

**COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION**

In The Matter Of: General Adjustment of Rates of East : Case No. 2010-00167  
Kentucky Power Cooperative, Inc. :

**DIRECT TESTIMONY AND EXHIBITS**

**OF**

**PAUL A. COOMES**

**ON BEHALF OF THE  
GALLATIN STEEL COMPANY  
SEPTEMBER, 2010**

**COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION**

In The Matter Of: General Adjustment of Rates of East : Case No. 2010-00167  
Kentucky Power Cooperative, Inc. :

**DIRECT TESTIMONY OF PAUL A. COOMES**

**Q. Please state your name, address, and profession.**

A. My name is Paul A. Coomes. My address is 3604 Trail Ridge Road, Louisville KY 40241. I am a consulting economist. I have a Ph.D. in economics from the University of Texas. I am also a professor of economics at the University of Louisville.

**Q. Have you testified before the Kentucky Public Utility Commission?**

A. Yes, I have testified and submitted testimony several times before the Kentucky Public Service Commission, to present studies I have performed for utilities, aluminum companies and Kentucky Industrial Utility Customers, Inc. (KIUC).

**Q. Why are you here today?**

A. Gallatin Steel seeks to document the economic importance of its steel manufacturing plant to the economy of Kentucky. I have prepared a study on this topic. My study quantifies the likely impact if Gallatin Steel were to close due to low steel prices, high electricity prices, or other factors.

**Q. In summary, what did you find about the relative economic importance of Gallatin Steel to the state of Kentucky?**

A. Economic activity in Kentucky is classified under hundreds of different industries, but some are much more important than others in terms of overall growth and prosperity in the state. The most important industries are those that export their goods and services to customers around the U.S. and the world. Firms in these industries bring new dollars into Kentucky and thereby lift firms in other linked industries, as well as the incomes of Kentucky households. As household incomes grow, so do sales and employment in support industries (and governments) that provide goods and services to households. The export-based industries are the engines of growth, and hence the target of economic development agencies, while most commercial businesses are essentially captive and require no incentives to operate in the state.

The following are the primary conclusions from my study:

- Gallatin Steel directly employs about 464 people, 75% of which reside in Kentucky;
- Gallatin Steel pays wages and salaries annually of about \$35 million, plus another \$15.7 million in *fringe benefits*;
- Gallatin Steel jobs are among the best paying in the county and state. The average annual pay at the plant is over \$75,000, plus another \$33,800 in fringe benefits. That puts total compensation in excess of \$108,000 per Gallatin Steel employee on average. Outside of the manufacturing sector in Gallatin County, average pay is only around \$16,000 per year;

- Total state and local taxes paid annually by Gallatin Steel are approximately \$4.5 million. Of this, about \$700,000 goes to the Gallatin County School district, accounting for about 15 percent of all locally-generated school funding;
- Because Gallatin Steel is an exporter of its product to national and international markets, its economic importance is multiplied. The job multiplier for the steel industry is 4.213, meaning that for every job at the steel plant, another 3.213 jobs are created elsewhere;
- Gallatin Steel's total net annual impact in the region is 1,955 jobs, \$100 million in total wages and salaries, total employee compensation including fringe benefits of \$145 million, and total state and local tax revenues of \$11 million.

**Q. Why is your testimony being provided.**

A. Electricity is a major input into the steel manufacturing process, especially for electric arc furnace steel manufacturers. The Commission should be aware of the economic importance of Gallatin Steel to the economy of Kentucky when setting a reasonable electric rate for Gallatin Steel. A complete copy of my study is attached.

**Q. Does that conclude your testimony today?**

A. Yes, thank you.

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

In The Matter Of: General Adjustment of Rates of East : Case No. 2010-00167  
Kentucky Power Cooperative, Inc. :

AFFIDAVIT OF PAUL COOMES

STATE OF KENTUCKY )  
COUNTY OF Jefferson )

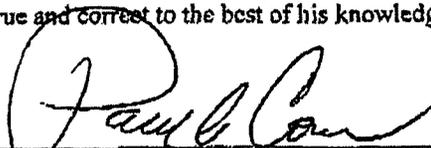
Paul Coomes being first duly sworn, deposes and states that:

1. He is a consulting economist and Professor of Economics at the University of Louisville;
2. He is the witness who sponsors the accompanying testimony entitled "Direct Testimony and

Exhibits of Paul Coomes;"

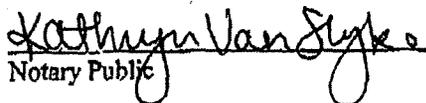
3. Said testimony was prepared by him and under his direction and supervision;
4. If inquiries were made as to the facts and schedules in said testimony he would respond as therein set forth; and

5. The aforesaid testimony and schedules are true and correct to the best of his knowledge, information and belief.

  
\_\_\_\_\_  
Paul Coomes

Subscribed and sworn to or affirmed before me this 1<sup>st</sup> day of September, 2010, by Paul Coomes.



