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Rebekah Cooper

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Economic Base Analysis of the City of Commerce, Texas
With Relation to Hunt County and Texas
Rebekah Cooper
Texas A&M University-Commerce

Abstract

Commerce, Texas is a unique town with many different challenges and a clear need for economic development. This study will take a look at the current economy of Hunt County, then use an Input-Output model, Shift Share Analysis and Location Quotients. Then a determination will be made on the best plan of action to spur economic growth and job creation for the city of Commerce based on the regional information. It will take into account current industries, supply chain linkages, utility infrastructure and several other factors that impact the amount and types of businesses in the local community. The goal of this research is to provide the local Economic Development Corporation and the City of Commerce with some guidance in its pursuit to bring new industries into town and/or expand on existing industries.

Economic Base Analysis of the City of Commerce, Texas
With Relation to Hunt County and Texas

When determining options for future economic development in Commerce, Texas, there are a few basic options on how to go about this. The city can shoot blind and go after as many companies as they can – hoping the numbers fall in our favor, wait and let companies looking to start, relocate show interest in the local area, help small local businesses grow, or strategically build off of what is already here. If they opt to build the economy strategically, there are two main options to look at: bring in more companies similar to what is already here, or bring in companies that are in the supply chain of existing companies. When research is not readily available, the first three options make sense and are appropriate. The purpose of this study is to use the available data to analyze the local economic base and help local leaders move to a more efficient process of spurring local economic development through strategic recruitment that fits the current economic structure. Unfortunately, there is not much available data for Commerce, but there is quite a bit of data available on the county level. This study has utilized the available information regarding Hunt County, then made appropriate assumptions to tailor the results down to a Commerce specific solution.

The economic base of a local area is defined by the exports, or locally produced goods and services that are purchased by people and businesses outside of the local area. Since exports are measured by the payments made, if the source of the payment originated outside of the local area it is considered an export. This means that if a resident of Sulphur Springs, Texas drives to Commerce, Texas to buy a cup of coffee from the local coffee shop, that transaction is considered an export of Commerce because the purchaser does not live or work in the city or county. Economic Base Theory is based on the idea that the structure of a local area can be

broken down into two major categories: basic activities and non-basic activities. Basic activities are the result of products or services being sold outside of the defined local area, such as our local HydroAluminum plant selling its product to a manufacturer in Utah. Non-basic activities are goods and services that are consumed at home, like a resident of Commerce purchasing groceries from the local Brookshires. (Maki,Lichty, 2000, p. 120)

To begin analyzing an economic base, we must start by looking at why new businesses begin where they do and the related investments that lead to more trade between regions. We can then turn the conversation back to exports and how the economic base is comprised of many individual and diverse location decisions within a local area. These decisions lead to population growth and a constant flurry of economic activity that is facilitated by the local labor market. As the needs of the local population grow, the local market will grow to provide the local goods and services. Eventually, more markets are established to provide business-to-business goods and services, as well as everyday needs for individual consumers. As access and inter-regional trade activity with active markets outside of the local area improves, the economic activity will expand and diversify even more. (Maki,Lichty, 2000, p. 121)

Three important methods of analyzing an economic base the study looked at are Location Coefficients, Shift Share Analysis, and Input Output Models. The Location Coefficient uses the percentages of local and national employment in an industry sector to measure the imports and exports in a region. (Shuffstall, 2015) This is used to determine if a community has a natural pull on an industry to locate in the area based on the conglomeration needs that already exist. This is great information to consider when analyzing an economic base, but will not be the main focus of this study. This study sourced the location quotients from the Texas Labor Analysis website, which utilizes data from the Texas Workforce Commission and the Labor

Market and Career Information Department. The Regional Location Quotients will be used at the end of the study to add further insight into specific opportunities that might exist in what TexasLaborAnalysis.com considers North Central Texas.

Shift Share Analysis is used to determine how much industry growth within a region resulted from either a national trend or from local factors. (Sentz, 2011) After we determine if there has been growth, decline, or stagnation in the economic base over the past few years, we used the Shift Share data to determine if Hunt County has a competitive advantage over the rest of the nation. The Texas Regional Economic Analysis Project will be the source of our Shift Share data.

