

ECONOMIC IMPACT REPORT



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Economic Impact Report

OHIO MINORITY SUPPLIER DEVELOPMENT COUNCIL

EXECUTIVE SUMMARY

Since its inception in the 1970's, the Ohio Minority Supplier Development Council (OMSDC) has been:

- **Certifying** Minority Business Enterprises (must be 51% owned, operated and controlled)
- **Connecting** certified Minority-owned Business Enterprises (MBEs) with Corporate Members (public and private corporations) interested the inclusion of MBEs within their procurement processes
- **Advocating** on the behalf of both its Corporate Members and certified MBE community to encourage greater diverse supplier participation within corporate supply chains.

Originally the OMSDC covered Ohio through four separate entities responsible for Columbus, Dayton, Cincinnati and Cleveland respectively, but by 2013 all territories had been consolidated under one entity, which today is OMSDC.

Early in 2017, the Ohio Minority Supplier Development Council (OMSDC) retained The Institute for Thought Diversity to conduct a study to assess the economic impact that the OMSDC certified MBE community has on the state's 88 counties, representing OMSDC's footprint. This impact includes the increased business activity created by the 388* OMSDC certified Minority Business Enterprises (MBEs), the jobs that are maintained/created as a result of this activity throughout the various sectors of state's economy, and the incremental business taxes that are generated.

The results of the study are that today, OMSDC certified MBEs are the primary catalyst for the generation of over \$11.8 billion in output that results in the creation of and/or preservation of more than 52 thousand jobs held by persons who find themselves either directly or indirectly employed by OMSDC certified MBEs. These are jobs that not only support individuals, but also contribute to the economic wellbeing of their families, their communities, and the state of Ohio as a whole. This is particularly striking in a time when unemployment is at an all-time high within many minority communities. These same individuals are also contributing over \$1.2 billion to the tax base of state (\$828M federal and \$421M state and local taxes) that have historically struggled with enormous budget deficits.

With the rapidly changing demographics of the United States, Minority owned businesses are arguably one of the fastest growing sectors of small business segment. This is particularly significant given that it has been well documented that the small business segment is responsible for the majority of the new jobs created in the United States over the past few years. Thus, it stands to reason that ensuring the success of Minority-owned businesses will have significant, positive effects on both the United States economy in general and the Ohio economies in particular. Simply put, Ohio's fledgling economy cannot reach its full and true potential unless the minority business community is growing and reaching its full and true potential. The Ohio MSDC has a long-standing history as a being a catalyst for that growth.

* The number of certified MBEs as of August 2017

INTRODUCTION AND PURPOSE

In recent years, Minority-owned firms have been growing at almost twice the rate (39%) of all other groups despite the fact recent economic challenges may have dampened business growth for a few segments.

Over the past six years, since the depth of the U.S. recession, which according to the National Bureau of Economic Research (NBER) was officially from December 2007-June 2009, the only businesses that have provided a net increase in employment are large, publicly traded corporations and privately held majority minority-owned firms. In all other privately held firms, employment has declined over the 2007–2013 period.

The purpose of this study is to present empirical evidence demonstrating the positive impact that the OMSDC certified minority business community has on the Ohio economy. This will be accomplished by examining the economic impact of the OMSDC MBE community through the lens of job creation, income generation and the contribution to the state's tax revenue collection.

METHODOLOGY OF THE STUDY

The economic impact of the 388 MBEs certified by the Ohio Minority Supplier Development Council (OMSDC) was estimated using classic input-output model methodology in combination with regional specific Social Accounting Matrices and Multiplier Models. In this input-output model, the business sectors of the economy being examined are organized according to who makes what outputs and who uses what inputs (Imagine a matrix).

The benefit of using input-output methodology is that it helps evaluate the effects of OMSDC MBEs on each other and all other industries within the territory covered by the OMSDC (in this case the state of Ohio). This interrelatedness between and among all businesses within the OMSDC footprint is rooted in the supposition that all businesses use the outputs of each other as inputs. An input-output model makes it possible to examine economic relationships between businesses as well as between business and consumers. It measures changes in any one or several economic variables in all of the territories covered by the OMSDC.