  
\_\_\_\_\_  
Notary Public

**KATHRYN VAN SLYKE**  
Notary Public, State of Kentucky  
My Commission Exp. January 30, 2013

**COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION**

In The Matter Of: General Adjustment of Rates of East : Case No. 2010-00167  
Kentucky Power Cooperative, Inc. :

**EXHIBITS  
OF  
PAUL A. COOMES**

**ON BEHALF OF THE  
GALLATIN STEEL COMPANY**

# The Estimated Economic and Fiscal Impacts of Gallatin Steel's Operations in Kentucky

by  
Paul A. Coomes, Ph.D.  
Consulting Economist

a research report for  
Gallatin Steel Company

August 31, 2010

## EXECUTIVE SUMMARY

**G**allatin Steel Company, located on the Ohio River a few miles east of Carrollton Kentucky, is a major producer of high quality steel in the United States. It employs around 464 people and pays wages and salaries annually of about \$35 million, plus substantial fringe benefits. Employees live in 36 counties in three states, of which 75 percent reside in Kentucky.

Gallatin Steel is interested in learning about and documenting the regional economic importance of its operations, so they can better communicate the ramifications if the steel production operations were financially threatened. The purpose of this report is to document and communicate the regional economic and fiscal importance of this steel plant.

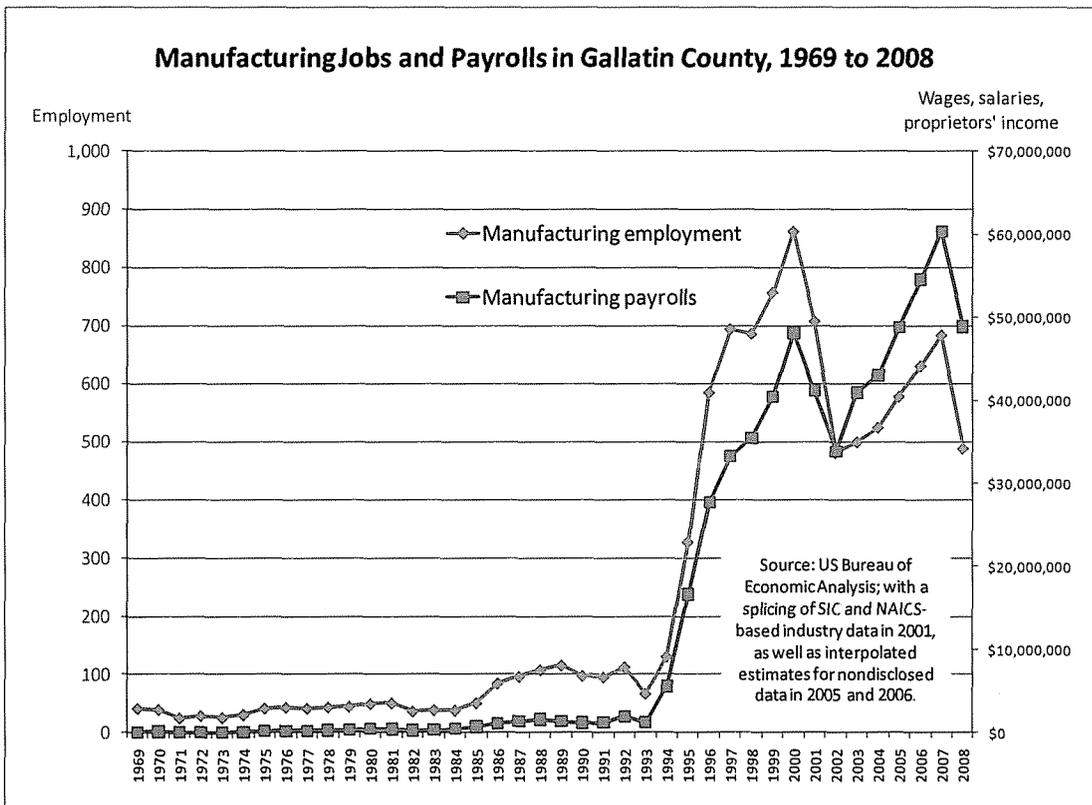
I have used regional data and industry-specific multipliers to estimate the economic and fiscal impacts of the operation. These estimates can be used to quantify the likely impact were the plant closed due to low steel prices, high electricity prices, or other factors. I estimate that the total net annual impact in the region is 1,955 jobs and \$100 million in total wages and salaries. State and local governments in Kentucky would lose about \$11 million annually in tax revenues. The impacts are relatively most important at the local level, as there are few large employers and taxpayers in Gallatin County. Gallatin Steel is clearly the largest employer and taxpayer in the County, and one of the largest in the general region.