In order to create an action plan for industrial development and job creation, the study used the Input-Output (I/O) Model, Implan, to measure the impact of each industrial sector or firm on the local economy while describing the interdependence among the different sectors. (Mouhammed, 2000, p. 68) That information will then be combined with the County Business Patterns to determine what type of industries we should take a closer look at using Location Coefficient and Shift Share Analysis.

According to the Hunt County Regional Data in 2016, there is only one manufacturing establishment in the county that has over 1,000 employees and one health care and social assistance establishment with 500-999 employees. Based on common knowledge of the local area, it is safe to assume that L3 ISR Systems (L3) and Hunt Regional Healthcare are these two establishments. One of the shortfalls in the county business patterns data is that while there is an educational services category, the number of total 2016 establishments was 12, and majority of these businesses only employ 1 to 4 employees. This does not take into account public schools or a local university. Unlike private institutions, the university is a public institution with

funding from the government that is required to make information public. Based on data from The Texas Tribune that was last updated in June of 2018, Texas A&M University-Commerce has over 1,300 employees. Keep in mind that these are only 3 out of 1415 identified establishments in the county. This means that majority of residents are employed by small businesses. Having a large amount of small businesses is considered a strength due to the growth potential they present. The issue is that unless there are enough small businesses to employ majority of the local residents, this is not a sustainable model. As mentioned above, it was important to understand why each of these large employers are located in Hunt County before the study determined where the strengths lie.

