



# The Economic Impacts Of Buying Locally: SCF Arizona Case Study



Local **First**  
ARIZONA



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## **1.0 Introduction**

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Applied Economics was retained by Local First Arizona to perform an economic benefit analysis of the operations of SCF Arizona on the State of Arizona. SCF Arizona was founded in 1925 as part of the Industrial Commission of Arizona. Since that time, they have emerged as the largest provider of worker's compensation insurance in Arizona. SCF Arizona is focused on finding innovative solutions for customers to protect and optimize their workforce. It is also part of their corporate mission to dedicate time and resources to have a positive impact on the communities they serve.

SFC Arizona currently has 555 employees at seven locations throughout Arizona including the headquarters in Phoenix and branch offices in Flagstaff, Lake Havasu City, Prescott, Show Low, Tucson and Yuma. SCF Arizona serves more than 42,000 businesses and more than 700,000 employees statewide. Figures included in this report are based on 2009 expenditures and employment levels provided by SCF Arizona.

The information and observations contained in this report are based on our present knowledge of the components of development, and of the current physical, socioeconomic and fiscal conditions of the affected areas. Estimates made in this analysis are based on hypothetical assumptions, current tax policies, and the current economic structure of the region. However, even if the assumptions outlined in this report were to occur, there will usually be differences between the estimates and the actual results because events and circumstances frequently do not occur as expected. This analysis is based on the best available information and is intended to aid Local First Arizona in demonstrating the impacts SCF Arizona has within the state. In no way will Applied Economics be held responsible or have any liability or be subject to damages as a result of this analysis. This report may be used only for the purposes that it was intended.

## 2.0 Impact Summary

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The economic benefits resulting from SCF Arizona include the direct activity created by the insurance carrier itself, as well as the impacts created by local supplier purchases, claims payments and employee spending. Economic impacts measure the effects of economic stimuli, or expenditures, in the local economy. All industries have some kind of economic impact in the rest of the economy. Industries like SCF Arizona that pay higher wages and have strong supplier relationships with other local industries have higher local economic impacts than firms that do not possess these characteristics. These impacts include direct and indirect jobs, personal income, and economic activity, or output, that is generated by SCF Arizona. Indirect impacts are the result of the multiplier effect and capture supported supplier and consumer businesses and their employees throughout Arizona that benefit from this locally-based company.

The operations of SCF Arizona detailed in this analysis provide substantial economic benefits to the state. These positive impacts include the following:

### Economic Impacts

- **Overall Operations Impacts.** All total, SCF Arizona created an annual impact of \$528.3 million on the Arizona economy in 2009. The operations of SCF Arizona directly and indirectly support an estimated 3,600 jobs and \$204.5 million in personal income in Arizona.
- **Jobs and Income.** The facility directly employs about 555 people with a combined payroll of \$32.8 million annually and additional bonuses and incentive pay of \$3.6 million in 2009. Through the multiplier effect, an additional 3,000 jobs and \$167.9 million in annual payroll are supported annually at other businesses throughout the state. These additional jobs and payroll stem from direct and indirect impacts of supplier demand created by SCF Arizona and consumer demand created by its employees.
- **Local Vendor Spending.** SCF Arizona made an estimated \$38.5 million in local purchases for various services and supplies in 2009, representing 82 percent of total vendor purchases in that year. Based on the share of vendor purchases that are made locally, the annual economic impact of vendor purchases on the state is estimated at \$68.2 million in 2009. This impact is included in the overall operations impact above.
- **Capital Expenditures.** SCF Arizona also made local equipment purchases of \$770,000 and construction expenditures of \$2.9 million for tenant improvements in 2009 that contribute to the company's overall impacts. The \$3.7 million in capital equipment and construction created an economic impact of \$6.3 million in Arizona along with 43 jobs and \$2.3 million in personal income.
- **Employee Spending.** Another component of the overall operations impact comes from employee spending. The 555 current employees working at SCF Arizona also

make a significant amount of local purchases. The effect of employee purchases generated a total economic impact of \$43.5 million on the state in 2009.

- **Claims Payments.** In addition to other local spending, SCF Arizona paid out \$150.1 million in claims to medical providers in the state. These payments created an annual economic impact of \$265.8 million in 2009.

