

Economic Impact Statement

Office of Legislative Oversight

**Expedited
Bill 23-21**

**Special Capital Improvements Project –
Fully Upgrade of Existing Recycling
Center Complex**

SUMMARY

The Office of Legislative Oversight (OLO) believes that enacting Expedited Bill 23-21 would have a marginal, positive impact on economic conditions in the County. However, this impact depends on businesses and workers involved in the upgrade being local.

BACKGROUND

Under the County Charter and Code, certain capital improvement projects must be individually authorized by law if the locally funded cost of the project is to exceed the “Special Projects Legislation threshold,” which is set at \$18,118,00 in FY 22 dollars. On June 10, 2021, the County Executive transmitted a request for a Special Capital Improvements Project Legislation Authorization and Legislative Request Report for the Full Upgrade of Existing Recycling Center Complex (P802201). According to the Legislative Request Report,

“This project will update the existing Material Recycling Center (MRF) with state-of-the-art equipment to increase commingled processing capacity to 200 - 240 tons per day (TPD). This includes a minor modification of the existing MRF building to increase storage capacity for both incoming and baled material. Equipment will be substantially replaced because the existing equipment is incompatible with modern recycling processing technology. The project will be funded through the Solid Waste Disposal fund and Revenue Bonds.”¹

METHODOLOGIES, ASSUMPTIONS, AND UNCERTAINTIES

Approving the request to authorize the upgrade of the County’s Recycling Center Complex would neither increase net government expenditure nor increase net economic activity in the County. Indeed, the Fiscal Impact State concludes that “There are no expenditures or revenues associated with this bill. The bill serves only to authorize the designation of the Full Upgrade of Existing Recycling Center Complex project as a Special Capital Improvement Project.”² Ultimately, the economic impact of Expedited Bill 23-21 would be based on the

- (a) the economic benefits of upgrading the Recycling Center Complex; and
- (b) the economic opportunity cost of alternative capital improvement projects used with the funds.

¹ Montgomery County Council, Expedited Bill 23-21, Special Capital Improvements Project – Full Upgrade of Existing Recycling Center Complex, introduced on June 15, 2021. See Introduction Staff Report, https://apps.montgomerycountymd.gov/ccllms/DownloadFilePage?FileName=2714_1_14492_Bill_23-2021_Introduction_20210615.pdf.

²² See enclosed Fiscal Impact Statement in the Introduction Staff Report.

Economic Impact Statement

Office of Legislative Oversight

Because OLO does not know how the County revenues would otherwise be used in the absence of enacting Expedited Bill 23-21, OLO limits the scope of the analysis below to the economic benefits of upgrading the Recycling Center Complex. Thus, this analysis does not account for the economic impacts of alternative government spending.

County expenditure that exceeds \$18,118,00 will have a significant “multiplier effect,” that is, how changes in economic activity affect other rounds of spending, and how additional spending impacts certain economic indicators. To illustrate, upgrading the Recycling Center Complex would likely entail increased income to workers who install the equipment required to increase the commingled processing capacity. Increased income would in turn increase demand for local goods and services (i.e., restaurants).

It is beyond the scope of this analysis to calculate the multiplier effect of the *specific* capital improvement project that Expedited Bill 23-21 would approve using the “Bill-of-Goods” method. This method requires a great deal of information, for example, knowing the specific inputs that would be purchased to upgrade the Recycling Center Complex and the local industries involved in the supply of goods and services required to complete the project.

OLO will note however that this project, as many capital improvement projects, fall within the Regional Input-Output Modeling System (RIMS II) final-demand multiplier for the “construction” industry. The RIMS II multipliers, developed by the U.S. Bureau of Economic Analysis,³ measure the multiplier effect of economic activity in terms of four measures:

- Output (sales): total market value of industry output,
- Value-Added: total value of income generated from production (equivalent to gross domestic product),
- Earnings: employee compensation plus net earnings of sole proprietors and partnerships, and
- Employment: number of full- and part-time employees.⁴

Industries with relatively high multiplier values for these measures result in greater output, value-added, earning, and employment for every additional dollar of economic activity in those industries. There are multipliers for 64 industries in the County. **Table 1** presents the ranking of the RIMS II construction multiplier for Montgomery County ordered from highest to lowest. As shown in the table, the construction multiplier

**Table 1. Rank of Construction RIMS II Multiplier for Montgomery County
(out of 64 multipliers, ordered from highest to lowest)**

	Output	Earnings	Employment	Value-Added
Construction Multiplier (type I)	39th	24th	27th	39th

VARIABLES

The primary variable that would affect the economic impacts of Expedited Bill 23-21 are:

- Total amount spent on upgrading the Recycling Center Complex; and
- Percentage of funds used for goods and services provided by local businesses.

³ U.S. Bureau of Economic Analysis, *RIMS II: An Essential Tool for Regional Developers and Planners*, December 2013, https://apps.bea.gov/regional/rims/rimsii/rimsii_user_guide.pdf.

⁴ Ibid, 3 – 3 and 3 – 4.

Economic Impact Statement

Office of Legislative Oversight

IMPACTS

WORKFORCE ▪ TAXATION POLICY ▪ PROPERTY VALUES ▪ INCOMES ▪ OPERATING COSTS ▪ PRIVATE SECTOR CAPITAL INVESTMENT ▪ ECONOMIC DEVELOPMENT ▪ COMPETITIVENESS

Businesses, Non-Profits, Other Private Organizations

OLO believes that Expedited Bill 23-21 would have a positive economic impact on any local businesses involved in the upgrade to the Recycling Center Complex. As previously stated, it is beyond the scope of this analysis to identify the specific inputs that would be purchased to upgrade the Recycling Center Complex and the local industries and businesses that would be involved in the supply of goods and services required to complete the project. Nevertheless, any local businesses involved in the upgrade of the facility would likely experience income gains. Moreover, if certain workers involved in the upgrade of the Recycling Center Complex experience higher earnings, then other local businesses would benefit from the change in spending by these workers. Beyond this impact, OLO does not anticipate that Expedited Bill 23-21 would significantly affect other private organizations in the County in terms of the Council's priority indicators.

Residents

OLO believes that Expedited Bill 23-21 would primarily affect owners and workers of local businesses involved in the upgrade to the Recycling Center Complex in the form of higher incomes. Beyond this impact, OLO does not anticipate that the bill would significantly affect other County residents in terms of the Council's priority indicators.

DISCUSSION ITEMS

Not applicable

WORKS CITED

Montgomery County Code. Sec. 2-81B. Economic Impact Statements.

Montgomery County Council, Expedited Bill 23-21, Special Capital Improvements Project – Full Upgrade of Existing Recycling Center Complex, introduced on June 15, 2021. See Introduction Staff Report.

CAVEATS

Two caveats to the economic analysis performed here should be noted. First, predicting the economic impacts of legislation is a challenging analytical endeavor due to data limitations, the multitude of causes of economic outcomes, economic shocks, uncertainty, and other factors. Second, the analysis performed here is intended to *inform* the legislative process, not determine whether the Council should enact legislation. Thus, any conclusion made in this statement does not represent OLO's endorsement of, or objection to, the bill under consideration.

CONTRIBUTIONS

Stephen Roblin (OLO) prepared this report.