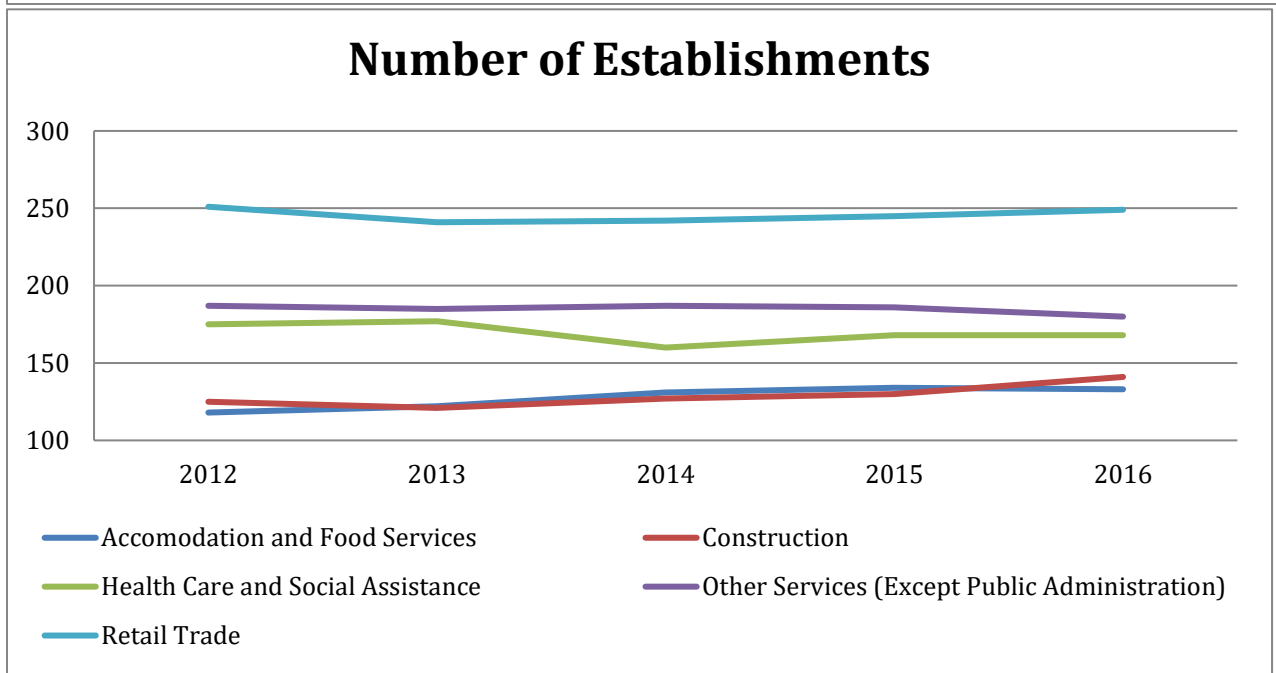
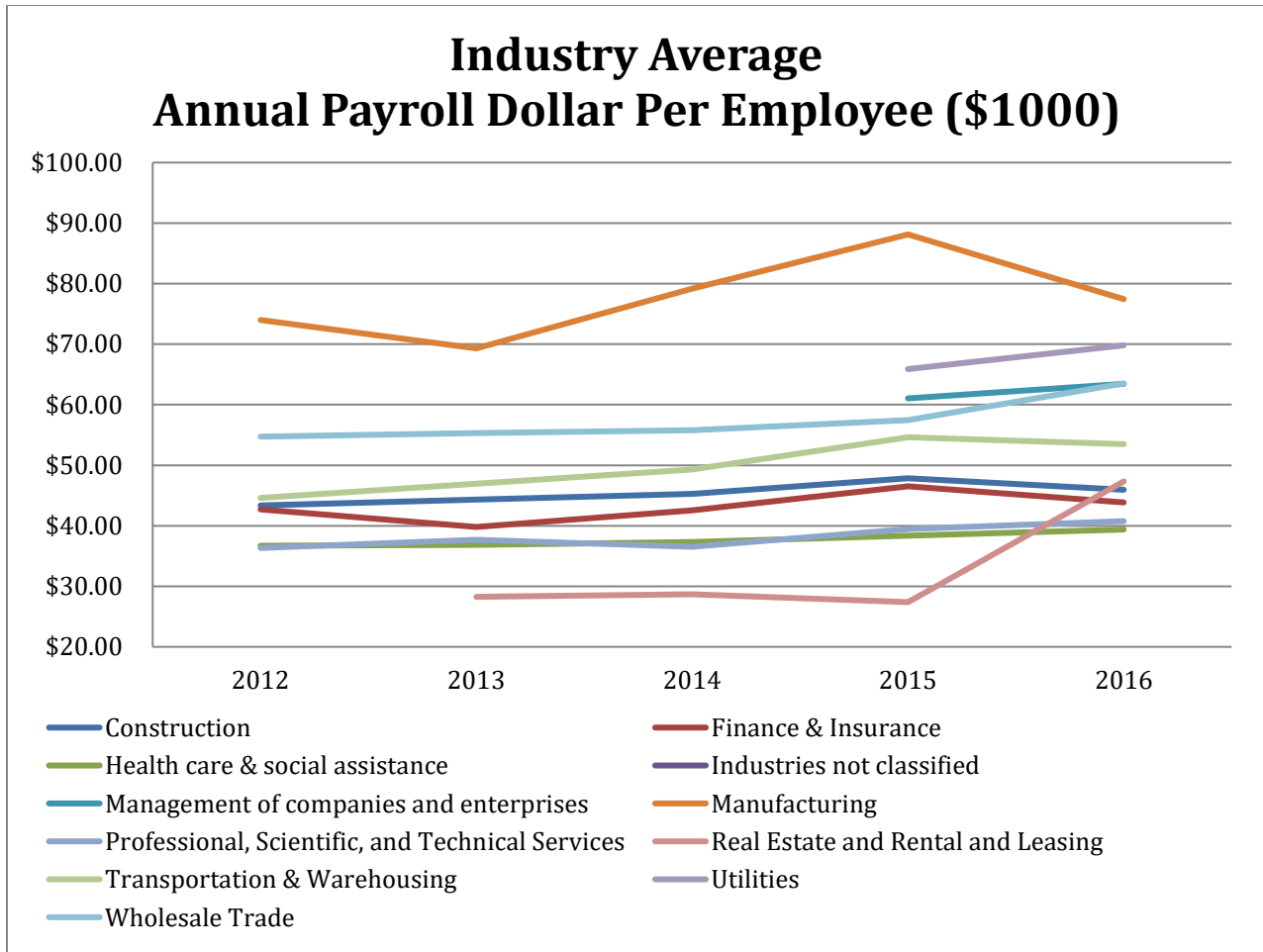
Texas A&M University-Commerce was originally founded as East Texas Normal School in Cooper, Texas in 1889. After the university buildings burned down in 1894, the founder and President, Dr. Mayo, made the decision to move his institution a few miles south to its present location in Commerce, TX. There is no official documentation citing Dr. Mayo's reasoning behind this decision.