These estimates are for the economic and fiscal categories most easily quantified. There are other impacts, though they are harder to measure with any precision. Local real estate and retail markets are linked to the payrolls at the steel plant. Social indicators, like unemployment and crime, also are related to the plant's employment levels, as are public costs for unemployment benefits, retraining, and social services.

## BACKGROUND

Gallatin Steel is a joint venture between ArcelorMittal and Gerdau Ameristeel. The construction of the compact strip production facility, 'one of the most technologically-advanced of its kind', began in 1993. Start-up operations began in the second quarter of 1995. The plant annually produces more than 1.6 million tons of hot band coils, at various gauges and grades. Its steel is used in the manufacturing of a large variety of durable goods, including lawnmowers, propane tanks, brake parts, appliance parts, and truck wheels.

One can easily see the direct impact of the Gallatin Steel plant in federal data on County jobs and payrolls. Before 1995, Gallatin County had almost no manufacturing activity. After the steel plant opened, County manufacturing employment rose from about 100 to over 700, and annual payrolls rose from less than \$2 million to over \$50 million. See accompanying chart. Federal confidentiality laws prohibit release of data that might identify an individual company's employment or payroll level. But clearly, the pronounced growth starting in 1995 is primarily due to Gallatin Steel and its 400-500 new employees in the County.



The plant produces about 1.6 million tons of steel annually. The company's web site has a description of the technology used at the plant. Increasingly, steel is produced on a just-in-time basis, keeping little inventory on site.

The average annual pay at the plant, excluding fringe benefits, is over \$75,000. Average wage and salaries in Gallatin County are around \$38,000, and the average is around \$37,000 for all employees in the state of Kentucky. The value of fringe benefits, beyond the wages and salaries earned, varies

between 35 (salaried employees) and 50 (hourly employees) percent. Moreover, outside of the manufacturing sector in Gallatin County (which the company dominates), average pay is only around \$16,000 per year. Clearly, the Gallatin Steel jobs are among the best paying jobs in the County and the State.

According to federal data, there are only three other steel plants in Kentucky on a scale with Gallatin Steel. Note in the table that Boyd and Campbell counties have a plant with more than 250 employees, and Carroll County is reported as having two large plants. However, the Carroll County data appear to be in error, including both its North American Stainless plant *and* the Gallatin Steel plant. We believe the error is due to the fact that the post office box for Gallatin Steel is in nearby Ghent, KY, which is just inside the Carroll County border.

The total 2008 economic footprint of the iron and steel industry in Kentucky includes 4,069 employees, \$270 million in payroll, at 19 plants. As one can see from the table, most of the plants are small, with fewer than 100 employees. The smaller plants do not make steel, rather they form purchased steel into tubes, pipes, wires and other shapes.