## **Revenue Impacts and Corporate Contributions**

- **Direct Revenue Impacts.** SCF Arizona generates a significant amount of direct tax revenues to state and local governments in Arizona, in addition to the economic impacts described above. Annual property tax revenues paid by the company are estimated at \$1.4 million per year. In addition, the company generates a significant amount of state, county and city sales taxes that are not captured here. Finally, SCF Arizona is subject to insurance premium taxes in Arizona that are estimated at \$10.5 million per year.
- **Indirect Revenue Impacts.** In addition to direct revenues, SCF Arizona generates substantial indirect property, sales and personal income tax revenues in Arizona through employee spending and property ownership. Indirect revenues are estimated at an average of \$23.7 million per year to state and local governments.
- **Corporate Contributions.** SCF Arizona also plays an important role as a corporate citizen in Arizona. In 2009, despite the downturn in the economy, SCF Arizona made \$570,000 in corporate contributions to non-profit entities with 61% going to business related events, as well as \$239,700 in employee matching contributions and United Way contributions. In addition, SCF employees volunteered more than 5,800 hours in their local communities.

**FIGURE 1**  
**SUMMARY OF RESULTS**  
(millions of dollars)

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<b>2009 SCF Arizona Profile</b>	
Employees	555
Payroll	\$32.78
Benefits	\$11.73
Annual Earned Premiums	\$275.00
Dividend Payments to Policyholders	\$11.20
Local Claims Payments	\$255.55
Charitable Contributions (100% in AZ)	\$0.81
Employee Volunteer Hours	5,807
Local Vendor Spending	\$38.46
Percent of Total Expenditures in Arizona	82%
Claims Payments to Local Medical Providers	\$150.10
<b>Annual Economic Impacts</b>	
Total Output	\$528.27
Total Personal Income	\$204.48
Total Jobs	3,573
<b>Annual State and Local Revenue Impacts</b>	
Property	\$6.72
Sales	\$14.57
Personal Income	\$3.83
Insurance Premium	\$10.45
Total	\$35.57

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Source: Applied Economics, 2010.

### 3.0 Economic Impacts

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Economic impact analysis is a means for identifying the nature of changes in jobs, personal income and business activity that can occur in a given area as a result of a project or program. Economic impacts include direct and indirect jobs, personal income, and economic activity or output that is generated by the facility through its operations. Indirect impacts are the result of the multiplier effect, and capture supported supplier and consumer businesses and employees throughout Arizona that benefit from SCF Arizona. Multiplier effects are a way of representing the larger economic effects on the local economy. In essence, the multiplier effect represents the recycling of local spending that, in turn, creates new business opportunities.

Direct impacts include employees and payroll at SCF Arizona as well as the value of services they provide. Total jobs include local vendors from whom SCF Arizona makes purchases, local establishments where employees shop and local medical providers that receive claims payments on behalf of injured workers. These local vendors and their employees in turn make additional local purchases that are captured in the total impact estimates. The total impact includes both the direct impacts and the secondary impacts created by other local businesses and their employees. Additional purchases by both SCF Arizona and its employees will also occur outside the region and are not represented here.

#### Operations Impacts

SCF Arizona employs a total of 555 people throughout Arizona with a total annual payroll of about \$32.8 million (Figure 2). This results in an average wage per employee of \$59,100, which is well above the all-industry average wage for Arizona. In addition, SCF Arizona provides a substantial employee benefit package including health, short and long term disability, life insurance, employee assistance programs, retirement benefits, child and elder care resources and a variety of other programs. On average, employee benefits add an additional 47 percent to total employee compensation.

**FIGURE 2  
EMPLOYMENT AND PAYROLL  
SCF ARIZONA  
2009**

Employees	555
Payroll	\$32,775,977
Average Wages per Employee	\$59,056
Benefits	\$15,370,304
Benefits as Percent of Payroll	47%

Source: SCF Arizona.

#### Vendor Spending

A significant component of SCF Arizona's impact is local supplier purchases. Approximately 82 percent of total vendor spending is from in-state vendors, which is very high even for a locally based company. This is due in part to the fact that the majority of purchases made by SCF

Arizona are services rather than manufactured goods, which are more likely to be available locally. Major local purchases include professional services, advertising, computer maintenance, utilities, and building maintenance (Figure 3).

