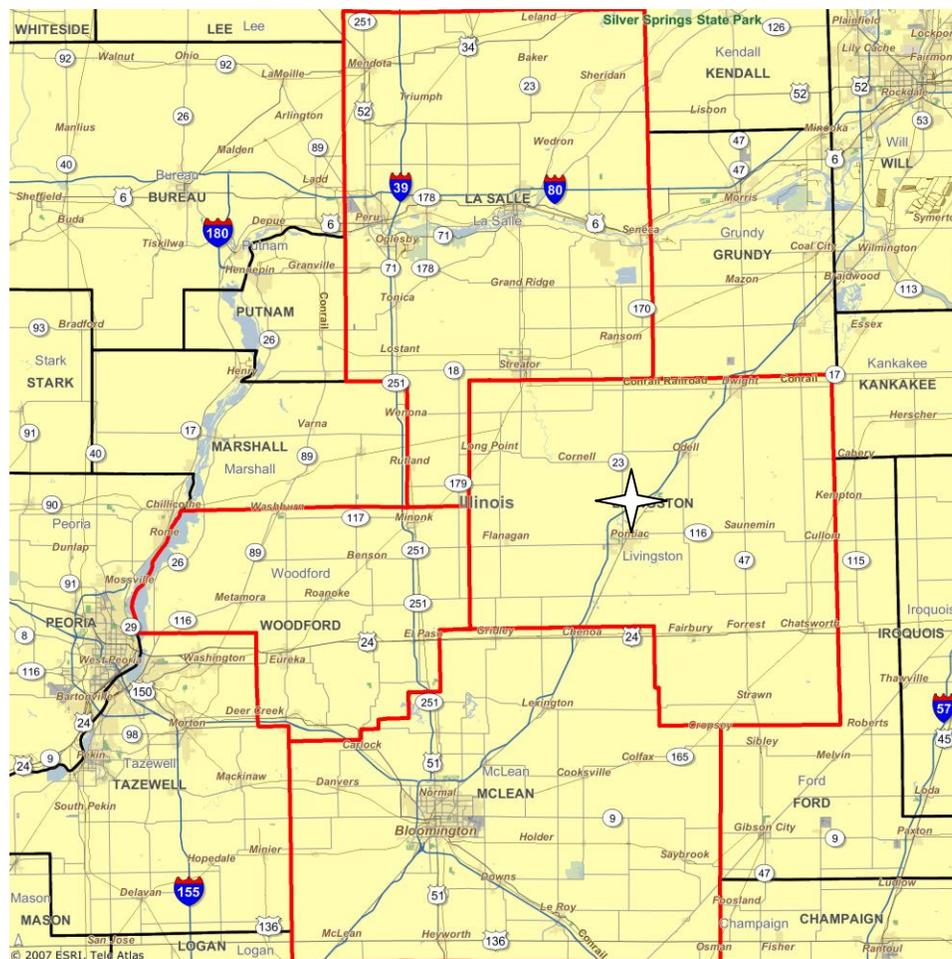
To capture the full range of impacts across an area's economy, the effects for each category consist of activity at three different levels, including:

- **Direct Effects:** changes associated with the targeted industry (i.e., PCC);
- **Indirect Effects:** changes in inter-industry purchases as they respond to the changes in demand; and
- **Induced Effects:** the changes in levels of household spending corresponding with the economic shocks.

3. Study Areas

The areas considered in the analysis represent the primary labor-shed for the current IL DoC facility at Pontiac, Illinois. The first area, Livingston County (pop. 39,678 /2000 US Census), is the county of residence for 50 percent (284) of the facility's employees. A larger region was also selected as study area. The great majority of PCC employees, 84 percent (466) reside within the region consisting of LaSalle, Livingston, McLean, and Woodford Counties (pop. 337,089/2000 US Census) (see Figure 1).

Figure 1. Counties in study areas



 = Location of Pontiac Correctional Center facility

4. Results

The closure of the Pontiac Correctional Center would result in significant economic loss to central Illinois. One series of losses would be associated with the discontinued facility purchases of contractual services and commodities from local vendors.