**Iron and Steel Mills In Kentucky**

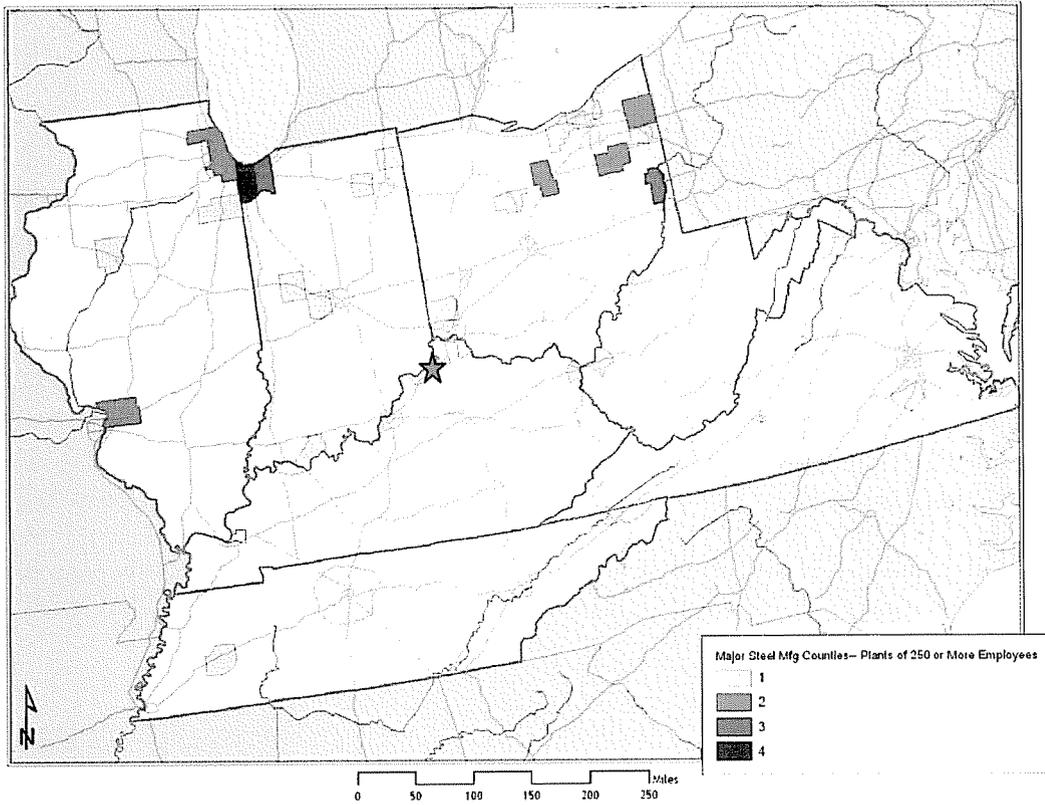
---

**Number of Establishments, by Employment Size Class**

County	'1-4'	'5-9'	'10-19'	'20-49'	'50-99'	'100-249'	'250-499'	'500-999'	'1000 or more'
Boone, KY	0	0	0	0	1	0	0	0	0
Boyd, KY	1	0	0	0	0	1	0	0	1
Campbell, KY	0	0	0	0	0	0	1	0	0
Carroll, KY	0	0	0	0	0	0	1	0	1
Casey, KY	0	0	1	0	1	0	0	0	0
Christian, KY	0	0	0	0	0	2	0	0	0
Daviess, KY	1	0	1	0	0	0	0	0	0
Fleming, KY	1	0	0	0	0	0	0	0	0
Hardin, KY	0	0	0	0	1	0	0	0	0
Madison, KY	0	0	0	0	1	0	0	0	0
Marshall, KY	0	0	0	0	1	1	0	0	0
Taylor, KY	1	0	0	0	0	0	0	0	0

Source: US Census Bureau, 2008 County Business Patterns, [www.census.gov/econ/cbp/index.html](http://www.census.gov/econ/cbp/index.html) , for NAICS 331111.

The map on the next page shows the county locations of large iron and steel mills in Kentucky and bordering states, using *County Business Patterns* data on plants with more than 250 employees. One can see the heavy concentration of plants around Chicago, Cleveland, and northern Ohio. There are a few large plants along the Ohio River, with mills in Boyd, Campbell, Gallatin, Carroll counties of Kentucky. Note that Tennessee has only one large steel mill (Missouri, not shown, has no large steel mills). This suggests a competitive advantage for Kentucky, as it competes with the southernmost counties of Illinois, Indiana and Ohio for locations along the river, near inexpensive electricity sources, and near supplies of scrap.



I now turn to a discussion of the methods used to measure the regional economic and fiscal impacts.

## METHODOLOGY

Because the steel and related manufacturing operations serve primarily national and international markets, they bring new dollars into the regional economy. In this sense, a shut-down of the steel plant would have large and predictable negative economic and fiscal impacts in these Kentucky (and southern Indiana and Ohio) counties. The activity supports thousands of jobs and millions of dollars in payrolls, and ultimately large tax revenues, especially for Kentucky state and local governments. In this section, I explain how I defined the regional economic footprint for purposes of this impact study, and discuss in some detail the input-output model and tax rate calculations used to measure the regional impacts.

### The Regional Economy

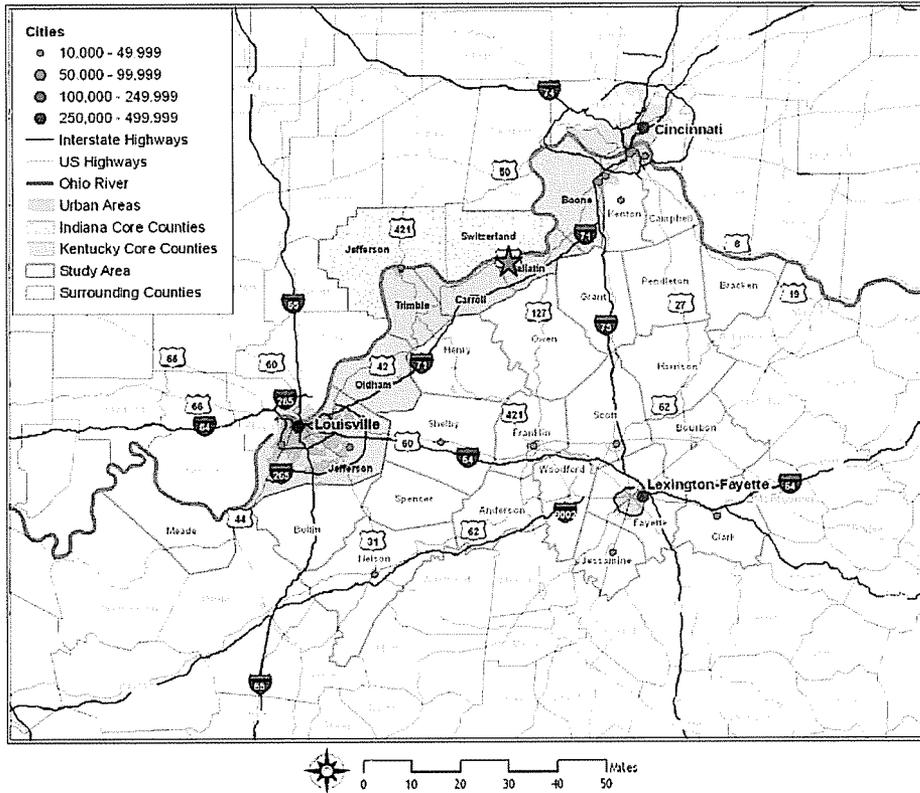
While Gallatin County is the site for the steel plant, the economic and fiscal impacts permeate a much larger region. I define the impact region based partly on the geographic footprint of the workforce, and partly on proximity to the nearest large cities – where major vendors and retail outlets are most prevalent. Workers commute in to the steel plant, and take their paychecks to their home counties and regional retail centers, where they pay for housing and many personal goods and services. Gallatin Steel provided a breakdown of employment by zip code of residence, and I mapped the zip codes to counties, as shown in the accompanying table. While workers resided in 36 counties in three states, the top fourteen counties accounted for 93 percent of all workers. Kentucky counties dominate, with all workers residing in one Kentucky counties.

