

ECONOMIC IMPACTS OF YEAR-ROUND RESIDENTS
LIVING ON MOUNT DESERT ISLAND, MAINE

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Executive Summary:

The purpose of this study is to examine the economic impacts of year-round residents living on Mount Desert Island, Maine. Specifically, we investigate the local sales revenue and employment supported by the spending of year-round residents and, as a separate analysis, the benefits to local residents and businesses from the availability of a year-round workforce. Study results show that the annual spending of each year-round household on retail goods and services generates a total economic impact –including multiplier effects –of \$16,770 in sales revenue, and supports an additional 0.2 local jobs that provide \$4,370 in annual income. This suggests that ten year-round households living on Mount Desert Island would generate an estimated \$167,700 in economic activity, and support two local jobs that provide \$43,700 in wages and salaries. In addition, we found that year-round residents and businesses located in and around Bar Harbor share the benefits, estimated at \$8,552 to \$18,987 per year, from avoiding a work-related commute to Ellsworth or Bangor, or from not having to pay higher wages to attract a worker from outside of the area. This report considers only some of the impacts of year-round residents living on Mount Desert Island. Additional benefits not considered include, but are not limited to, the ability to support local schools and an increase in community-based social capital.

ECONOMIC IMPACTS OF YEAR-ROUND RESIDENTS LIVING ON MOUNT DESERT ISLAND, MAINE

1. INTRODUCTION

Many U.S. communities are characterized by wide seasonal fluctuations in population and overall economic activity. In Maine, numerous coastal towns experience a heavy influx of summer residents and tourists, most of whom vacate the area when the calendar turns to autumn. This type of seasonal instability has an adverse impact on local businesses, especially companies that seek to maintain year-round operations.¹

The town of Bar Harbor and its surrounding communities on Mount Desert Island experience some of the most pronounced seasonal economic fluctuations in Maine.² As shown in Figure 1, taxable restaurant and lodging sales (i.e., an indicator of local tourism activity) increased by 333.9 percent between May and July of 2009, and then retreated by 61.7 percent between August and October of the same year. These trends are mirrored, although to a slightly lesser extent, by the seasonal swings in overall taxable retail sales displayed in Figure 2.

The purpose of this study is to examine some of the economic impacts of year-round residents living on Mount Desert Island, Maine. Although the impacts of a year-round population go beyond “dollars and cents” and include community benefits such as the ability to support local schools and enhanced social capital, we focus our attention on

¹ In a recent published study, we found that seasonal employment spikes have a negative effect on the number of new business openings (Gabe 2007). More specifically, a 10-percent increase in a July “seasonal employment index” is associated with a 17-percent reduction in new business activity.

² Maine Revenue Services reports retail sales data by Economic Summary Area (ESA). The Bar Harbor ESA is made up of 21 communities, including Bar Harbor, Mount Desert, Northeast Harbor, Southwest Harbor and Tremont.

(1) the local spending of year-round residents and, (2) the local availability of a year-round workforce. These two factors are particularly important to retail and services-based businesses and, more generally, to the presence of a viable year-round economy.

2. LOCAL SPENDING OF YEAR-ROUND RESIDENTS

The local spending of year-round residents provides a key source of revenue to retailers and service providers located on Mount Desert Island. To determine the magnitude of such spending, we use the latest available data from the U.S. Bureau of Labor Statistics (BLS) on the consumer expenditures made by the average U.S. household in 2007. From this information, we estimate the amount of retail and services-related expenditures that are likely to take place in the local area based on the types of business that are present in Bar Harbor and surrounding communities, and surveys of MDI residents.³

According to the 2007 U.S. BLS Consumer Expenditure Survey, the average U.S. household reported a pre-tax income of \$63,071, and spent an average of \$49,639 per year on items such as shelter, food, transportation, entertainment and retail goods. Of this amount, we focus on selected retail and service-based expenditures that amounted to \$27,808 per household in 2007.⁴ Based on surveys of MDI residents and our research on

³ Information on the types of businesses located in Bar Harbor is from 2007 *Zip Code Business Patterns* of the U.S. Census Bureau. Survey results are from a 2003-04 study of Mount Desert Island residents, conducted as part of the MDI Tomorrow project (Morris and Gabe 2004).

