

The Economic and Community Impact of Downsizing Postal Sorting Operations in Tucson, Arizona



A Fiscal Policy Institute Report
www.fiscalpolicy.org

November 10, 2014

The Economic and Community Impact of Downsizing Postal Sorting Operations in Tucson, Arizona

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.

www.fiscalspolicy.org

One Lear Jet Lane, Latham, NY 12110 518-786-3156
11 Park Place, Suite 701, New York, NY 10007 212-721-5624

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 downsize sorting operations by closing the mail processing center in Tucson, AZ, and consolidate these operations at the Phoenix processing and distribution facility, 112 miles away. The move involves a substantial reduction in the number of middle-income paying postal jobs.

- The Postal Service estimates that the consolidation will involve first-year transition costs of \$1.5 million, after which there would be \$14.1 million in net annual savings. Over 90 percent of the annual net savings would come from eliminating a net of 148 postal employee and managerial positions.

“Savings” for the Postal Service comes at a dear economic and individual cost for the Tucson and Pima County community where sorting operations are currently handled.

- The consolidation involves the loss of 320 good-paying jobs at the Tucson mail processing and distribution center that have average pay of \$54,000 (non-managerial), twice the \$26,400 median annual earnings for Pima County residents.
- Including the multiplier impact of reduced business and consumer spending, a total of 518 jobs will be lost in Pima County. The total labor incomes associated with these jobs amount to over \$32 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 Tucson at comparable pay and benefits. Postal consolidation further chips away at the critical base of solid middle-class jobs in Tucson.
- Tucson-area businesses will lose customers and \$3.8 million dollars in business income as a result of eliminating the sorting operation at the Tucson postal facility.

Despite the transfer of some postal positions from Tucson to Phoenix, the net impact of the proposed consolidation will result in a loss of 229 jobs and nearly \$15 million in labor income in Arizona overall. The USPS figures on “savings” do not account for adverse employment and economic impacts on Arizona or the lost tax revenues to the federal and local governments.

- The net loss in economic output in the state will exceed \$21 million and involve the loss of \$1.2 million in business income. The Tucson-Phoenix consolidation plan will reduce federal payroll and income taxes by \$3.4 million and cost Arizona \$330,000 in net state and local tax revenue.

At the end of the day, the proposed consolidation offers illusory savings. The adverse economic impact on the Tucson area will be devastating, including the loss of 320 middle class postal jobs, and the positive impact on the Phoenix area is not sufficient to prevent a substantial net negative employment, economic and fiscal loss in Arizona.

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 “Tucson AZ P&DF” mail processing center in Tucson, Arizona, that currently collects and distributes mail throughout southeastern Arizona.¹

The Postal Service is proposing to consolidate those operations into the Phoenix, Arizona processing and distribution facility, 112 miles away. The Postal Service estimates that the consolidation will involve first-year transition costs of \$1.5 million, after which there would be \$14.1 million in net annual savings. Over 90 percent of the annual net savings would come from eliminating a net of 148 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 Tucson community

“Savings” for the Postal Service comes at a dear economic and individual cost for the Tucson and the Pima County, Arizona 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 Phoenix, the Postal Service is planning to eliminate 311 postal jobs in Tucson. See Table 1. The non-managerial postal jobs to be eliminated average \$54,000 a year in salary, over twice the \$26,400 median annual earnings for all those employed in Pima County.³ When health insurance and other fringe benefits are added in, labor compensation averages \$81,800 per worker for the jobs the Postal Service wants to eliminate in Tucson. See Chart 1.