**FIGURE 3  
PRIMARY LOCAL PURCHASES  
SCF ARIZONA**

Goods and Services	2009
Safety Association Fees	\$8,885,195
Professional Services	\$3,723,014
Advertising	\$2,237,209
Computer Maintenance	\$1,009,652
Utilities	\$963,371
Building Maintenance	\$889,558
Postage and Freight	\$774,306
Bank Charges	\$745,007
Computer Software	\$957,316
Training	\$715,742
Telecommunications	\$712,153
Insurance	\$674,744
Operating Supplies	\$665,668

Source: SCF Arizona.

In 2009, SCF made close to \$38.5 million in purchases from local vendors (Figure 4). As purchases are made from local vendors they, in turn, support jobs and payroll in Arizona. There is also additional local spending that may take place on behalf of the local vendors that supports additional jobs and payroll. SCF's local vendor purchases support an annual economic impact of \$68.2 million statewide and support about 620 jobs at local vendors and their suppliers.

**FIGURE 4  
LOCAL SUPPLIER SPENDING IMPACTS  
SCF ARIZONA  
2009**

	Direct			Total		
	Local Expenditures	Supported Jobs	Personal Income	Output	Supported Jobs	Personal Income
<b>Vendor Purchases</b>	\$38,462,238	384	\$16,803,942	\$68,183,802	617	\$26,697,475
Training	\$715,742	10	\$313,286	\$1,257,642	14	\$495,911
Travel	\$169,555	2	\$59,159	\$278,040	3	\$94,952
Professional Fees & Outside	\$15,658,459	223	\$8,060,690	\$30,223,119	337	\$12,890,298
Supplies, Utilities, Insurance	\$7,971,159	45	\$2,518,446	\$13,496,825	88	\$4,378,797
Claims Adjustment Expenses	\$7,689,070	49	\$3,927,083	\$13,500,941	96	\$5,854,659
<b>Other Non-Operating Expenses</b>	\$150,100,000	1,176	\$89,450,817	\$265,766,240	2,086	\$128,222,998
<b>Capital Equipment &amp; Construction</b>	\$3,714,706	24	\$1,381,228	\$6,280,568	43	\$2,288,597

Note: Other expenses include claims payments to medical providers.

In addition to vendor spending, SCF Arizona also had paid \$150.1 million in claims to medical providers, creating a significant impact in the local health care industry. These claims payments generate an annual economic impact of \$265.8 million in Arizona along with about 2,100 jobs and \$128.2 million in payroll or personal income.

SCF Arizona also made local equipment purchases of \$770,000 and construction expenditures of \$2.9 million for tenant improvements in 2009. This represents a fairly typical level of annual capital expenditures. The \$3.7 million in capital equipment and construction created an economic impact of \$6.3 million in Arizona along with 43 jobs and \$2.3 million in personal income.

It is important to note that locally owned companies are generally more likely to procure products and services from other local vendors. This is particularly true for procurement of professional services, such as accounting, legal, advertising and other business support services. The high share of SCF purchases from local vendors results in a much higher indirect economic impact than would occur from a national insurance carrier with local employees but limited local procurement.

### Employee Spending

SCF Arizona currently employs about 555 full time employees with total payroll and incentive pay of \$32.8 million. The average wage per employee is estimated at \$59,100 plus incentives, which is well above state average wage levels. These workers represent a substantial amount of purchasing power that supports additional jobs and payroll at local retail and service establishments throughout the region. Based on the Census Consumer Expenditure Survey, it is estimated that employees spend approximately 83 percent of their income on goods and services. Most of this spending occurs locally.

Employee spending created an estimated annual economic impact of \$43.5 million in Arizona in 2009 (Figure 5). Through this spending, SCF Arizona indirectly supports about 270 jobs and \$10.7 million in payroll through the state.

**FIGURE 5  
HOUSEHOLD SPENDING IMPACTS  
2009**

	Direct			Total		
	Local Expenditures	Supported Jobs	Personal Income	Output	Supported Jobs	Personal Income
Employee Spending	\$30,225,292	166	\$6,408,820	\$43,535,785	272	\$10,739,348

Note: Employee expenditures include payroll plus incentive pay and bonuses.

