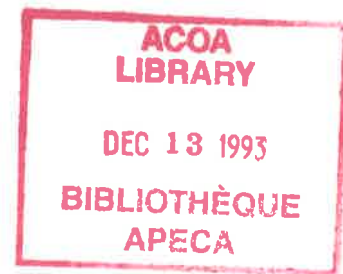


The Economic Impact of Veterans Affairs Relocation

UPDATE

830881



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FOREWORD

This analysis of the economic impact of the relocation of Veterans Affairs Head Office to Charlottetown, P.E.I. is an update to an earlier DREE(PEI) - VAC(RTF) study. The previous joint study was undertaken in May 1980 and published in January 1981.

Several major factors have changed since that time. In the 1981 study, it was assumed that construction of the VA building would be completed in 1983. The final phase for relocating Head Office positions was to have taken place later that year. The present analysis is based on a construction completion date of early 1984, with final phase-in of staff occurring in September 1984.

The total number of positions transferring to P.E.I. has also changed. While the 1981 study was predicated on 700 relocated positions, the present effort uses a base of 800 positions. It should be noted that over 50% of these jobs will be held by Islanders. This is considerably more than was predicted in 1981.

In addition to these new factors, several refinements have been incorporated into the update analysis:

1. Salaries, construction costs and Operation & Maintenance (O&M) expenditures for the phase-in period are actual figures, not projections as in the last study.
2. Benefits to P.E.I. during the phase-in period have been broken down into yearly components, so that a picture of the cumulative effect is possible.
3. Projections of future benefits from O&M expenditures are more accurate, since they are based on what will actually be spent by Portfolio Head Office in P.E.I.
4. Some multipliers have been reduced to reflect the provincial economy's recent performance, which has been weaker than anticipated.

An analysis of tax benefits to the Province of P.E.I. resulting from the relocation program was not undertaken, since an up-to-date model for calculating benefits was not available. Finally, whereas all figures were in constant 1980 dollars in the 1981 study, they are presented here in actual dollars.

TABLE OF CONTENTS

FOREWORD	i
SUMMARY OF ECONOMIC IMPACT	1
DETAILED ANALYSIS	3
Impact of VA Building Construction	3
Impact of VA Salaries	6
Impact of VA Operation and Maintenance Expenditures	9
APPENDICES	10

SUMMARY OF ECONOMIC IMPACT

Construction of New Building

The construction of the Daniel J. MacDonald Building created an estimated 577 person-years (PYs) of employment. Direct construction employment could have totalled 350 person-years with \$6.66 million in salaries. Indirect income from construction workers' spending is estimated to have been nearly \$3 million, resulting in an additional 195 person-years of work. Assuming that 10% (or \$1.05 million) of the materials and supplies used in the construction was purchased in P.E.I., a further 31 person-years and \$527 thousand from direct and indirect incomes may be realized. This income and employment generation will terminate when construction is completed in March 1984.

Short-Term Employment & Income From Employment (Construction-Related)

	Employment PYs	Income
Direct construction employment	350.6	\$ 6,660,000
Indirect benefits from workers' spending	194.5	2,991,494
Direct benefits from materials	18.4	333,000
Indirect benefits from materials	13.0	194,000
	576.5	\$10,178,494
Total short-term impact		

Salaries and O&M Expenditures

The relocation of VA Head Office has resulted in the injection of over \$34 million in salaries into the local economy since 1979. By the end of the phase-in period (late 1984) the figure will have reached over \$58 million. The ongoing total salary for 800 positions will be \$23.68 million.¹ Spinoffs from this could generate an additional \$10.63 million in indirect income and has the potential to create 573 person-years of ongoing employment.

¹Based on a VA Head Office estimated 1984 average salary of \$29,600 (1984 dollars).

An estimated \$9.7 million has been spent in P.E.I. since 1980 on VA operation and maintenance. Ongoing O&M expenditures will be in the order of \$3.5 million. Over \$1.0 million in indirect income may result on a continuing basis from O&M expenditures, thereby creating the potential for an additional 57.8 person-years of employment.

Total ongoing direct and indirect income will be over \$35 million, which could total 1431 person-years of continuing direct & indirect employment.