Table 1

Postal jobs lost in Tucson

Postal clerks & mail handlers	-212
Postal maintenance & other jobs	-76
Supervisors & managerial employees	-23
Total direct USPS employees	-311
Contract mail truckers	-9
TOTAL direct employees	-320

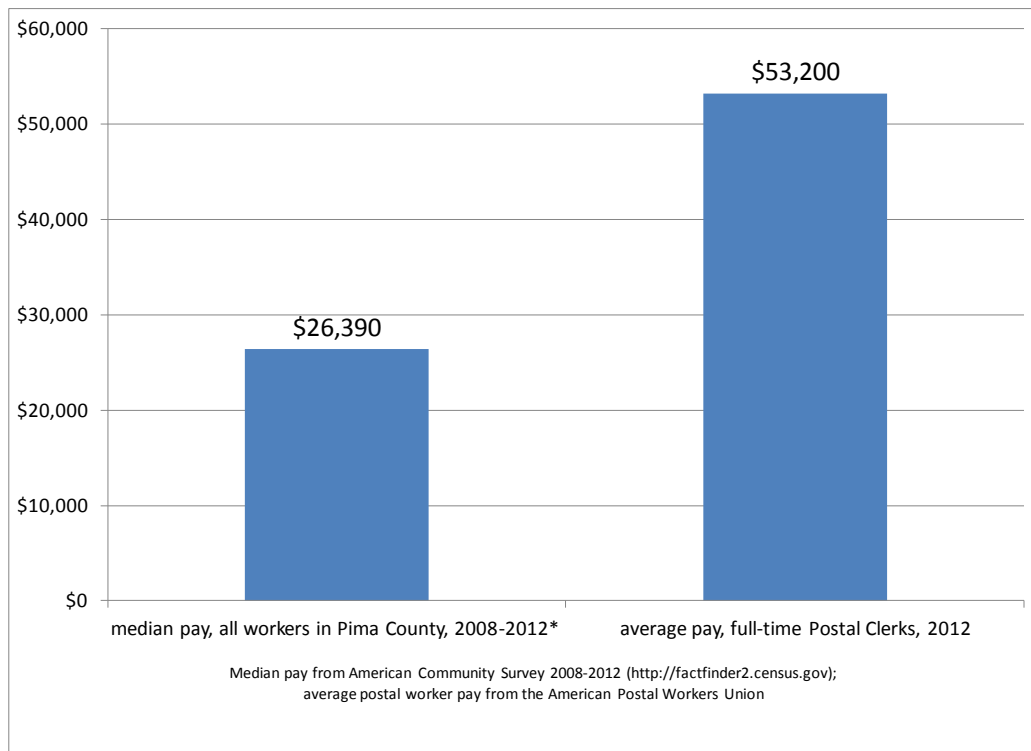
Source: Fiscal Policy Institute analysis based on USPS AMP report (projected changes in employment and mail service), February 2012. The USPS proposal specifies only total gains and losses for contract trucking. We used the IMPLAN input-output model to estimate the effects of these changes in trucking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

In addition to the loss of 311 good-paying Postal Service jobs, the consolidation will cause the Tucson area to lose an estimated 207 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 According to the American Community Survey for years 2008-2012, median annual earnings for all those employed in Pima County were \$26,390 (in 2012 constant dollars). The median earnings for male full-time employees were \$43,900, and the median for full-time women workers was \$34,500.

Thus, Pima County will lose an estimated total of 518 jobs with over \$32 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 Pima County workers



Eliminating this much in annual labor income in a small area also will have a profoundly negative effect on Pima County businesses. They will lose customers and some will be forced to reduce their own employment as a result. Local businesses will lose an estimated \$49 million in sales, and \$3.8 million in business income, plus \$915,000 in proprietors' earnings. Half (\$2.4 million) of this lost business income would be felt in the real estate industry, with substantial impacts also occurring in the banking, trucking, restaurant, utilities, finance, and health care industries. See the Appendix for detailed business impacts in Pima County.

Local government will also experience a loss of an estimated \$915,000 in property and sales taxes associated with the closing of the Tucson facility.

