

**The Economic and Community
Impact of Closing the Postal
Service's Dakota Central
(Huron) Processing and
Distribution Facility**



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This report was prepared by the Fiscal Policy Institute at the request of the American Postal Workers Union. This analysis was prepared by Brent Kramer, PhD, senior economist, and James A. Parrott, PhD, deputy director and chief economist.

About the Fiscal Policy Institute

The Fiscal Policy Institute (FPI) is an independent, nonpartisan, nonprofit research and education organization committed to improving policies and practices that better the economic and social conditions of all New Yorkers. FPI has prepared numerous reports on leading sectors of the economy, and analyses of economic and labor market trends. FPI also regularly prepares briefings on the New York State and New York City budgets, and analyzes the economic contributions of immigrants. Founded in 1991, FPI maintains offices in New York City and Latham, New York.

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Executive Summary

As part of a drastic nationwide consolidation plan that will further increase mail delivery times, the United States Postal Service (USPS) is proposing to close the “Dakota Central SD” mail processing center in Huron, South Dakota, and consolidate the Huron operations into the Sioux Falls, South Dakota processing and distribution facility, 124 miles away. The closure and move involves a reduction in the number of middle-income paying postal jobs.

- The Postal Service estimates that the consolidation will involve first-year transition costs of \$5.8 million, after which there would be \$2.3 million in net annual savings. Two-thirds of the annual net savings would come from eliminating a net of 19 postal employee and managerial positions.

“Savings” for the Postal Service comes at a dear economic and individual cost for the Huron and the Beadle County, South Dakota community where the current facility is located.

- The consolidation involves the loss of nearly 50 good-paying jobs at the Huron mail processing and distribution center that have average pay of \$54,000 (non-managerial), twice the \$26,600 median annual earnings for Beadle County residents.
- Including the multiplier impact of reduced business and consumer spending, a total of 77 jobs will be lost in Beadle County. The total labor incomes associated with these jobs amount to over \$5.2 million, more than twice the annual savings advertised by the Postal Service as a result of the proposed consolidation.
- Displaced postal workers will face a daunting task in finding alternative employment in and around Huron at comparable pay and benefits. Postal consolidation further chips away at the critical base of solid middle-class jobs in Huron.
- Huron-area businesses will lose customers and nearly a million dollars in business income and proprietors’ earnings as a result of the closing of the Huron postal facility.

Despite the transfer of some postal positions from Huron to Sioux Falls, the net impact of the proposed consolidation will result in a loss of 21 jobs and \$1.7 million in labor income in South Dakota overall. The USPS figures on “savings” do not account for adverse employment and economic impacts on South Dakota or the lost federal, state and local tax revenues.

- The net loss in economic output in the state will exceed \$2.8 million and involve the loss of \$416,000 in business and proprietors’ income. The Huron-Sioux Falls consolidation plan will reduce federal payroll and income taxes by nearly \$400,000 and cost South Dakota over \$14,000 in state and local taxes.

At the end of the day, the proposed consolidation offers illusory savings. The adverse economic impact on the Huron area will be devastating, including the loss of 48 middle class postal jobs. The positive impact on the Sioux Falls area is not sufficient to prevent a substantial net negative employment, economic and fiscal loss in South Dakota.

Introduction

As part of a far-reaching nationwide consolidation plan that will further increase mail delivery times, the United States Postal Service (USPS) is proposing to close the “Dakota Central SD” mail processing center in Huron, South Dakota, that currently collects and distributes mail throughout East-Central South Dakota.¹

The Postal Service is proposing to consolidate those operations into the Sioux Falls, South Dakota processing and distribution facility, 124 miles from Huron. The Postal Service estimates that the consolidation will involve first-year transition costs of \$5.8 million, after which there would be \$2.3 million in net annual savings. Two-thirds of the annual net savings would come from eliminating a net of 19 postal employee and managerial positions.