The map on the next page regional counties, major and water features in the impact area. The darkest along Interstate 71, primary Kentucky residence for Gallatin. The red star denotes the location of the Gallatin near Ghent Kentucky.

<b>Top 14 counties of residence, Gallatin Steel workers</b>			
	workers	share of total	cumulative share
Carroll, KY	100	21.6%	21.6%
Boone, KY	64	13.8%	35.3%
Gallatin, KY	59	12.7%	48.1%
Switzerland, IN	43	9.3%	57.3%
Trimble, KY	42	9.1%	66.4%
Jefferson, IN	25	5.4%	71.8%
Kenton, KY	17	3.7%	75.4%
Ohio, IN	16	3.4%	78.9%
Jefferson, KY	13	2.8%	81.7%
Dearborn, IN	13	2.8%	84.5%
Henry, KY	12	2.6%	87.1%
Grant, KY	9	1.9%	89.0%
Oldham, KY	9	1.9%	90.9%
Owen, KY	8	1.7%	92.7%

accounted for 75 percent of of twenty

shows the cities, road economic shading, indicates the counties of Steel workers. approximate Steel plant,



Carroll, Boone, and Gallatin counties account for almost half of the employment at the steel plant. Clearly, these are the counties most economically linked to operations at the plant. Gallatin County is most impacted from a fiscal point of view, given that it receives the major property and occupational taxes – property, taxes levied on real estate, personal and payrolls in its jurisdiction.

**Kentucky Counties in Impact Region\***

Anderson	Jefferson
Boone	Jessamine
Bourbon	Kenton
Bracken	Meade
Bullitt	Nelson
Campbell	Oldham
Carroll	Owen
Clark	Pendleton
Fayette	Scott
Franklin	Shelby
Gallatin	Spencer
Grant	Trimble
Harrison	Woodford
Henry	

However, given that the steel plant is sparsely populated area along the northern triangle of large cities, it is reasonable to impact region to include the Cincinnati, and Lexington markets. These cities have a industrial vendors, retail outlets, and services – things needed by the company workers, but generally not available near plant. Examples include air service, hotels, specialty legal and accounting firms, vehicle dealerships, hospitals, appliance sports, culture, and entertainment. So, we regional impacts using an area that includes (Triangle) metropolitan statistical areas and Kentucky counties between them. There

located in a border of a expand the Louisville, thick layer of business and its the steel restaurants, malls, stores, analyze the these three all the are 27 such

\* all KY counties in Lexington, Louisville and Cincinnati MSAs, plus connector counties

counties, as shown in the accompanying table.

### **Input-output model of the region**

I use standard regional economic impact methods to evaluate the economic and fiscal impacts of the steel plant. I obtained detailed economic data for the counties most impacted, and used them to build an IMPLAN input-output model of the region<sup>1</sup>. The model is able to simulate the effects of changes in economic activity for any of 440 regional industries. It also can predict detailed inter-industry purchases and household spending related to industrial changes. Such region-specific models have the advantage that they take account those industrial supplies and retail items likely available in the region, and thus provide more precise economic impact estimates than one that assumes everything is available in the region. For example, Gallatin Steel uses large volumes of scrap metal in its production process, but most of it must be imported from around the United States as the local region does not generate enough to meet the plant's demand. By contrast, supporting industries like electricity, restaurants, and dentist offices are supplied in full by the local economy. The more that local industries can support the plant operation and the employees' household demands, the greater the regional economic multipliers, and hence the greater the regional economic impact.