⁴ We excluded from our analysis annual spending on items such as shelter (e.g., mortgage payments) and utilities because the majority of these payments are made to companies located outside the region.

the types of businesses located in and around Bar Harbor, we estimate that \$13,850 (or, about 50 percent of \$27,808) of this annual spending would take place locally.⁵

Along with the direct local spending of \$13,850, the additional expenditures made by businesses and workers supported by year-round residents (i.e., multiplier effects) will have an impact on the Mount Desert Island economy. These multiplier effects are estimated using an input-output (i.e., IMPLAN) model of the local region. The IMPLAN model traces the flows of expenditures and income through the economy with a complex system of accounts that are uniquely tailored to the area. Underlying these accounts is information regarding transactions occurring among businesses located in the region, the purchasing patterns of local households, and transactions occurring between the region and the rest of the world. Some of the data sources used to develop the IMPLAN model include County Business Patterns from the U.S. Census Bureau, Regional Economic Information System (REIS) data and input-output accounts from the U.S. Bureau of Economic Analysis, and ES-202 statistics from the U.S. Bureau of Labor Statistics.

Results from the IMPLAN model suggest that the local retail and services-related spending by each year-round household in the Mount Desert Island region has an annual economic impact –including multiplier effects –of \$16,770 in total economic output (i.e., sales revenue), and supports an additional (i.e., above and beyond the household of year-round residents) 0.2 local jobs that provide \$4,370 in annual income. This suggests that

⁵ For example, the 2003-04 survey of MDI residents found that 78.7 percent of year-round residents “usually” purchased restaurant meals locally on Mount Desert Island. In addition, we found that Bar Harbor has a location quotient (i.e., measure of local specialization) of 2.47 in the industrial sector of full-service and limited-service restaurants, indicating that the area has an abundance of establishments to serve the local population. Thus, we estimate that the typical household would spend \$2,100 per year (i.e., 78.7 percent of the national average of \$2,688 from the 2007 BLS Consumer Expenditure Survey) at local restaurants

10 year-round households would generate \$167,700 in economic activity, and support two local jobs that provide \$43,700 in wages and salaries.

3. LOCAL AVAILABILITY OF A YEAR-ROUND WORKFORCE

Another economic impact of year-round residents is that they provide a stable workforce for businesses located on Mount Desert Island. Supporting a year-round workforce is actually an outcome that is beneficial to residents and businesses alike. Local residents benefit from year-round employment opportunities because it means that they do not need to commute to places such as Ellsworth or Bangor to find work. Likewise, businesses benefit from hiring local year-round residents because they can attract workers without paying a wage premium to attract people from outside of the Mount Desert Island region.

To gain a sense of the benefits of a year-round workforce shared by local residents and businesses, we estimate the costs of a “work-related commute” between Bar Harbor and Ellsworth, and Bar Harbor and Bangor.⁶ These costs are based on 200 commuting days per year (e.g., 50 weeks and 4 days per week) and 1,600 hours of work per year (e.g., 50 weeks and 32 hours per week). Based on these parameters and assuming that the typical worker receives an annual salary of \$30,000, we estimate that a Bar Harbor resident who works in Ellsworth or Bangor would need to be compensated by \$4,500 or \$9,625, respectively, to cover the time spent per year in his or her commute.⁷

⁶ According to www.mapquest.com, the time and distance between Bar Harbor and Ellsworth is 36 minutes and 20.26 miles. The time and distance between Bar Harbor and Bangor is 1 hour and 17 minutes, and 46.81 miles.

⁷ We use an annual income figure of \$30,000 because it is roughly one-half of the pre-tax income of \$63,071 reported in the 2007 U.S. BLS Consumer Expenditure Survey. This assumes that households have two “income earners” and that people do not “car pool.”

Based on these assumptions and the 2010 IRS Standard Mileage Rate of \$0.50 per mile, we estimate that a Bar Harbor resident who works in Ellsworth or Bangor would need to be compensated by \$4,052 or \$9,362, respectively, to cover the annual out-of-pocket costs (e.g., gasoline, automobile repairs) of his or her commute.

Accounting for both the value of a person's time and the costs of driving to and from work, we estimate that Mount Desert Island residents are better off by \$8,552 or \$18,987 per year from avoiding a work-related commute to Ellsworth or Bangor, respectively. As noted previously, these benefits are likely shared by year-round residents and local businesses. Year-round residents who find work in Bar Harbor or elsewhere on Mount Desert Island benefit from avoiding a commute, while businesses benefit from a year-round workforce by not having to pay higher wages to attract people from Ellsworth or Bangor. Thus, the benefits outlined above (i.e., \$8,552 or \$18,987 per year) are likely split between Mount Desert Island area businesses and the year-round residents who work for them.

4. SUMMARY

This report analyzed two of the economic impacts of year-round residents living on Mount Desert Island, Maine. First, we found that the spending of each year-round household has an annual economic impact –including multiplier effects, of \$16,770 in total economic output (i.e., sales revenue), and supports an additional (i.e., above and beyond the household of year-round residents) 0.2 local jobs that provide \$4,370 in annual income. This suggests that 10 households living year-round in the Mount Desert Island region would generate an estimated \$167,700 in economic activity, and support

two local jobs that provide \$43,700 in wages and salaries. Second, we found that businesses and year-round residents located on Mount Desert Island share the benefits, estimated at \$8,552 to \$18,987 per year, from avoiding a work-related commute to Ellsworth or Bangor (from the perspective of a year-round resident) or from not having to pay higher wages to attract a worker from one of those areas (from the perspective of a Mount Desert Island area business).