Long-Term Employment & Income From Employment
(Indeterminate)

	<u>Employment PYs</u>	<u>Income</u>
Direct VA Positions	800	\$23,680,000
Indirect from Employee Spending	573	10,630,937
Indirect from O&M Expenditures (excluding salaries & wages)	57.8	1,050,000
Total Ongoing Employment & Income	<u>1430.8</u>	<u>\$35,360,937</u>

DETAILED ANALYSIS

IMPACT OF VA BUILDING CONSTRUCTION

Total cost of construction of the Daniel J. MacDonald Building will be \$20 million. Phase I (1981) costs were \$3.5 million and Phase II (1982-1984) costs are \$16.5 million.

Of the total cost, it is estimated that one-third or \$6.66 million was spent for wages and salaries, 57.7% or \$10.5 million for construction materials, 9% or \$1.8 million for operating costs, and the remaining \$1.0 million represents gross margin and miscellaneous.

VA Building Construction Costs¹

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>March 1984</u>	<u>TOTALS</u>
Wages & Salaries	\$1,165,500	\$ 3,496,500	\$1,665,000	\$ 333,000	\$ 6,660,000
Operating	315,000	945,000	450,000	90,000	1,800,000
Materials: ²					
Atlantic Canada	737,800	2,213,400	1,054,000	210,800	4,216,000
Outside Region	1,106,700	3,320,100	1,581,000	316,200	6,324,000
Miscellaneous	175,000	525,000	250,000	50,000	1,000,000
	<u>\$3,500,000</u>	<u>\$10,500,000</u>	<u>\$5,000,000</u>	<u>\$1,000,000</u>	<u>\$20,000,000</u>

Construction Materials and Supplies

Of the \$4.2 million worth of materials and supplies that were purchased in Atlantic Canada, it is estimated that 25% or \$1.054 million was spent in P.E.I. The effects of this expenditure may have generated \$333 thousand in direct income, \$194 thousand in indirect income and the creation of 18.4 person-years of direct employment and 13 person-years of indirect employment over the 1981-1984 period.

¹Construction cost breakdown is based on total yearly figures supplied by Public Works Canada.

²Based on estimates of material origins provided by PWC (Halifax).

Effect of Purchases of Construction
Materials and Supplies on Employment
and Income

<u>Local Purchases (Millions)</u>	<u>Direct Income (Millions)</u>	<u>Employment PYs</u>	<u>Indirect Income (Millions)</u>	<u>Employment PYs</u>
\$1.054	\$0.333	18.4	\$0.194	13.0

Source: Kari Levitt, Input-Output Study of the Atlantic Provinces, Vol. 2, 1973.

Construction-related Employment, Income and Expenditures

Based on construction wage and salary costs of \$6.66 million, an estimated 350.6 person-years of direct employment resulted. Of these salaries and wages, it is estimated that construction workers spent \$4.7 million on consumer goods and services. Some leakage would occur, however, from those workers hired off-Island.

VA Construction Workers' Estimated Expenditures¹

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>March 1984</u>	<u>TOTALS</u>
Food & Beverage	196,119	588,356	280,170	56,034	1,120,679
Housing	292,937	878,810	422,028	84,406	1,678,181
Clothing	88,543	265,629	126,490	25,298	505,960
Transportation	95,991	287,972	137,129	27,426	548,518
Health	33,928	101,783	48,468	9,694	193,873
Recreation	52,133	156,398	72,661	14,532	295,724
Tobacco/Alcohol	67,855	203,566	96,936	19,387	387,744
	<u>827,506</u>	<u>2,482,514</u>	<u>1,183,882</u>	<u>236,777</u>	<u>\$4,730,679</u>

As a result of these expenditures, a further \$2.99 million in indirect income may have been created. The non-recurring, indirect employment generated came to 194.5 person-years.

¹See Appendix A for percentages of income spent on goods and services.