In IMPLAN the sector of interest for this study is number 170, Iron and Steel Mills and Ferroalloy Manufacturing. This industry is defined according to the North American Industrial Classification System (NAICS) code 331111. The official definition is as follows:

*This U.S. industry comprises establishments primarily engaged in one or more of the following: (1) direct reduction of iron ore; (2) manufacturing pig iron in molten or solid form; (3) converting pig iron into steel; (4) making steel; (5) making steel and manufacturing shapes (e.g., bar, plate, rod, sheet, strip, wire); and (6) making steel and forming tube and pipe.*

[www.census.gov/naics/2007/def/ND331111.HTM](http://www.census.gov/naics/2007/def/ND331111.HTM)

The IMPLAN model provides estimates of indirect (inter-industry purchases) and induced (household spending) effects on sales, jobs, and payrolls for export-based expansions or contractions of any of 440 local industries. For example, the job multiplier for the steel production industry in the triangle region economic area is 4.213, meaning that for every job at the steel plant, another 3.213 jobs are created elsewhere in the regional economy. Similarly, the employee compensation multiplier for the industry there is 2.861, meaning that for every dollar of payroll created at the steel plant another \$1.861 in payrolls are created in other sectors around the region.

---

<sup>1</sup> IMPLAN is the most widely used regional input-output modeling system in the world. It was, and has been used for thousands of impact studies. It was developed by economists at the University of Minnesota, and is sold by MIG, Inc. See [www.implan.com](http://www.implan.com) for documentation.

In the next table, I show the top supplying industries directly steel production activity, as by the IMPLAN model. Note top suppliers are related to transportation and power

The company reports that their purchases are scrap, pig iron, alloys, fluxes, electrodes, natural gas, and oxygen. Among important local suppliers are Air Carrollton Utilities, Owen Electric/Eastern Kentucky Corporation, and River Metals. Clearly, many jobs at these local are linked to steel production at

Regional economists often distinction between the indirect induced components of a and in some cases make estimates for each. The indirect refer to the linkages between exporting industry (steel) and their industrial vendors (transportation, electricity, barges, tools, computers, insurance). When the directly impacted industry expands, it raises its purchases from its vendors, thus lifting their employment and payrolls. Of course, the vendors also purchase from each other, so that the total indirect effect includes all the inter-industry linkages.

The induced effects refer to the impact of the new export-based sales on the local economy through the rounds of re-spending of the additional household income caused by the expansion. Regional sales of cars, groceries, building supplies, banking services, and so on are all sensitive to growth in disposable income.

I simulated the impact of 424 steel plant jobs on the 27-county region. The total regional employment impact is 1,955 jobs, including the direct steel jobs. It is interesting to investigate the industrial composition of the job impacts, and I have used the IMPLAN tools to decompose the impacts in terms of inter-industry linkages and household purchases, i.e., the indirect and induced effects. One can see the largest inter-industry impacts are in wholesaling, maintenance, transportation, hospitality, and electricity industries. Steel plant employees spend much of their paychecks in the region and this creates other jobs, primarily in retail and service industries. The greatest impact is on restaurants, followed by real estate, and two health care industries.

<u>Top Twenty Regional Supplying Industries</u>	<u>Direct Purchases per Dollar of Steel Output</u>
Wholesale trade businesses	\$0.060
Transport by rail	\$0.029
Electric power generation- transmission- and	\$0.025
Transport by truck	\$0.021
Maint & repair construct of nonresident struc	\$0.012
Management of companies and enterprises	\$0.010
Material handling equipment manufacturing	\$0.009
Steel product manufacturing from purchased st	\$0.008
Industrial gas manufacturing	\$0.007
Iron and steel mills and ferroalloy manufactu	\$0.005
Other state and local government enterprises	\$0.005
Automotive repair and maintenance- except car	\$0.004
Services to buildings and dwellings	\$0.004
Architectural- engineering- and related servi	\$0.004
Natural gas distribution	\$0.004
Special tool- die- jig- and fixture manufactu	\$0.003
Securities- commodity contracts- investments-	\$0.003
Specialized design services	\$0.003
Commercial and industrial machinery and equip	\$0.003
Legal services	\$0.002

Predicted from IMPLAN Model, Sector 170, 27-County Economy; excludes predicted purchases from federal government enterprises.

20 regional linked to predicted that the logistics, supply. top ferro electricity, their Liquide, Power Recycling. companies Gallatin. make the and multiplier, separate effects the