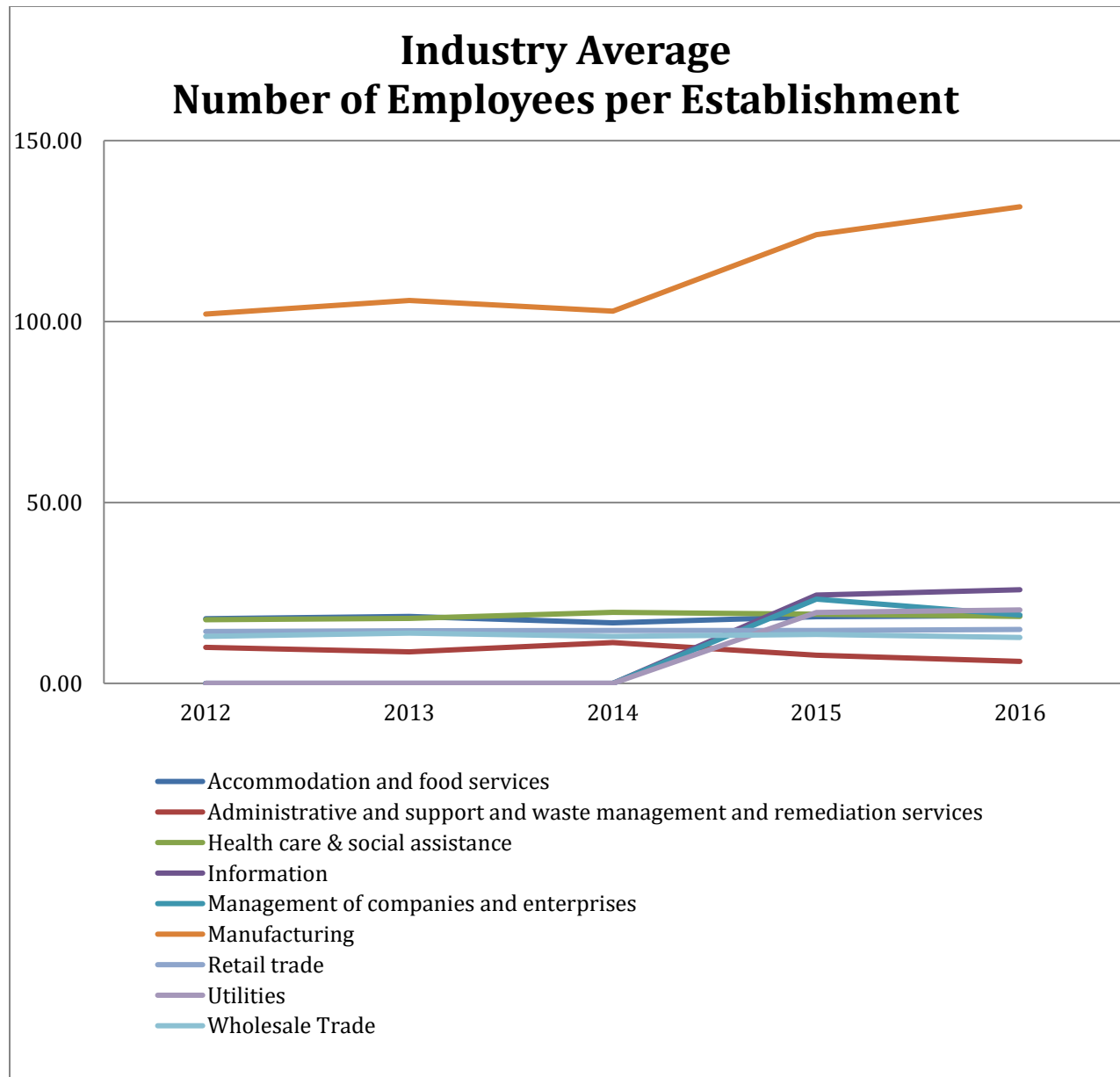
Due to the sensitivity of their operations, not much is publicly known about why L3 ISR Systems chose Greenville, TX as the base of their operations. This location of L3 is a defense contracting company – originally known as E-Systems before being bought by the L3 Corporation.