Income Generated as Result of Workers' Expenditures¹

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>March 1984</u>	<u>TOTALS</u>
Food & Beverage	176,507	529,520	252,125	50,425	\$1,008,577
Housing	136,509	409,525	196,665	39,333	782,032
Clothing	41,261	122,189	58,944	11,789	234,183
Transportation	87,448	262,342	124,925	24,985	499,700
Health	25,989	77,966	37,126	7,426	148,507
Recreation	24,294	72,881	33,860	6,772	137,807
Tobacco/Alcohol	31,620	94,862	45,172	9,034	180,688
	<u>523,628</u>	<u>1,569,285</u>	<u>748,817</u>	<u>149,764</u>	<u>\$2,991,494</u>

Indirect Employment from Construction²

	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>March 1984</u>	<u>TOTAL PYs</u>
Food & Beverage	13.4	33.9	14.7	2.8	64.8
Housing	10.5	27.4	12.0	2.4	52.3
Clothing	3.9	10.7	4.7	1.0	20.3
Transportation	4.8	12.6	5.4	1.0	23.8
Health	1.7	4.3	1.9	0.4	8.3
Recreation	1.9	4.9	2.1	0.4	9.3
Tobacco/Alcohol	3.0	8.3	3.6	0.8	15.7
	<u>39.2</u>	<u>102.1</u>	<u>44.4</u>	<u>8.8</u>	<u>194.5</u>

¹Source: Kari Levitt study.

²See Appendix B for list of average industry salaries per year.

IMPACT OF VA SALARIES

Since the First Veterans Affairs advance group became operational in Charlottetown in 1979, some \$34.47 million in salaries has been injected into the local economy. By the end of 1984, when relocation phasing will be completed, \$58.1 million will have been introduced. The total annual payroll thereafter for 800 positions will be \$23.68 million (1984 dollars).

VA Employee Salaries

Salaries to Date¹

1979	477,900	
1980	3,100,000	
1981	7,109,500	
1982	9,682,400	
1983	<u>14,100,000</u>	
		TOTAL: <u>\$34,469,800</u> (12 83)

Salaries to Phasing End.

1984	\$23,680,000	
		TOTAL: <u>\$58,149,800</u> (12 84)

POST-1984 Salaries

TOTAL: \$23,680,000 (per annum, 1984 dollars)

Employee Expenditures

Since 1979, some \$24.46 million has been spent by VA employees on consumer goods and services.² By the end of 1984, this figure could reach \$41.27 million. Ongoing employee expenditures could be about \$16.8 million per annum.

The major beneficiary of employee expenditures is the housing industry, which will realize \$14.62 million by end 1984. Experience has shown that 70% or more of VA employees rent and 30% purchase accommodations. The second major recipient of employee expenditures is the food and beverage industry. It will have gained \$9.78 million by the end of the phasing period.

¹See Appendix C for list of average annual salaries.

²Based on an expenditure of 71 cents of each salary dollar. Source: Statistics Canada, 62-001, May 1980.

VA Employee Expenditures

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u> <u>(ongoing)</u>
Food	80,416	521,637	1,196,312	1,629,257	2,372,607	3,984,634
Housing	120,115	779,154	1,786,902	2,433,574	3,543,894	5,951,731
Clothing	35,967	233,306	535,061	728,697	1,061,166	1,782,157
Transportation	39,360	255,316	585,538	797,442	1,161,276	1,950,285
Health	13,912	90,241	206,958	281,855	410,451	689,325
Recreation	21,376	138,663	318,008	433,094	630,693	1,059,206
Tobacco/Alcohol	27,823	180,482	413,915	563,709	820,902	1,378,650
	<u>338,969</u>	<u>2,198,799</u>	<u>5,042,694</u>	<u>6,867,628</u>	<u>10,000,989</u>	<u>16,795,988</u>
						<u>TOTAL 1979-1984: \$41,245,067</u>

Indirect Benefits of Expenditures

During the 1979-1984 period, over \$26 million in indirect income may accumulate as a result of employee expenditures. The ongoing indirect income generated may be \$10.63 million yearly.