**Top Twenty Regional Industries Linked to Steel Industry**

Linked through inter-industry purchases	number of jobs	Linked through household purchases	number of jobs
Wholesale trade businesses	163.8	Food services and drinking places	59.1
Maint & repair construct of nonresident struc	85.4	Real estate establishments	32.9
Transport by truck	79.6	Offices of physicians- dentists- and other he	28.1
Employment services	49.1	Private hospitals	26.5
Services to buildings and dwellings	45.0	Retail Stores - Food and beverage	20.1
Transport by rail	39.7	Retail Stores - General merchandise	19.5
Automotive repair and maintenance- except car	27.9	Wholesale trade businesses	16.1
Real estate establishments	27.3	Nursing and residential care facilities	15.3
Food services and drinking places	25.7	Private household operations	14.3
Management of companies and enterprises	25.2	Retail Stores - Motor vehicle and parts	14.2
Electric power generation- transmission- and	23.4	Retail Nonstores - Direct and electronic sale	13.4
Architectural- engineering- and related servi	23.3	Retail Stores - Clothing and clothing accesso	10.4
Legal services	16.9	Retail Stores - Miscellaneous	9.7
Business support services	16.9	Child day care services	9.5
Investigation and security services	16.1	Individual and family services	8.6
Securities- commodity contracts- investments-	14.2	Monetary authorities and depository credit in	7.8
Material handling equipment manufacturing	12.3	Retail Stores - Building material and garden	7.8
Specialized design services	12.3	Employment services	7.4
Monetary authorities and depository credit in	12.0	Retail Stores - Health and personal care	7.1
Warehousing and storage	11.8	Retail Stores - Gasoline stations	7.1

**Taxes and fiscal impacts**

There are no good national sources of data on which to make estimates of the fiscal impacts of an industrial expansion or contraction in a region; rather analysts must rely on local sources of data. The company has provided detailed records on direct tax payments to local and state governments, including property taxes, sales taxes, and energy taxes. We aggregate these in our fiscal impact statement in the next section. However, the impacts on governments are much greater than these direct payments. Employees pay sales taxes when they spend their wages in the local economy, and are liable for income taxes in Kentucky (and Indiana and Ohio). We can estimate these payments using published data on tax receipts from Kentucky state government, as well as tax information from city and county governments in the region. By comparing the growth in tax receipts to the growth in payrolls historically, I calculate 'effective' tax rates and use those to estimate the amount of Kentucky income and sales taxes linked to the steel industry payrolls.

The calculations are shown in the next table. Since the impact region accounts for nearly 60 percent of all Kentucky state payrolls, I calculate the effective tax rates at the state (rather than county) level. These should be representative of the region, given its dominance of state totals. Note that Kentucky state government receives on average 4.65 percent of wages and salaries paid in the state, and that Kentucky sales tax collections average 4.03 percent of wages and salaries. We apply these effective tax rates to the total payroll linked to Gallatin Steel operations.

**Effective Tax Rates for Kentucky Income and Sales Taxes**

	Wages and salaries paid to workers in state	KY individual income tax		KY sales tax	
		tax receipts, FY	effective tax rate	tax receipts, FY	effective tax rate
2001	\$55,463,121,000	\$2,778,541,444	5.01%	\$2,248,471,100	4.05%
2002	\$56,681,987,000	\$2,702,510,022	4.77%	\$2,299,990,621	4.06%
2003	\$58,506,633,000	\$2,746,386,944	4.69%	\$2,364,182,478	4.04%
2004	\$61,446,265,000	\$2,796,331,049	4.55%	\$2,447,584,698	3.98%
2005	\$64,175,402,000	\$3,036,230,706	4.73%	\$2,594,966,373	4.04%
2006	\$67,432,853,000	\$2,918,610,982	4.33%	\$2,749,765,011	4.08%
2007	\$70,719,808,000	\$3,041,535,604	4.30%	\$2,817,652,253	3.98%
2008	\$72,446,916,000	\$3,483,137,317	4.81%	\$2,877,814,014	3.97%
2009	\$70,688,103,000	\$3,315,368,217	4.69%	\$2,857,665,168	4.04%
average			<b>4.65%</b>		<b>4.03%</b>

Source: wages and salaries from US Bureau of Economic Analysis; tax receipts from Kentucky Department of Revenues *Annual Report 2008-09*.

Additional tax impacts are also likely, though much harder to quantify. For example, proprietors and corporations around the region are liable for state individual and corporate income taxes. Gasoline taxes, unemployment insurance taxes, insurance premiums taxes, building permit fees, motor vehicle sales taxes, and many other business tax categories would see some decline if the steel plant were to shut down. Employees would also pay less in the way of gasoline taxes, motor vehicle sales taxes, and there would be dampening effect on the regional real estate market. These categories are much harder to measure than the income and general sales taxes, but fortunately are not as important dollar-wise as the main taxes I do measure in this report.