The Fiscal Policy Institute (FPI) was asked to conduct an economic and fiscal impact analysis of the proposed consolidation. FPI used the IMPLAN regional economic input-output model (Version 3.0, with 2012 data) to conduct this analysis.² In conducting its analysis, FPI relied on the 2012 Area Mail Processing (AMP) studies prepared by the USPS. FPI also relied on other government data on local economic conditions.

Examining the adverse economic impact on the Huron community

“Savings” for the Postal Service comes at a dear economic and individual cost for the Huron and the Beadle County, South Dakota community where the current facility is located.

¹ A recent Government Accountability office (GAO) report noted the connection between the USPS lengthening delivery time standards for some First-Class Mail and Periodicals from 1-day to 2-days and an earlier round of facility consolidations. The report noted that USPS plans for more processing consolidations to take effect in 2015 could further increase delivery times. Government Accountability Office, *Information on Recent Changes to Delivery Standards, Operations, and Performance*, GAO-14-828R, Sept. 25, 2014. Publicly released Oct. 27, 2014.

² The IMPLAN regional input-output model is one of the most widely used in the United States, and is structured to measure economic impacts on a state or county level. Originally developed for the federal government, the IMPLAN model is based on inter-industry linkages and reveals the industries supplying intermediate goods and services and the value of the intermediate or indirect demand needed in the production of the final demand for the industry studied. The input-output model also estimates the induced demand generated by the earnings of those engaged in direct or indirect production. Induced demand is based on generalized patterns of consumer expenditures. Total economic impacts include direct, indirect, and induced effects.

In proposing to consolidate postal operations in Sioux Falls, the Postal Service is planning to eliminate 48 postal jobs in Huron. See Table 1. The non-managerial postal jobs to be eliminated average \$54,000 a year in salary, over twice the \$26,600 median annual earnings for all those employed in Beadle County.³ When health insurance and other fringe benefits are added in, labor compensation averages \$81,600 per worker for the jobs the Postal Service wants to eliminate in Huron. See Chart 1.

Table 1

Postal jobs lost in Huron

Postal clerks & mail handlers	-31
Postal maintenance & other jobs	-15
Supervisors & managerial employees	-2
Total direct USPS employees	-48
Contract mail truckers	-7
TOTAL direct employees	-55

Source: Fiscal Policy Institute analysis based on USPS AMP report (projected changes in employment and mail service), February 2012. The USPS proposals specify only total gains and losses for contract trucking. We used the IMPLAN input-output models to estimate the effects of these changes in trucking volume on employment.

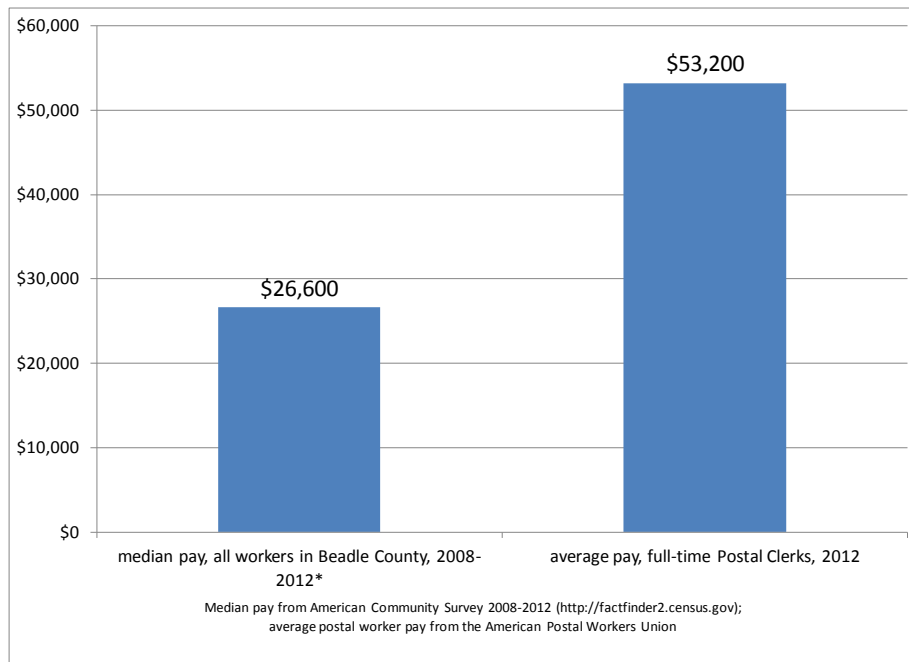
In addition to the loss of 48 good-paying Postal Service jobs, the consolidation will cause the Huron area to lose an estimated 29 other jobs in trucking and other industries that support postal operations, and in jobs that provide consumer goods and services (such as groceries, car repair services, or retail goods) to the workers employed by the Post Office or in supplier industries. The middle class earnings of a postal worker often make possible homeownership, and support for one's family.