Indirect Income from Employee Expenditures

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984</u> <u>(ongoing)</u>
Food	72,374	469,473	1,076,681	1,466,331	2,135,346	3,586,171
Housing	55,974	363,086	832,696	1,134,045	1,651,455	2,773,507
Clothing	16,761	108,721	249,338	339,573	494,503	830,485
Transportation	35,857	232,593	533,425	726,470	1,057,922	1,776,710
Health	10,657	69,125	158,530	215,901	314,405	528,023
Recreation	9,961	64,617	148,192	201,822	293,903	493,590
Tobacco/Alcohol	12,966	84,105	192,884	262,688	382,540	642,451
	<u>214,550</u>	<u>1,391,720</u>	<u>3,191,746</u>	<u>4,346,830</u>	<u>6,330,074</u>	<u>10,630,937</u>
						<u>TOTAL 1979-1984: \$26,105,857</u>

Indirect Employment from Employee Expenditures (PYs)

	<u>1979</u>	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984 (ongoing)</u>
Food	5.9	37.9	81.6	94.0	128.9	190.6
Housing	5.5	31.3	64.0	75.9	107.6	153.3
Clothing	1.9	12.3	23.8	29.9	44.0	60.4
Transportation	2.1	14.0	29.2	34.9	47.9	70.6
Health	0.9	6.0	10.4	11.9	17.3	24.1
Recreation	0.8	7.3	14.2	17.8	26.2	27.3
Tobacco/Alcohol	1.0	9.5	18.4	23.1	34.1	46.7
	<u>18.1</u>	<u>118.3</u>	<u>241.6</u>	<u>287.5</u>	<u>406.0</u>	<u>573.0</u>

In addition to these expenditures and spinoffs, direct and indirect benefits were realized from the 400-500 house-hunting trips undertaken by VA employees. These trips would have injected some \$200-300 thousand into the economy during the phase-in period. Major beneficiaries were hotels, restaurants and car rental agencies.

IMPACT OF VA OPERATION & MAINTENANCE EXPENDITURES

Since 1980, Veterans Affairs Head Office in Charlottetown has spent \$9.7 million on operating expenses. By the end of fiscal year 1983-1984, this may have generated a total of \$2.91 million in income. Ongoing O&M expenditures in P.E.I. are estimated to be \$3.5 million, creating the potential for 57.8 person-years of continuing employment from the \$1.05 million in income resulting annually. Included in these are expenditures for stationery and office supplies, freight and express, telephone/telecommunications, information and advertising, rentals, purchased repairs and upkeep, legal services, equipment, tenant services and miscellaneous items.

O&M Expenditures on P.E.I. and Benefits Derived
(excluding Wages and Salaries)

<u>Fiscal Year</u>	<u>Total Expenditures</u>	<u>Income¹ Generated</u>	<u>Employment Generated</u>
1980-81	1,500,000	450,000	31.5
1981-82	2,100,000	630,000	41.5
1982-83	2,600,000	780,000	43.7
1983-84	3,500,000	1,050,000	57.8 (ongoing)
	<u>\$9,700,000</u>	<u>\$2,910,000</u>	

¹Source: Kari Levitt study.

APPENDICES

APPENDIX A

Percentages of Income Spent on Consumer Goods & Services*

	<u>Percent</u>	<u>Cents</u>
Food & Beverage	23.7	16.83
Housing	35.4	25.35
Clothing	10.7	7.59
Transportation	11.6	8.24
Health	4.1	2.91
Recreation	6.3	4.36
Tobacco/Alcohol	8.2	5.72
	100.0	71.00

*Based on 71% of income. See Canadian Statistical Review, June 1980.

APPENDIX B

Average Industry Salaries*

	<u>1980</u>	<u>1981</u>	<u>1982</u>	<u>1983</u>	<u>1984 (est.)</u>
Food & Beverage	12,397	13,199	15,603	16,570	17,400
Transportation	16,615	18,256	20,800	22,100	23,200
Clothing; Tobacco/ Alcohol; Recreation	8,806	10,462	11,366	11,232	11,800
Health	11,587	15,187	18,096	18,158	19,063
Housing	11,587	13,007	14,948	15,342	16,100

*Based on Statistics Canada: 72-002 and information obtained by telephone, Nov. 1983.

APPENDIX C**Average VA Head Office Salary**

<u>Year</u>	<u>Salary</u>	<u>No. of Charlottetown Employees (as of December)</u>
1979	17,700	27
1980	20,000	155
1981	24,100	295
1982	26,600	364
1983	28,200	500
1984	29,600	800

Source: Directorates of Financial Management & Personnel Management, VAC.