Gallatin Steel is arguably the largest employer and taxpayer in Gallatin County<sup>2</sup>. I have examined financial data on Gallatin County government and the Gallatin County School District to see how many dollars these jurisdictions collect annually in taxes, and compared that to the payments made by the company. The comparison is not exact, because of differences in fiscal years and in aggregations of payments across tax categories. Nevertheless, some general observations may be made:

- Gallatin Steel employees apparently account for over one-third of total occupational taxes collected in the County. Gallatin County levies a 1 percent tax on wages and salaries earned from work in the County. The County Fiscal Court collected \$713,000 from this tax in fiscal year 2009, and the Gallatin Steel company reports paying \$270,000 to the County in calendar year 2009. Clearly, the company is the dominant employer and occupational taxpayer in the County. Indeed, federal data show that all employers in Gallatin County collectively paid between \$85 and \$92 million in wages and salaries to employees the last four years. Gallatin Steel apparently

<sup>2</sup> For some reason the company is not listed on the state's economic development web site as one of the large employers in Gallatin County. See [www.thinkkentucky.com/EDIS/cmnty/BusInd.aspx?cw=081](http://www.thinkkentucky.com/EDIS/cmnty/BusInd.aspx?cw=081). Presumably, this is because the company's postal address is in Ghent, Carroll County KY. However, the company is also not listed under Carroll County's large employers.

accounts for over 30 percent of all taxable payroll in the County, even when including the nearly \$20 million in wages paid to employees of local, state and federal governments.

- The company paid around \$568,000 in property taxes to the Kentucky State government, Gallatin County Fiscal Court, the Gallatin County Public School district, and other local jurisdictions in 2009. These include property taxes on real estate, tangible property (mainly machinery), inventories and finished goods, and goods in progress. See table below, which is based on raw property tax bills obtained from the Gallatin County Sheriff’s office.

<b>Gallatin Steel Companies</b>	
<b>Property Taxes Paid by Jurisdiction, 2009</b>	
Kentucky State government	\$385,122
Gallatin County Fiscal Court	\$22,542
Gallatin County Schools	\$110,666
Gallatin County Health Department	\$9,525
Gallatin County Agricultural Extension	\$12,170
Gallatin County Libraries	\$26,924
Gallatin County Soil Conservation District	\$701
Carroll County jurisdictions	\$12,330
	<b>\$567,650</b>

Source: original property tax bills from Gallatin County Sheriff’s Office.

- As part of an agreement for the company-related Industrial Revenue Bond issued by the County government, the company also makes a ‘payment in lieu of taxes’, or PILOT, to the Gallatin County School district. In 2009, the payment was \$107,000. Essentially, the County purchased much of the land and a portion of the plant, so that the company could qualify for favorable tax-exempt financing. Because that portion of the property is technically owned by government it is exempt from property taxes. To keep the local school system from suffering a financial loss, the company agreed to make annual payments equivalent to the property taxes it loses as part of the agreement. Due to the PILOT and the actual property tax payments the company makes, it is the largest local contributor to the County public school system.
- In addition to the PILOT and the \$111,000 in property taxes the company paid to the Gallatin County School district last year, the company also paid about \$477,000 in energy taxes for the schools. The tax rate of 3 percent is levied on energy purchases, with the tax revenues collected by the state Revenue cabinet and distributed back to the local school districts in which the energy was sold. Combined, the \$694,000 in tax payments amounted to about 15 percent of all locally generated funding (\$4.6 million) for the schools – by one taxpayer.

### IMPACTS

In this section, I display and explain my estimates of the economic and fiscal impacts of the Gallatin Steel plant. I am essentially simulating what would happen if the operation was removed from the region. The plant employs 464 persons with an annual payroll of over \$35 million, excluding benefits. Direct tax payments by the company plus tax withholdings for employees are about \$4.5 million annually.

**Annual Economic and Fiscal Impacts of Gallatin Steel Operations**

**Direct impacts**

	Jobs	464
Wages and salaries		\$34,953,478
Fringe benefits		\$15,690,847
Income, sales & property taxes to KY state government		\$3,087,671
Occupational & property taxes to local governments		\$1,444,828

**Regional economic multipliers, primary steel industry\***

	Jobs	4.213
Employee compensation		2.861

**Total regional impacts**

	Jobs	1,954.7
Wages and salaries		\$99,998,952
Total employee compensation, including fringes		\$144,889,141
Income, sales & property taxes to KY state government		\$8,734,854
Occupational & property taxes to local governments		\$2,095,283
<b>Total state and local taxes</b>		<b>\$10,830,137</b>

\* Using sector 170 "Iron and steel mills and ferroalloy manufacturing", IMPLAN Pro Model 2.0.1025, constructed for 27-county region in Kentucky.

In the bottom panel, I provide estimates of the total effects – direct plus spinoff. Here I use economic multipliers to estimate the job and employee compensation impacts regionally. I estimate the total job impact in the 27-county region to be about 1,956 jobs, and the taxable wage and salary impact to be about \$100 million annually. Employee compensation includes many company provided fringe benefits, most of which are not taxable; hence, I omit that from the state income and sales tax calculations. It would require a major research effort to track the flow of spinoff payrolls through the dozens of city, county, and school district jurisdictions that levy an occupational tax in the region. For simplicity, I assume the occupational tax rate on the spinoff payrolls to be 1 percent and apply that to the difference between the total payrolls and the direct payrolls at the plant. These estimated local occupational taxes are added to the direct amount paid by the company to Gallatin County Fiscal Court.