Hospitals are typically founded as the result of a large population in need of medical care. Since Greenville, TX is the largest incorporated city in the county, is the county seat, and is also located on Interstate 30 it was an easy choice for Hunt Regional Healthcare to base their operations there.

Based on the available information, it appeared that only one of these institutions had clear intentions for locating in Hunt County. Since there was no apparent reason for these major employers to locate in Hunt County, the next best option to strengthen the economic base was to look at the imports and exports of existing industries. By looking at what types of companies are impacted by the existing institutions and industries in the county, the study then determined which industries would be best to pursue in order to build on its strengths. The county should attempt to attract a company that is similar to current firms, in an existing firm's supply chain, or that can replace a current supplier. More firms lead to more exports for the county, and since exports are measured by money exchanged it leads to more funding for the county so they can make improvements and attract more firms.

Outside of the three major employers previously mentioned, there are several opportunities for employment including manufacturing plants, restaurants, and various retail establishments. However, based on the unemployment rate at 3.9%, the poverty rate at 16.3%, and the median household income at \$51,827 there is still a large need for steady employment opportunities in this community. (Hunt County Profile, 2018) This study used the Hunt County Business Patterns from 2012 through 2016 to determine which industries have the largest economic impact on the county by looking at the highest number of firms in the area, average number of employees per firm, and average wage per employee. It should be noted that because no firm is required to report their information, there are years where there is no available data or data will be incomplete for certain industries. The charts below are limited to show the six highest performing industries in any given year.