³ The \$54,000 per year average is for non-managerial postal employees, according to the American Postal Workers Union. According to the American Community Survey for years 2008-2012, median annual earnings for all those employed in Beadle County were \$26,600 (in 2012 constant dollars). The median earnings for male full-time employees were \$39,400, and the median for full-time women workers was \$28,200.

Thus, Beadle County will lose an estimated total of 77 jobs with over \$5.2 million in labor income. This amount alone is more than twice the annual savings advertised by the Postal Service as a result of the proposed consolidation. See Table 2 for these impacts.

Chart 1

Postal wages twice the median for all Beadle County workers



Eliminating this much in annual labor income in a small area also will have a profoundly negative effect on Huron area businesses. They will lose customers and some will be forced to reduce their own employment as a result. Local businesses will lose an estimated \$8.6 million in sales, and nearly a million dollars (\$955,000) in business income, including proprietors' earnings. Over a third (\$340,000) of this lost income would be felt in the trucking industry, with substantial impacts also occurring in the real estate, banking, wholesale, health care, and restaurant industries. See the Appendix for detailed business impacts in Beadle County.

Local government will also experience a loss of nearly \$28,000 in property and sales taxes associated with the closing of the Huron facility.

Table 2**Impact of proposed consolidation on
Beadle County (Huron), South Dakota**

Direct jobs	-55
Total jobs	-77
Direct labor income	-\$4,416,694
Total labor income	-\$5,255,124
Total business income	-\$581,574
Local economic output	-\$8,639,905
Local taxes	-\$27,829

Source: Fiscal Policy Institute analysis based on USPS AMP report (projected changes in employment and mail service), February 2012. In this table, business income includes corporate profits, rents, and dividends. Proprietors' income is included with labor income. The USPS proposals specify only total gains and losses for contract trucking. We used the IMPLAN input-output models to estimate the effects of these changes in trucking volume on employment, labor income, etc.

Examining the positive economic impact on the Sioux Falls metropolitan area

To accommodate the additional mail processing that will be transferred from Huron, there will be 27 new clerks, mail handlers, and maintenance staff at Sioux Falls, plus two management positions being shifted from S.D. Central.⁴ Contracts for mail trucking to and from the facility will be expanded by \$730,000 per year, which suggests an increase of five jobs in that industry and an increase of \$316,000 in trucking employee earnings. Including the additional postal jobs and trucking jobs, there would be a \$2.7 million increase in direct labor income. The 34 direct jobs in postal and trucking would lead to an estimated total of 56 new jobs in the Sioux Falls region⁵, with a total labor income gain of \$3.5 million. The local economy would gain an

⁴ The Postal Service's projections show five new supervisors at Sioux Falls, but since there are currently seven unfilled supervisor slots there, we consider the other three new supervisors as positions that would have been filled regardless of this change.

⁵ Metropolitan Sioux Falls includes Lincoln, McCook, Minnehaha, and Turner Counties

estimated \$5.8 million a year in sales, and the 4-county region would gain an estimated \$25,100 a year in local sales and property taxes.

