

# MWBE SPEND ECONOMIC IMPACT

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# Economic Impact Study – BJM Solutions, LLC



Fred "Dr. Fred" W. McKinney received his Ph.D. in economics from Yale University in 1983, and his BA degree in economics from the University of California at Los Angeles. Dr. McKinney worked as the Managing Director for Minority Business Programs at Tuck School of Business at Dartmouth (2015-2018); President and CEO of the Greater New England Minority Supplier Development Council.

Dr. McKinney has been honored by numerous organizations. Notably, in 2017, the United States Department of Commerce, Minority Business Development Agency, presented Dr. McKinney with its highest award, the Ronald H. Brown Leadership Award.

A prolific writer, Dr. McKinney has authored four books and over 60 articles on minority business development and corporate supplier diversity. Dr. Fred McKinney was the CEO of the Greater New England Minority Supplier Development Council for 14 years and was the Managing Director of the Tuck School of Business Minority Business Programs for three years. Dr. McKinney has published four books on corporate supplier diversity and diverse business development along with over 60 articles.

# Economic Impact Analysis of the MWBE Program Guilford County, NC

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# AGENDA

- Economic Impact Defined
- MWBE Data Characteristics
- Economic Impact Model
  - \$1.00 MWBE Direct Effect - County Spend with MWBEs
  - \$1.55 MWBE Indirect Effect - MWBE Business to Business Spend
  - \$2.15 MWBE Induced Effect - MWBE Workforce Spend
- \$4.70 MWBE Non-Public Total Impact
- \$0.23 Tax Revenue Returned to Guilford County
- \$1.59 Labor Wages to Workers Indirectly
- MWBE Program Return on Investment

# Economic Impact Defined

- Economic Impact of Guilford County's MWBE Program measures the direct, indirect, and induced effects of County spending with MWBEs.
- This study measures the economic impact of this spending on incomes, investments, tax revenues and philanthropy of Guilford County's MWBE program
- The methodology of this study included a random sample survey of 50 MWBEs out of a pool of 520 firms certified by Guilford County and interviews with selected MWBEs

# MWBE Characteristics In Sample

- **16%** of MWBEs are construction companies, the largest group followed by Healthcare **6.8%**, Manufacturing **4.55%** and Public Service **4.55%**
- **73%** of respondents are Black, followed by **15.9%** White, and **2.27%** Hispanic and **2.27%** Native American
- **62.8%** of respondents are Women
- **88.6%** of respondents are certified as MWBEs
- **45.5%** of respondent's primary place of business is Guilford County

# Employment

- **63 %** of MWBEs had between **1** and **5** employees
- **18.6%** of MWBEs had between **6** and **10** employees
- **Less than 14 %** of MWBEs had more than **10** employees

# Labor Cost, Supplier Costs, Taxes and Philanthropy as % of Annual Revenue

- **43%** of MWBE's total revenue is spent on payroll.
- **31%** of MWBE's total revenue is spent on outside suppliers
- **11%** of MWBE's total revenue is spent on taxes to Guilford County
- **10%** of MWBE's total revenue is contributed to Non-Profits
- **5%** of MWBE's total revenue is paid to the State of North Carolina or the Federal Government \*



# Doing Business with Guilford County

- **53.5%** of MWBEs attempted to sell their goods and services to Guilford County
- **35%** of MWBEs were successful selling their goods and services to Guilford County
- This represents a **65%** success rate for MWBEs attempting to sell to Guilford County

# Sales and Distribution of Clients by Sector

- **36.4%** of MWBEs had sales less than **\$100,000**,
- **31.8%** had sales between **\$100,000** and **\$500,000** .
- **6.82%** of MWBEs reported sales greater than **\$10,000,000**.
- **26%** of sales were to Consumers
- **48%** of sales were to Companies
- **39%** of sales were to the Public Sector (local, state, and federal)

# Economic Impact Model

- We use a multiplier model to estimate the total effect of **\$1.00** spent with MWBEs.
- The multiplier model is based on the concept that **\$1.00** spent becomes someone else's income, which leads to more spending, which leads to more income, ad infinitum but with each round declining in size. This approach means that while the effect never disappears, it does approach a mathematical maximum that is based on what economists call "leakages".
- The leakages in the model are money that is not available to be spent. In the simplest of macroeconomic multiplier models, the primary leakages are savings, taxes and international transfers outside of the economy.
- Our model looks at the multipliers for money spent with consumers, corporations and government independent of each other and then adds these up to produce a total multiplier effect of **\$1.00** spent with MWBEs.