Strictly speaking, each industry that produces goods and services has an influence on, and in turn is influenced by, the production of goods and services of other industries. These interrelationships are captured through a multiplier effect as the demand and supply from various industries trickle over from business to business. This allows for the quantification of the cumulative total economic impact, which includes output, compensation, employment, local, state and federal tax revenue (Varshney & Tootelian, 2009).

THE MULTIPLIER EFFECT

Having a workable understanding of the multiplier effect mentioned in the previous section is crucial to better understanding of the methodology of this study and, as a result, a better understanding of the results being reported. The multiplier effect in this study is based on the data extracted from OMSDC certified MBEs and reflects the increased economic activity that comes from sales being generated, and expenses being incurred, by OMSDC certified businesses.

When an OMSDC MBE generates sales, it must use some of that money to purchase other goods and other services and hire people to meet the demand for its products and services. Purchases made by OMSDC MBEs are representative of sales to other firms who must then also purchase goods and services and hire people to meet their own new demand. The additional hiring to meet this increased demand means more people will have income that will be used to purchase goods and services for their households and families. All of this brings added sales to businesses in the community. The net effect is that OMSDC MBE sales dollars are recycled in the community through this process of sales requiring additional purchases and employment, which result in sales for other businesses who must use that money to make their own purchases and hire people.

SCOPE OF THE STUDY

This research focuses on the economic impact of OMSDC certified minority business enterprises on the regional economy (and ultimately the US economy) and is comprised of several components. Specifically, the report analyzes three types of economic impacts:

- 1. Output Effect:** A measure of total sales or revenues generated by OMSDC certified MBEs.
- 2. Income Effect:** A measure of total income generated within the OMSDC footprint by certified MBEs.
- 3. Employment Effect:** A measure of jobs created within the state by OMSDC certified MBEs.

In addition, the direct, indirect and induced impacts of the above categories are also examined. The full range of economic impacts includes direct, indirect and induced impact.

- **Direct Impacts** consist of economic activity contained exclusively within the designated sector(s). This includes all expenditures made and all people employed by the diverse suppliers. □
- **Indirect Benefits** define the creation of additional economic activity that results from linked businesses, suppliers of goods and services, and provision of operating inputs. □
- **Induced Benefits** measure the consumption expenditures of direct and indirect sector employees. Examples of induced benefits include employees' expenditures on items such as retail purchases, housing, banking, medical services, and insurance. □

ECONOMIC IMPACT SUMMARY

The economic impact analysis in this study was conducted for the total expenditures of 388 OMSDC certified MBEs. As a result, in order to qualify for and be included in the study, the MBEs had to be certified and in good standing with the OMSDC. Lastly, it should be noted that this analysis is based on annual revenues of OMSDC MBEs, meaning that this impact is what is expected to occur each year that such spending with the MBE community occurs.

The Output, Employment, Labor Income, and Indirect Business Taxes for the OMSDC MBEs in aggregate is summarized and presented in the table below.

| SUMMARY FOR TOTAL ECONOMIC IMPACT | TOTAL | PER DAY |
|--|------------------|--------------|
| Output | \$11,824,614,245 | \$32,396,203 |
| Employment | 52,960 | N/A |
| Labor Income | \$ 3,822,575,672 | \$10,472,810 |
| Tax Impact (local, state and federal) | \$1,250,144,467 | \$3,425,053 |

Output

The overall Output, or the amount of overall business activity created by OMSDC MBEs, is more than \$11.8 billion, which equals nearly \$32 million per day. This includes \$6.34 billion in direct spending with the OMSDC MBE community (“Direct”), the \$2.68 billion of additional business activity created by that spending (“Indirect”), and the \$2.81 billion of additional business activity created by people’s spending caused by the incremental labor income (“Induced”).

Employment

There are 52,960 jobs that are created or maintained within the OMSDC footprint as a result of the activities of the OMSDC MBE community. 16,033 of these jobs are people that are directly employed by Ohio MSDC MBEs while the remaining 36,927 jobs would not be possible without the expenditures of either the WBE companies or their employees and their families.