The net economic and fiscal impacts of the consolidation

Table 3 provides the net impact of the Huron facility closing and the consolidation proposed for the Sioux Falls facility. Despite the transfer of some postal positions from Huron to Sioux Falls, the net impact of the proposed consolidation will result in a loss of 21 jobs and \$1.7 million in labor income in South Dakota overall. Altogether, the net total loss of output to the South Dakota economy would be an estimated \$2.8 million. This would be associated with a net decline in local taxes of \$2,700, a net decline in state taxes of \$11,600, and the loss of \$398,000 in federal individual income and payroll taxes.

Table 3
Net economic and fiscal impact of the proposed South Dakota consolidation

	Huron closing	Consolidation in Sioux Falls	Net economic and fiscal impacts
Direct jobs	-55	34	-21
Total jobs	-77	56	-21
Direct labor income	-\$4,416,694	\$2,667,421	-\$1,749,273
Total labor income	-\$5,255,124	\$3,509,989	-\$1,745,135
Total business income	-\$581,574	\$446,214	-\$135,360
Local economic output	-\$8,639,905	\$5,792,041	-\$2,847,864
Local taxes	-\$27,829	\$25,133	-\$2,696
State taxes			-\$11,574
Federal payroll and income taxes			-\$397,891

Note: The net direct and total jobs, and direct and total labor income impacts, are very similar in magnitude despite the greater negative impacts in Huron. This is because the multiplier for local consumer spending is much greater in the Sioux Falls area than in Huron. Generally, larger economic areas have higher consumer spending multipliers since a greater proportion of spending goes to local suppliers than in smaller economic areas, so each direct job added leads to more additional local jobs.

Source: Fiscal Policy Institute analysis based on USPS AMP report (projected changes in employment and mail service), February 2012. Business income includes rents, dividends, and corporate profits. Proprietors' income is included with labor income. The USPS proposals specify only total gains and losses for contract trucking. We used the IMPLAN input-output models to estimate the effects of these changes in trucking volume on employment, labor income, etc.

Conclusion

The USPS figures on “savings” do not account for adverse employment and economic impacts on South Dakota or the lost tax revenues to the federal, or state and local governments. Looking from the point of view of the South Dakota economy, the Postal Service’s projected \$2.3 million a year in cost savings comes at the expense of an estimated \$2.8 million in lost economic activity in the East-Southeast section of the state. South Dakota would lose a net of 19 good-paying postal jobs and a total of 21 jobs overall. The proposed consolidation involves a net \$1.7 million in lost labor income, and \$135,000 in lost business income (this does not include about \$280,000 in proprietors’ income that IMPLAN includes in total labor income). In addition, there would also be a net loss in local and state taxes totaling over \$14,000, and \$398,000 in lost federal income and payroll taxes.

More important, however, than the net impact overall is the fact that a relatively small community, Huron in Beadle County, would lose 48 solid middle-class jobs providing decent health, retirement and other fringe benefits. In today’s tough economic environment, such jobs are virtually impossible to replace. While the Sioux Falls region will gain some offsetting jobs, and some of the displaced postal workers will be reassigned locally, there will still be a net decline of 21 jobs statewide. However, Beadle County will lose a total of 77 jobs, \$4.4 million in total labor income, \$580,000 in business income, and \$8.6 million in total economic activity, along with nearly \$28,000 in lost local sales and property taxes.

Appendix Table
The top industries in Beadle County losing total business income*

Truck transportation	-\$339,934
Real estate	-\$252,602
Banking	-\$111,922
Health care	-\$38,540
Electric power	-\$32,332
Wholesale trade businesses	-\$25,973
Couriers and messengers	-\$20,557
Food services and drinking places	-\$11,839
Losses in these eight industries	-\$833,700
All other industries	-\$120,946
Total business losses	-\$954,646

*In this table, “business income” includes proprietors’ income, as well as corporate profits, rents, and dividends.

Source: Fiscal Policy Institute analysis using IMPLAN.