Table 2

Impact of proposed consolidation on Pima County (Tucson), Arizona

Direct jobs lost	-320
Total jobs lost	-518
Direct labor income lost	-\$25,897,674
Total labor income lost	-\$32,293,196
Total business income lost	-\$3,781,307
Local economic loss	-\$48,960,009
Local taxes lost	-\$915,419

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 Phoenix metropolitan area

To accommodate the additional mail processing that will be transferred from Tucson, there will be 160 new clerks, mail handlers, and maintenance staff at Phoenix, plus three management positions. Contracts for mail trucking to and from the facility will be expanded by \$466,000 per year, which suggests an increase of three direct jobs in that industry and an increase of \$180,000 in trucking employee earnings. Including the additional postal jobs and trucking jobs, there would be a \$12.7 million increase in direct labor income. The 166 direct postal and trucking jobs would lead to an estimated total of 289 new jobs in the Phoenix region⁴, with a total labor income gain of \$17.3 million. The local economy would gain an estimated \$27.5 million a year in sales as a result of the transfer of operations, and the two-county region (Maricopa + Pinal) would gain an estimated \$353,000 a year in local sales and property taxes.

⁴ Metro Phoenix is Maricopa and Pinal Counties.

The net economic and fiscal impacts of the consolidation

Table 3 provides the net impact of the Tucson job reductions and the consolidation proposed for the Phoenix facility. Despite the transfer of some postal positions from Tucson to Phoenix, the net impact of the proposed consolidation will result in a loss of 229 jobs and nearly \$15 million in labor income in Arizona overall. Altogether, the net total loss of output to the Arizona economy would be an estimated \$21.4 million. This would be associated with a net decline in state and local taxes of \$330,000 and the loss of \$3.4 million in federal individual income and payroll taxes.

Table 3

Net economic and fiscal impact of the proposed Arizona consolidation

	Tucson losing sorting	Consolidation in Phoenix	Net economic and fiscal impacts
Direct jobs	-320	166	-154
Total jobs	-518	289	-229
Direct labor income	-\$25,897,674	\$12,656,042	-\$13,241,632
Total labor income	-\$32,293,196	\$17,346,332	-\$14,946,864
Total business income	-\$3,781,307	\$2,548,445	-\$1,232,862
Local economic output	-\$48,960,009	\$27,532,069	-\$21,427,939
Local taxes	-\$915,419	\$353,175	-\$562,244
State taxes			\$232,016
Federal payroll and income taxes			-\$3,407,885

Note: The net positive state tax impact result is due to a much higher sales tax impact per dollar of labor income in the two-county Phoenix region than in Pima County (presumably because more of people's spending stays within the larger region—the population of the Phoenix metro area is more than four times as great as the Tucson area population), so sales taxes from the added jobs in metro Phoenix outweigh those lost in Tucson. The county portions of sales tax are minimal.

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 the substantial adverse employment and economic impacts on Arizona or the lost tax revenues to the federal, or state and local governments. Looking from the point of view of the Arizona economy, the Postal Service’s projected \$14.1 million a year in cost savings comes at the expense of an estimated \$21.4 million in lost economic activity. Arizona would lose a net of 148 good-paying postal jobs and a total of 229 jobs overall. The proposed consolidation involves a net of nearly \$15 million in lost labor income and \$1.2 million in lost business income. In addition, there would also be a net loss in local and state taxes of over \$330,000, and \$3.4 million in lost federal income and payroll taxes.

More important, however, than the net impact overall is the fact that Tucson would lose 320 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 Phoenix 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 148 postal jobs and a total loss of 229 jobs statewide. However, Pima County alone will lose a total of over 500 jobs, \$32.3 million in total labor income, \$3.8 million in business income, and nearly \$49 million in total economic activity, along with over \$900,000 in lost local sales and property taxes.

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

Real estate	-\$2,431,240
Banking	-\$394,965
Trucking	-\$191,037
Food services and drinking places	-\$150,291
Electric utilities	-\$128,164
Finance	-\$126,187
Health care	-\$203,582
Wholesale trade	-\$72,724
Losses in these eight industries	-\$3,698,189
All other industries	-\$1,003,937
Total business losses	-\$4,702,127

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

Source: Fiscal Policy Institute analysis using IMPLAN.