Labor Income

The 388 OMSDC certified MBEs disbursed \$2.01 billion in salaries, wages and benefits to the 16,033 employees measured in direct labor income. This direct labor income served as a catalyst for the \$926 million in indirect income paid to the supplier community. It is necessary to remember that these

businesses had to hire these additional employees to meet the business demands of 388 certified MBEs. The induced income is estimated to be a little more than \$879 million bringing the total labor income effect to more than \$3.8 billion, which equates to more than \$10.4 million per day.

Tax Revenue

TAX IMPACT: Federal, State, Local

| SUMMARY FOR TAX IMPACT | TOTAL | PER DAY |
|------------------------|---------------|----------------|
| State/Local | \$421,189,050 | \$1,153,942.60 |
| Federal | \$828,955,417 | \$2,271,110.73 |

State/Local

At the state level, more than \$421 million in additional tax revenue was created from the increased business activity caused by Ohio MSDC minority suppliers, equating to approximately \$1.12 million each day of the year. Most, if not all, state governments rely primarily on taxes to fund the public services that they provide to the individuals and businesses located in them and Ohio is no different. Given these facts it stands to reason that an economic impact study must touch on the impact that the OMSDC certified MBEs have upon the state and local tax base.

Federal

Finally, approximately \$828 million in additional tax revenue will be created from the business activities of the Ohio MSDC MBEs, equating to more than \$2.27 million each day of the year. These are tax dollars generated from MBE businesses, their suppliers, their families and etc. None of which would be possible without the heightened economic activity and the increased employment originating with the Ohio MSDC MBE community.

To understand how important federal tax revenue is to the United States as a whole, in 2016, the U.S. government (federal, state and local) will amass about \$6.6 trillion in revenue with the largest part being \$2.3 trillion coming from income tax collection. Next in line are social insurance taxes, including Social Security, unemployment and hospital taxes, totaling another \$1.8 trillion. Sales taxes and property taxes (also known as ad valorem taxes), will amount to about \$1.4 trillion in 2016. All totaled this means that roughly 84% of the governments' budget comes from the business sector.

SUMMARY AND CONCLUSION

Relevance of Minority Owned Businesses

According to a Department of Commerce study, the minority population will contribute as much as 70% of the total increase in purchasing power from 2000 to 2045. A joint report from the Milken Institute and the Minority Business Development Agency (MBDA) suggests that the number of minority business owners in the U.S. (currently estimated at 3.3 million) is growing at a rate of 17% annually, a staggering six times faster than the growth rate of all firms. Overall, sales from diverse businesses are growing at a rate of 34% a year, which is twice as fast as the national average. The report concludes that minority businesses are a driving force behind growth and will be a major segment of the U.S. economy in the 21st century as a transition to a more diverse demographic majority occurs (Hinson, 2009).

Ensuring the success of minority and women owned businesses, which combined are the fastest growing segment of small business, will have significant positive effects on the state of Ohio as well as the overall U.S. economy.

Economic Impact of OMSDC

One of the primary goals of the OMSDC is to promote minority business participation in the procurement process in order to create economic wealth in minority business communities throughout the state of Ohio. This is important because wealth creation is the end result of successful businesses. Wealth-creating businesses hire more people, invest more in their communities and actively participate in philanthropic activities; thus, delivering more social value.

According to the “Cultures of Giving” report by the W.K. Kellogg Foundation, minorities on average are more prone to giving than their non-minority counterparts and in some cases, giving up 25% more (Gravelly, 2014). The creation of healthy minority businesses that will in turn help their socio-economically challenged communities solve some of the existing problems is the core mission of the Ohio Minority Supplier Development Council. However, without the empirical evidence provided by this study, it is virtually impossible to determine if the Council is indeed successfully fulfilling its mission.

The results are in, and the empirical evidence is indisputable. Over \$11.8 billion in annual revenue comes from the activities of the OMSDC certified MBE community. As a result, these same firms employ 52,960 people both directly, indirectly and throughout the community (induced), resulting in the dissemination of over \$3.8 billion in salaries and wages. Finally, when combined with the more than \$1.2 billion various tax revenues (local, state and federal) coming from the activities of OMSDC certified MBE suppliers, the total economic impact surpasses \$16.8 billion.

If the question is whether or not the Ohio MSDC is successfully fulfilling its mission and having a significant positive economic impact on the local, state and national economies, there are now over 15 billion reasons why the answer is an emphatic, YES!

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