Currently, annual expenditures by PCC amount to \$5.4 million in Livingston County and \$5.6 million within the four-county region. Economic interactions linked with PPC's local and regional purchasing generate or support the following outcomes annually:

	Livingston County	Four-county region
Employment (FT/PT jobs):	98.7	105
Labor Income:	\$3.72 million	\$4.02 million
Economic Output:	\$6.47 million	\$7.46 million
Total Value-Added:	\$4.75 million	\$5.29 million
Public Revenues:	\$1.17 million	\$1.34 million

A second and far greater series of losses would be associated with removal of PCC employees' income from the local and regional economy. One half of PCC's employees reside in Livingston County and more than 83 percent of the facility's staff in the larger region. Annual earnings for PCC employees in the two areas are \$24.3 million and \$41.1 million, respectively. Not all of this will be available for consumption. The total amount of "spendable income" was determined by applying a coefficient (.751/Livingston County and .726/4-county region) representing income less taxes, savings, and other fixed items². Accordingly, PCC employees spendable income influencing the Livingston County and regional economies total \$18.2 million and \$29.9 million, respectively. The economic interactions associated with this income play an important role in central Illinois. Among the characteristics affected include:

	Livingston County	Four-county region
Employment (FT/PT jobs):	115.6	261
Labor Income:	\$2.9 million	\$8.1 million
Economic Output:	\$20.1million	\$37.8 million
Total Value-Added:	\$6.5 million	\$16 million
Public Revenues:	\$1.78 million	\$4.4 million

5. Conclusions

Closure of the Pontiac Correctional Center would have deep and significant negative impacts on the local and regional economies. The consequences will extend far beyond the loss of employment, personnel compensation, and operating expenditures from the PCC facility. In Livingston County and the four-county region, the facility projects Employment Multipliers of 1.71 and 1.78. Labor Income Multipliers for the same areas

² Methodology suggested in IMPLAN Users Manual. Coefficients represent the ratio of the proportion of Employee Compensation paid to Households * Proportion of Household Personal Income used to buy goods and services.

are 1.27 and 1.29, respectively. Accordingly, one position and \$1 of payroll at PCC generate or support .71 positions and .27 in annual labor income within Livingston County and .78 positions and .29 annual income within the larger area. Without the facility, the jobs and income could not be supported and would likely be lost. Loss of employment and annual labor income could range from 214 positions and \$6.6 million in Livingston County to 366 positions and more than \$12 million in the region.

The industries most affected offer a range of wages and salaries and include:

- Food services and drinking places
- Offices of physicians- dentists- and other health
- Hospitals
- General merchandise stores
- Nursing and residential care facilities
- Food and beverage stores
- Wholesale trade

Closure of PCC would have a significant impact on the area's total economic output. The loss of the facility and its employees would result in a reduction in overall sales and production of goods and services. Livingston County would likely realize a loss in output totaling more than \$26 million. The four-county region would experience a loss exceeding \$45 million. The industries anticipated to lose employment are also forecasted to experience declining sales and production. Down-sizing, reduction in services, and relocation are among the likely responses by at-risk industries. Such actions would result in lack of access to a range of health care providers and services among the remaining residents.

Another industry expecting negative impacts re: sales/production is Local Government. While PCC purchases most of its utility services from vendors outside the area, sewage and waste water services are contracted with the City of Pontiac. The loss of the Center will result in a reduction of almost \$200,000 in that department's revenues. Closing the Pontiac facility is expected to lead to declines in annual revenues among local, state, and federal governments totaling \$2.9 million (Livingston County) and \$5.75 million (four-county region). The loss in annual revenues will be systemic. Sales tax collections from sales of autos, appliances, and other "big-ticket" items will decline as consumer confidence shrinks and uncertainty increases. Fewer housing sales and reduced housing values will erode the region's overall Equalized Assessed Values and property tax bases. It will be an unfortunate irony that governments will be facing revenue losses at a time when the economic conditions require greater expenditures as they respond to the growing needs of remaining residents.

While these numbers reflect substantial economic impacts to the region, they do not represent all of the losses that would occur with the closing of Pontiac Correction Center. The study's geographic focus was constrained so as to represent a more realistic picture of the effects on Livingston County and the surrounding region. As reported, the impacts represent the losses associated with up to 84 percent of the facility's total workforce. Should the loss of the facility's entire workforce be examined, the results would identify even greater negative impacts for the economy and residents of Central Illinois.