## Overall Economic Impacts

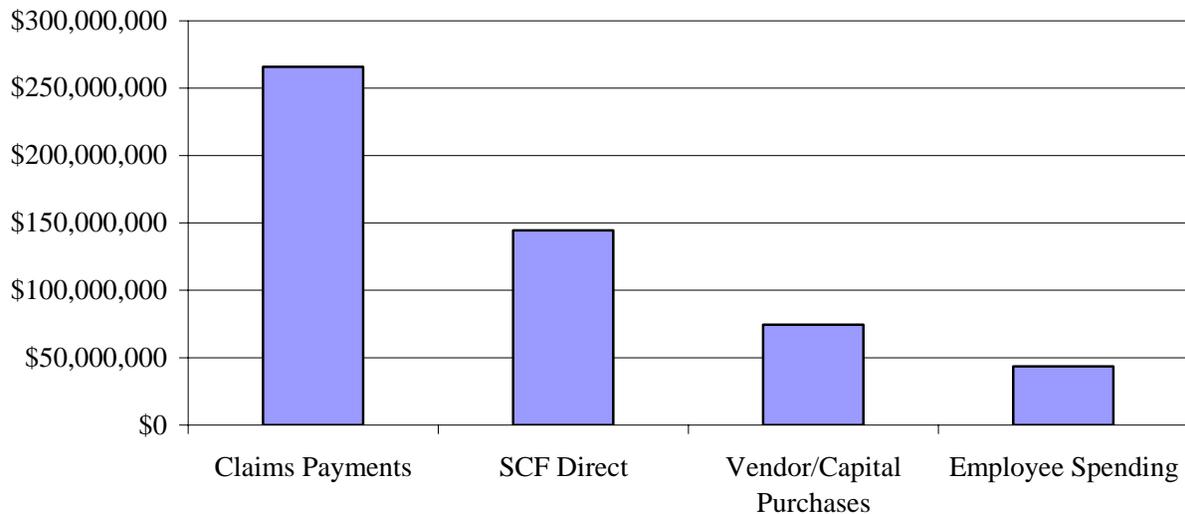
The composite operations impact results presented here are broken down in terms of direct impacts, indirect impacts (vendor purchases, capital expenditures and claims payments), induced impacts (employee spending) and total impacts. All total, the operations of SCF Arizona create a total economic impact of \$528.3 million in Arizona's economy each year, directly and indirectly supporting about 3,600 jobs and \$204.5 million in annual personal income (Figures 6 and 7).

**FIGURE 6**  
**ANNUAL DIRECT AND TOTAL OPERATIONS IMPACT OF**  
**SCF ARIZONA ON THE STATE OF ARIZONA**  
**2009**

	Output	Jobs	Personal Income
<b>Direct Impacts</b>			
SCF Operations	\$144,504,762	555	\$36,533,606
<b>Indirect Impacts</b>			
Vendor Purchases	\$68,183,802	617	\$26,697,475
Capital Equipment & Construction	\$6,280,568	43	\$2,288,597
Claims Payment to Medical Providers	\$265,766,240	2,086	\$128,222,998
<b>Induced Impacts</b>			
Employee Spending	\$43,535,785	272	\$10,739,348
<b>Total</b>	<b>\$528,271,157</b>	<b>3,573</b>	<b>\$204,482,024</b>

Source: Applied Economics, 2010.

**FIGURE 7**  
**SCF ARIZONA TOTAL ECONOMIC IMPACTS BY TYPE**



Note: Claims payments include only payments made directly to medical providers.

Direct impacts include the direct value of services provided by SCF Arizona. Direct output is a proxy for the value of these services. Direct jobs represent employees at SCF offices. Total jobs include local supplier businesses where SCF Arizona makes purchases, medical providers that receive claims payments, and local establishments where employees spend their income. These supported local businesses and their employees in turn make additional local purchases that are captured in the total impact estimates. The total impact includes both the direct impacts and the secondary impacts created by other local businesses and their employees.

The secondary, or indirect and induced, impacts presented here are called multiplier effects. Multiplier effects are a way of representing the larger economic effects on the local economy. Multiplier effects translate an increase in output (loosely defined as sales, less profits) into a corresponding increase in jobs and personal income. In essence, the multiplier effect represents the recycling of local spending. This recycling process creates new business opportunities.

The multipliers used in this analysis are from IMPLAN, a national vendor of economic impact software, and are specific to Arizona. Industry specific multipliers were used for each category of vendor purchases and household consumption multipliers were used to model employee spending. On average, the output multiplier for SCF Arizona operations is 1.8, excluding claims payments to medical providers. This means that for every \$1 million of output or value of services provided by SCF Arizona, an additional \$800,000 in economic activity is generated in the state's economy. When claims payments to medical providers are included, the overall multiplier increases to 3.7, meaning that for every \$1 million of direct output by SCF, an additional \$2.7 million of economic activity is generated in Arizona along with 25 jobs and \$1.4 million of payroll.