REFERENCES

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- U.S. Internal Revenue Service, "IRS Announces 2010 Standard Mileage Rates," Release IR-2009-111, December 2009.

Figure 1. Bar Harbor ESA Taxable Restaurant and Lodging Sales, 2009. (Source: Maine Revenue Services)

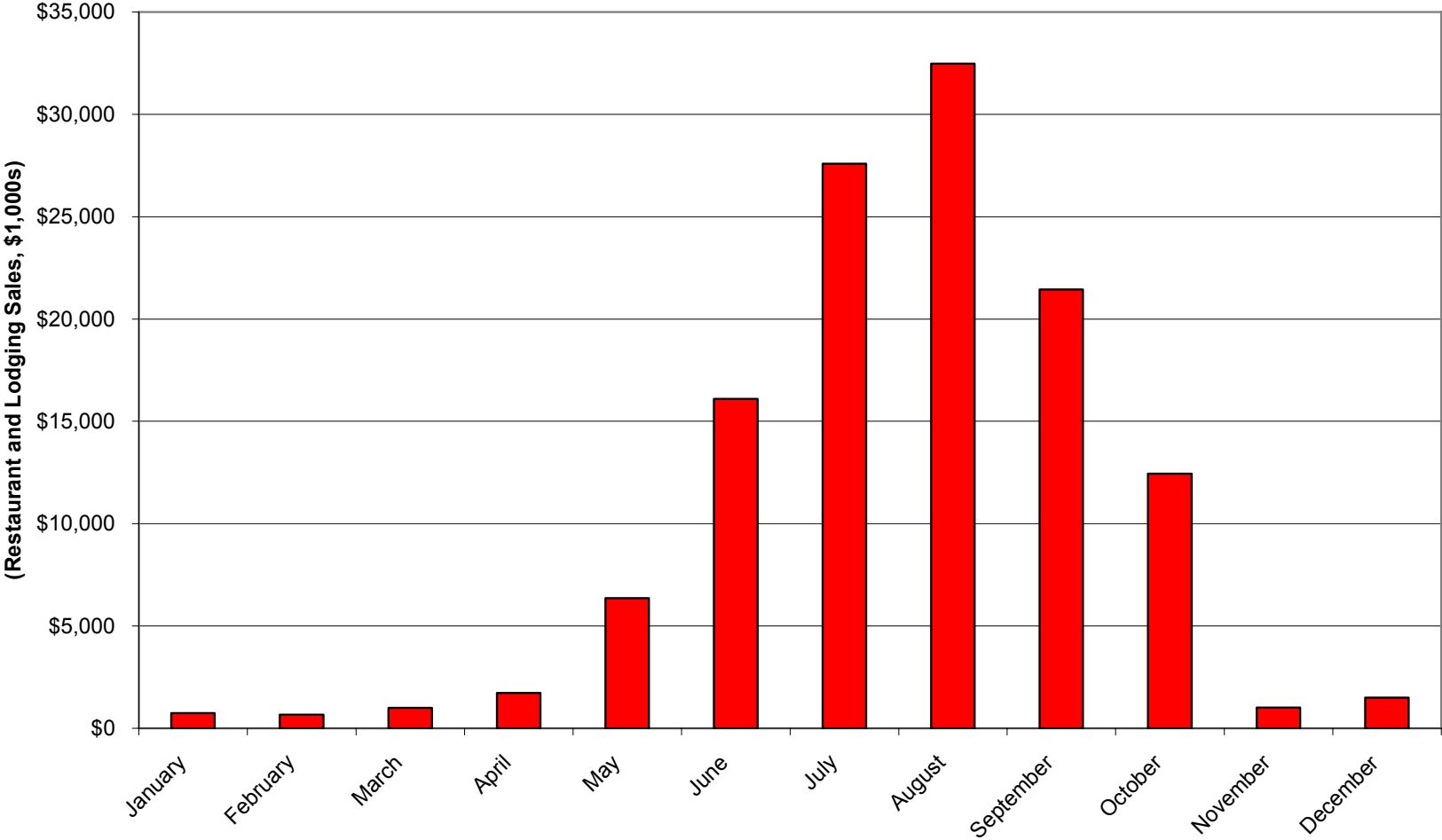


Figure 2. Bar Harbor ESA Total Taxable Retail Sales, 2009 (Source: Maine Revenue Services)

