

ECONOMIC AND TAX REVENUE EFFECTS OF ELECTROLUX'S LOCATION OF ITS APPLIANCE ASSEMBLY PLANT IN MEMPHIS, TENNESSEE

William F. Fox
Director, CBER

Matthew N. Murray
Associate Director, CBER

Todd R. Yarbrough
Graduate Research Assistant

February 2011



716 Stokely Management Center
Knoxville, Tennessee 37996
Phone: (865) 974-5441
Fax: (865) 974-3100
<http://cber.bus.utk.edu>

Summary of Quantifiable Benefits

Total economic benefits of Electrolux’s location include a \$157.3 million annual increase in personal income, \$14.2 million yearly in state and local tax revenue, and the support of 4,137 full-time equivalent (FTE) jobs (see Table 1). The location increases income by \$2,538.3 million (net present value) over a 30-year time horizon with a corresponding increase of \$228.4 million in state and local tax revenue (see Table 2). The large economic effects result from the 1,500 full-time jobs that Electrolux expects to have at the appliance assembly plant, with a total annual payroll of \$55.0 million. These wages, salaries, and other purchases will work through the state’s economy to produce even more substantial impacts via indirect and multiplier effects. The income, employment, and tax benefits are discussed in the following sections¹.

Table 1: Summary of Annual Benefits

Income	\$157.3
Employment	4,137
Jobs at Electrolux Plant	1,500
State tax revenue	\$7.7
Local tax revenue	\$6.5
Total tax revenue	\$14.2

Note: Dollar values in millions

¹ Estimates provided in this report have not been adjusted for any incentives provided by the state or local governments.

Table 2: Summary of Lifetime Benefits*

Income	\$2,538.3
Employment	4,137
Jobs at Electrolux Plant	1,500
<hr/>	
State tax revenue	\$132.5
Local tax revenue	\$95.9
Total tax revenue	\$228.4

**All dollar valued items in net present value*

Note: Dollar values in millions

In addition to these ongoing benefits, the construction phase for the facility will generate substantial gains for the state. The estimates in Table 3 point to additional income of \$139.3 million and 3,553 full-time jobs for one year. The state should receive \$7.2 million in tax revenue, while local governments will receive \$5.3 million in tax revenue from construction-related activity.

Table 3: Construction

Income	\$139.3
Employment	3,553
<hr/>	
State tax revenue	\$7.2
Local tax revenue	\$5.3
Total tax revenue	\$12.5

Note: Dollar values in millions

Income Benefits

The Electrolux location will increase personal income by \$157.3 million annually. These income benefits are received every year so that they represent \$2,538.3 million (net present value) over the

next 30 years². The total income benefit arises from Electrolux's direct payment of wages and salaries, purchases from suppliers, and broad multiplier benefits. Direct income effects are the payment of \$55.0 million annually in wages and salaries.

Indirect/multiplier effects arise from Electrolux's purchase of supplies, inputs, and services across Tennessee and from spending by Electrolux employees and others who benefit from Electrolux's purchases. Non-payroll expenditures and multiplier-effects would account for \$102.3 million in benefits. Table 4 provides a summary of the income benefits to the state of Tennessee.

Table 4: Income Effects

Annual Effects	
Direct effect	\$55.0
Indirect/multiplier effects	\$102.3
Total income benefits	\$157.3
Lifetime Effects*	
Total income benefits	\$2,538.3

**All dollar valued items in net present value*

Note: Dollar values in millions

Employment Benefits

The location of Electrolux in Tennessee will create 4,137 FTE jobs (see Table 5). Electrolux expects to employ 1,500 people in the appliance assembly plant. New Jobs are also created through Electrolux's purchases from suppliers in Tennessee and from the multiplier effects. Income generated from non-payroll expenditures and multiplier effects will support 2,637 jobs.

Table 5: Employment Effects

Direct Effect	1,500
Indirect/Multiplier effects	2,637

² Assumes three percent annual wage inflation and an eight percent discount rate.

State Tax Revenue Benefits

This report also estimates the state and local tax revenues arising from the location. The income generated by the Electrolux location results in \$14.2 million in annual tax revenues for Tennessee state and local governments. Of that total, approximately 54.1 percent or \$7.7 million would accrue to the state's tax coffers, and the remaining 45.9 percent or \$6.5 million would go to local governments. Tax revenue will increase by \$228.4 million over the 30-year lifetime. Sales tax revenue is the largest source of additional taxes. The tax revenue comes from several sources including Electrolux employees, taxes paid on multiplier income as this is spent on sales taxable items in Tennessee, and business purchases on taxable transactions. Table 6 provides a breakdown of the tax benefits.

Table 6: Tax Effects

Annual Revenue	
Total state taxes	\$7.7
Total local taxes	\$6.5
Total taxes	\$14.2
Lifetime Revenue*	
Total state taxes	\$132.5
Total local taxes	\$95.9
Total taxes	\$228.4

**All dollar valued items in net present value
Note: Dollar values in millions*

Intangible Benefits

The location of a major appliance assembly plant in Tennessee provides a series of additional benefits that are not easily quantifiable but can be of considerable importance. First, the location can result in the creation of even more jobs for the state. The demonstration effect of having a large and

prominent firm like Electrolux consider many options across the country and choose Tennessee can cause other firms to examine Tennessee locations more carefully. This will increase the chance that more appliance assembly plants and other manufacturing facilities, as well as firms in other sectors, come to Tennessee. Also, Electrolux could expand the size of the manufacturing facility and add to Tennessee's employment base once the initial jobs are here. The rapid expansion of other Tennessee manufacturing facilities over the past several decades provides an example of how employment in future years can easily exceed the employment expectations at the time the location is announced. In addition, training and education programs available to employees at firms such as Electrolux are a valuable means of enhancing the quality and skill levels of the Tennessee labor force.

Second, the location offers many benefits beyond those accruing in jobs and income. For example, Electrolux's managers will be important leaders in communities throughout the Memphis area, thereby benefiting educational, cultural, and philanthropic organizations. Their leadership can enhance the quality of life around the state as it improves educational, cultural and other opportunities. Further, Electrolux may make sizeable contributions to charitable and not-for-profit organizations. Electrolux's employees will also make important contributions to not-for-profit and charitable organizations. The company and employee contributions will go far towards improving our quality of life.

Summary

The Electrolux location is expected to generate nearly \$160 million dollars in income each year, create more than 4,000 jobs, and produce \$14.2 million in state and local tax revenue each year. In addition, Tennessee will receive a series of intangible benefits, such as enhanced visibility and leadership. Based on this analysis, the state will see income rise by over \$2.5 billion and tax revenues by more than \$225 million over a 30-year lifetime.