### **Corporate Contributions**

In addition to creating economic impacts, SCF Arizona supports the non-profit community. In 2009, despite the economic downturn, SCF Arizona made \$570,000 in corporate contributions to non-profit entities with 61% going to business related events, as well as \$239,700 in employee matching contributions and United Way contributions. SCF also encourages its employees to support the community. SCF employees volunteered over 5,800 hours to local charitable organizations in 2009. This type of locally-oriented corporate support is generally unique to locally owned companies.

## 4.0 Revenue Impacts

In addition to supporting jobs and income at related businesses in the area through multiplier effects, SCF Arizona also generates significant local tax revenues. The facility generates property, sales and insurance premium taxes through its own operations. It also indirectly supports additional revenues through employee spending and property ownership. All total, SCF Arizona generated approximately \$35.7 million in direct and indirect revenues to the state, counties and local cities in 2009.

### Direct Revenues

SCF Arizona directly pays about \$1.4 million in local property taxes each year. In addition, they paid close to \$10.5 million in state insurance premium taxes in 2009 (Figure 8). Finally, the company generates state and local sales tax revenues on their own purchases that are not included here.

**FIGURE 8**  
**STATE AND LOCAL REVENUE IMPACTS**  
**2009**

	City and County Taxes		State Taxes		
	Property	Sales	Sales	Personal Income	Insurance Premium
<b>Direct Revenues</b>	\$1,423,310	na	na	na	\$10,450,768
<b>Indirect Revenues</b>					
Direct Employees	\$832,599	\$266,330	\$552,388	\$1,066,325	na
Other Supported Employment	\$4,462,613	\$4,472,815	\$9,276,950	\$2,765,054	na
<b>Total</b>	\$6,718,521	\$4,739,145	\$9,829,338	\$3,831,378	\$10,450,768

Note: Information on direct sales taxes paid not available.

### Indirect Revenues

In addition to direct taxes paid by the company, SCF Arizona employees generate indirect revenues including property, sales and personal income taxes. Using the results from the economic impact analysis, it is possible to estimate these indirect tax impacts.

Direct and indirect employees generated an estimated \$5.3 million in indirect property tax revenues in Arizona in 2009. Indirect property tax revenues were estimated using average assessed per service population (population + employment) in Arizona, times the annual supported population and indirect jobs, times the statewide average property tax rate.

Based on employee payroll at SCF Arizona and personal income for indirectly supported employees, the company supports approximately \$14.6 million in sales tax revenues in 2009 to the state, counties and local cities. This estimate assumes that households spend approximately 28 percent of their wages on goods that are subject to sales tax, based on data from the Census Annual Consumer Expenditure Survey. Applying this assumption to the personal income of

employees and applying an average local (city and county) sales tax rate of 2.7 percent yields state and local sales tax revenues from employee spending.

In terms of state personal income tax, direct and indirect employees generated approximately \$3.8 million in revenues in 2009. State income tax revenues are calculated using average personal income tax liabilities for filers in the appropriate income ranges from the 2009 Annual Report for Arizona Department of Revenue, multiplied by the number of direct and indirect supported employees.

In total, SCF Arizona's operations generate approximately \$11.9 million per year in direct taxes (excluding sales tax) and \$23.7 million each year in indirect state and local revenues.

## 5.0 Summary

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SCF Arizona is a significant contributor to the state's economy. They enhance Arizona's business climate by keeping premiums for workers' compensation insurance among the lowest in the country. Additionally, the money that policyholders save on premiums is pumped back into the local economy because SCF is an Arizona-based company that only does business in Arizona.

SCF also provides high quality jobs to hundreds of workers and supports the local economy with millions of dollars each year in vendor purchases, creating a very significant economic impact in the region and the state. The fact that SCF Arizona makes a sizeable share of vendor purchases from Arizona companies greatly increases the multiplier effect in terms of the share of economic benefits that stay in Arizona. These local vendors, in turn, are also more likely to make purchases in-state, resulting in a cascade of economic benefits to the state.

The findings of this analysis show that locally owned companies with a vested interest in the community in fact do create a greater economic impact, indirectly supporting more jobs, payroll and output locally. They also create a greater revenue impact in that more of the taxes they pay, and their employees pay, stay in Arizona.