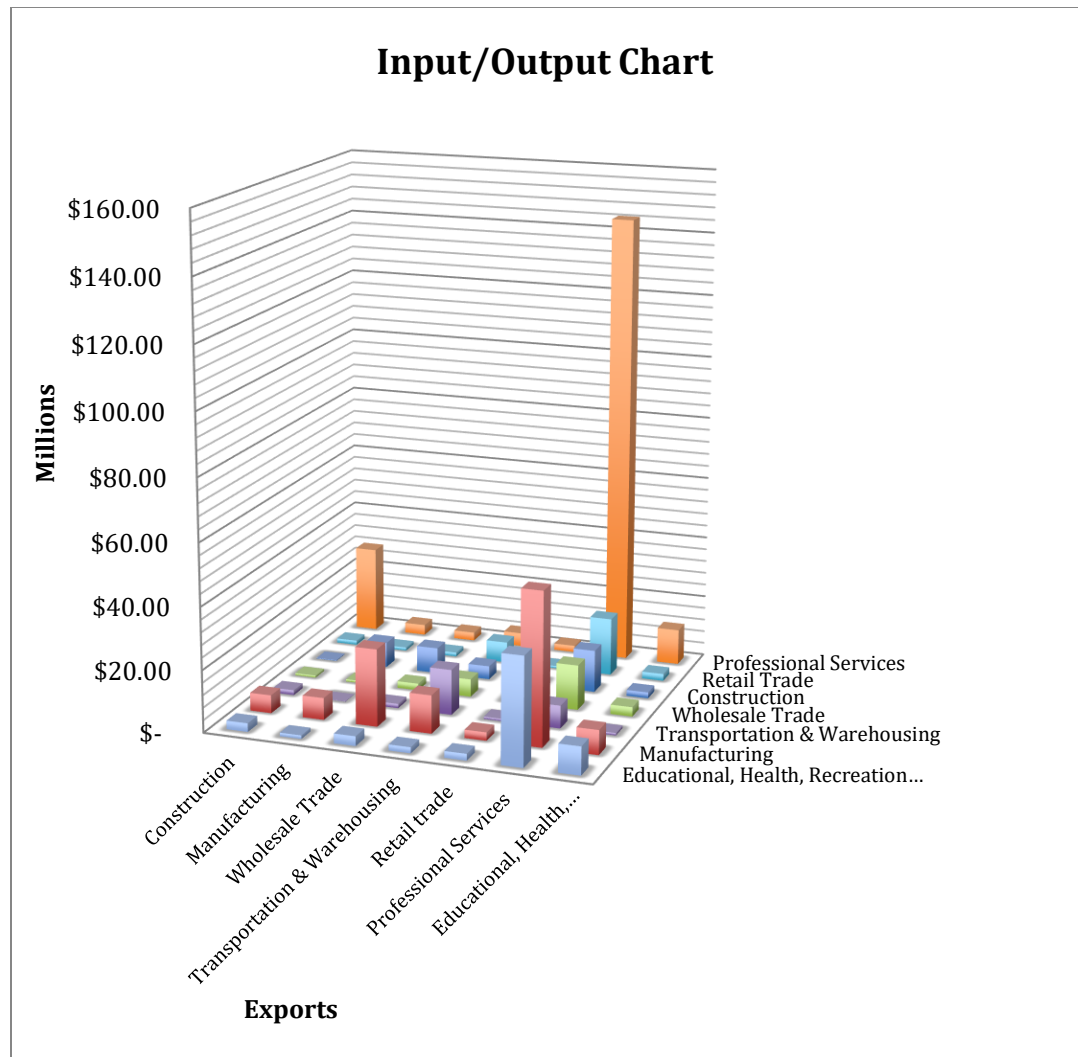


The data shows that the Manufacturing industry overwhelmingly leads the county in pay and number of employees. While there are only a few manufacturing firms, they still make a very large impact on the economic base. It is important to note that since L3 and Hunt Regional Healthcare have a large number of employees, their numbers are more than likely skewing their respective industry averages. Unfortunately the dataset the study is using does not allow for a look at the specific firm’s employee numbers, so we cannot calculate how much of an impact

those two numbers have on the dataset. It is also important to mention that Texas A&M-Commerce is not accounted for in the charts. According to the Texas Tribune, the median salary for the university's 1,325 employees is \$55,412. Other than having a large amount of employees, the university does not appear to make a significant impact on the economic base of Hunt County if just based on these metrics.

When deciding which industries should be considered when looking at Implan, the study took into consideration how much impact bringing one new firm would make on the economic base. If more local residents are employed, then there is more discretionary income available in the community to spend at local businesses. If there are a large number of firms in an industry that pay their employees above the living wage, then it might make the same economic impact to grow that industry instead of pulling in a high paying, low employee firm or a low paying, high employee firm. Since the manufacturing industry has the highest average number of employees and highest average salary then it is the main industry the study will consider in the next step. Another trend is the health care and social assistance industry showing up as a leader in all three categories. Even though it does not immediately appear to be a large impact, this industry has a definite presence in the economic base.

This study used the Implan model for Hunt County using data from 2015. The chart below shows the imports and exports for the manufacturing and health and social services industries. Unfortunately, Implan does not have health and social services broken into its own category, but is instead combined with educational and recreation service. While this is not ideal, it gave the study a chance to see where Texas A&M University-Commerce fits in the economic base.



The bottom axis, from left to right, follows the exports made while the side axis on the right side of the graph follows the imports made into the focus industries. In 2015, manufacturing’s top imports were professional services and wholesale trade, while educational, health, and recreation’s top exports outside of itself were to the professional services and manufacturing industries.

The professional services industry makes a much larger impact than the regional data initially showed. The firms in this industry within Hunt County have an average of 6 employees and have an average of \$40,000 in 2016. The data shows that there is a large amount of professional services that are outsourced from a different region. While recruiting professional

service firms may not make a large impact on the economic base in terms of employees and wages, it may help increase retention of new and existing firms.. This industry is one of the top exports for industries across the board; having a number of quality businesses within this industry available for new and existing firms to utilize will be a positive for Hunt County. Since professional services are a major import for both the manufacturing and educational, health, & recreation industries, this would be a prime choice for import substitution.

Another option for import substitution is the transportation & warehousing industry. This industry has just a few more employers per establishment and pays a higher average wage than Professional Services, but is not as large of an export for the existing industries. One benefit from recruiting transportation & warehousing is that it does not have many imports. This means it does not require much outside of infrastructure, location, and labor force; all three of which Hunt County has in its favor. Attracting a firm in this industry will not make a large impact on the education, health, & recreation industries, but will make an impact on several other industries. While the construction, manufacturing, and wholesale trade industries are important to look at, they do not have as broad of an impact on the economic base as professional services or transportation & warehousing.