# Economic Impact Direct Effect

We use a multiplier model to estimate the total effect of **\$1.00** spent with MWBEs.

This **\$1.00** is the direct effect of the spending with MWBEs.

# B to B Multiplier of a Dollar Spent with MWBEs

- The survey reports that **31%** of MWBE spending goes to purchase goods and services from other suppliers. This spending also initiates a separate multiplier effect. The same principle of leakages applies here as well.
- The leakages are related to the fact that other suppliers also have taxes to pay and may save some of their revenues (retained earnings).
- If we continue with the **20%** leakage assumption, the **\$.31** spent MWBEs with other suppliers leads to an increase in economic activity of **\$1.55**.

# Consumer Multiplier of Money Spent with MWBEs

- The survey reports that **43%** of MWBE revenue is spent with employees. This spending in the form of payroll increases worker income. Some of that income "leaks" in the form of personal income taxes and savings.
- Assuming **20%** for both savings and taxes, **\$1.00** spent by the MWBE with employees results in a multiplier of approximately **5**.
- Therefore, **\$1.00** turns into **\$.43** in employment wages that has a multiplier of **5** meaning that the total impact to the economy is **\$2.15**

# Total Non-Public Economic Impact

- The model provides an upper limit multiplier of **\$1.00** spent with MWBEs of **\$4.70**
  - **\$1.00** Direct Effect
  - **\$1.55** Indirect Effect
  - **\$2.15** Induced Effect
- Total Effect = Direct + Indirect + Induced = **\$4.70** for every new **\$1.00** spent with MWBEs.

# Returning Tax Revenues to Guilford County

- Some of the economic impact generated by buying from MWBEs comes back to Guilford County in the form of taxes.
- The survey reports that MWBEs spend about **11%** of their total revenues on tax payments to the County.
- Given that the survey also reports that **45.45%** of the respondents are in Guilford County, some of the taxable income and property is paid to other counties.



# Returning Tax Revenues to Guilford County

- Given the multiplier effect **\$4.70**, the taxes paid as a percentage of revenues is **11%** and that **45.45%** of respondents live in Guilford County, an estimate of the economic effect on the County is **\$.23**.
- Of the **\$1.00** spent by Guilford County, **\$.23** comes back to Guilford County in the form of tax revenue from MWBEs.

# Indirect Impact on Employment

- Because **\$3.70** in Economic Impact is created in the form of new business and we know from the survey that **43%** of those dollars will be spent on labor income.
- Therefore, we can conclude that **\$1.59** will be spent on labor by other firms in the area.
- This is a way to allocate the **\$3.70** and should not be added to the overall impact.

# Economic Impact Summarized

- **\$1.00** spent by Guilford County with MWBEs results in **\$4.70** in economic impact.
- **\$1.00** spent by Guilford County with MWBEs results in **\$0.23** in new tax revenue for the County.
- **\$1.00** spent by Guilford County with MWBEs results in **\$1.59** in labor income to workers directly and indirectly.

# Return on Investment in the MWBE Program

The contributions to the Guilford County economy and community by MWBEs doing business with the County are significant. Employment increases, incomes increase, supply chains are strengthened, philanthropic activity is increased, and more money comes back to the County in the form of taxes.

# Return on Investment in the MWBE Program

Another perspective of the economic benefit of the program is to look at it through the lens of the administrative costs of the MWBE program to the County.

# Return on Investment in the MWBE Program

It costs approximately **\$1.8 million** to run the MWBE program. Given the MWBE spending level of **\$8.5 million** in FY 2023, and the multiplier analysis above. . . . .

# Return on Investment in the MWBE Program

The MWBE program generates ***\$42 million*** in economic impact and new tax revenue.

***\$40 million*** in economic impact, and

***\$2 million*** in new tax revenue

# Return on Investment in the MWBE Program

The MWBE Program currently generates an annual return on investment of

**11%**

Taking the new tax revenue generated of **\$2 million**, the MWBE program is

***SELF-FUNDING.***



# QUESTIONS



# FISCAL YEAR 2025



# FY 2025 Strategies

- Implement a Sheltered Market Program
- Implement Procurement Forecasting
- Continuous Improvement in:
  - Communication between the County, bidders and potential bidders
  - Investing in broader and more targeted outreach and supporting services
  - Encouraging joint ventures on large construction projects
  - Implementing additional data reform projects

# Questions?

*Thank you!*