After applying the Shift Share Analysis method to Hunt County using 2013 as the base year and ending in 2017, the county has outpaced the national average employment growth by 1.49%. This was mainly due to a large amount of local industries that outperformed their counterparts nationally while a few industries experienced slower growth. (Smith, 2018)

The Location Quotient for North Central Texas shows that several manufacturing and professional service sectors have higher shares of employment than the rest of the nation. This data takes into account several different counties immediately surrounding the Dallas/Fort Worth

Metroplex. One of Hunt County's advantages is being the eastern-most county included in this group since it has large amounts of undeveloped land and is within driving distance of a major metropolitan area. (Labor Market & Career Information & Texas Workforce Commission, 2018)

Overall, Hunt County is in a good position to recruit new firms to the region, but this is not necessarily the case for every city within its borders. The City of Commerce is the second largest city in the county with over 9,000 residents, compared to Greenville's 22,000. The Census Bureau estimated in 2015 that 46% of Commerce residents were below the poverty level. (Census Bureau, 2015) The economic situation is considered so dire that the Economic Innovation Group (EIG), a bipartisan public policy organization, identified Commerce as a "distressed" community based on census information from 2011-2015. Of the 26,126 zip codes the Distressed Communities Index analyzed, Commerce earned a rank of 24,811 with a score of 95 out of 100. (Economic Innovation Group, 2017) Jobs will be vital in the economic development of Commerce, so the concentration does not need to be on the professional service industry even though there is a need for this type of firm. The transportation and warehousing industry and the wholesale trade industry both provide for this need while also providing import substitution opportunities for the existing firms in the county.

There are a few silver linings that may have a positive impact on Commerce and lead to growth without bringing in a new firm. With the federal tax reforms that were passed in 2018, each state was allowed to submit a certain amount of "Opportunity Zones" to the federal government as zip codes that have not recovered from the Great Recession of 2008. Governor Abbott has submitted Commerce as one of the zip codes for consideration, and the City of Commerce will be attending a webinar the first week of December to learn more about what this means for the community. EIG does not say much about the proposed regulations, but states,

“The U.S. Department of the Treasury has issued proposed regulations on the Opportunity Zones tax incentive and the operation of Opportunity Funds. This guidance is a significant first step that will help unlock market activity and economic impact in Opportunity Zones – but only a first step. Many key questions remain unanswered and additional rounds of rulemaking are yet to come.” (EIG, 2018)

Anyone who drives down Interstate 30 from Dallas to Shreveport can see a growth pattern of new construction starting in Rockwall and ending in Royse City. If this continues down the Interstate 30 Corridor as expected, then it will eventually end up in Hunt County. Greenville has already seen some retail development over the past few years, so Commerce can only hope that the growth will travel north and impact their city as well. Even if there is not a massive boom, Commerce can position itself to strategically attract a portion of the development.

The last silver lining is Texas A&M University-Commerce. While the university may not be a direct influence on the economic base in terms of imports and exports, being a place that produces new ideas and fresh employees can impact a region in many different ways. Two specific instances of TAMUC answering the needs of the county are their recent additions of the Nursing and Electrical Engineering programs to their degree offerings. Since both L3 Systems and Hunt Regional Hospital play large roles in the local job market and economic base, the university saw the opportunity to help both firms recruit a local workforce. There is a possibility that the creation of these programs will lead to a new concentration of small businesses as firms see an opportunity to recruit fresh minds and ideas from a local institution as opposed to one with more competition in the city.

Even with the possibility of new opportunities combined with strategic recruiting, it is still going to be difficult to attract firms to Commerce if history repeats itself. In order for there to be

a large amount of growth in Commerce's economic base, a disruptor will have to take a chance on Commerce's potential or natural population growth will have to occur over time.

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[s-treasury-announces-proposed-guidance-on-opportunity-zones](https://eig.org/news/what-to-know-u-s-treasury-announces-proposed-guidance-on-opportunity-zones)