

The Economic Impact of Allergan on the Central Texas Economy

Tom Kelly, Ph.D.

Baylor Center for Business & Economic Research



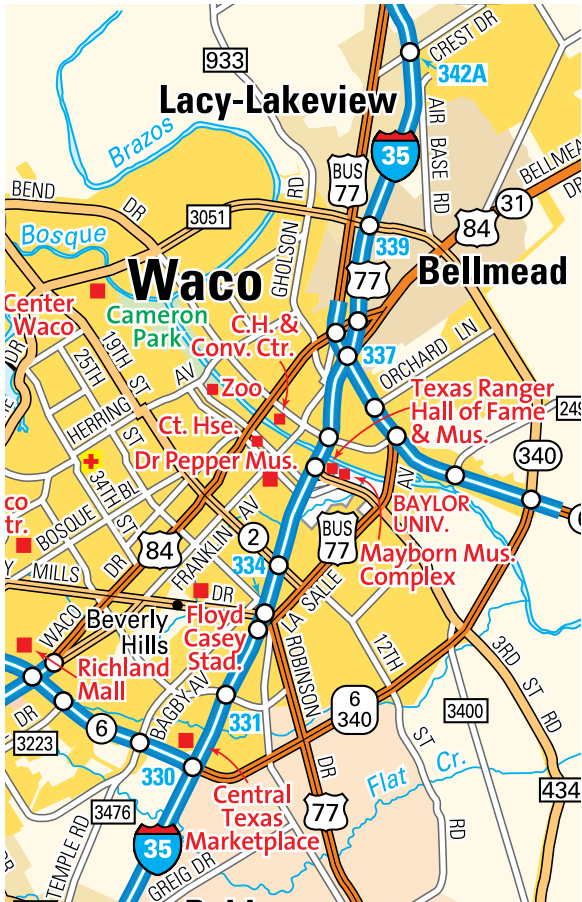
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Executive Summary

- This report discusses the substantial economic contribution to the Waco and Central Texas economies of Allergan’s production facility in Waco, Texas.
- In its 27th year at its 69-acre site in Texas Central Park in Waco, Allergan employs more than 750 skilled employees who in 2015 earned an average annual compensation of \$78,965 (including benefits).
- Over the five-year period from 2010 to 2015, as the economy recovered from the impact of the recent recession, Allergan’s Waco employment increased 27.6%, an average growth rate of 5.0% per year. Over the same period, Allergan’s Waco labor force earnings increased 38.7%, an average growth rate of 6.8% per year.
- Allergan has provided strong job security, with half of its Waco employees having more than five years of company service and a quarter of employees with more than ten years.
- In 2015, global demand for Allergan products generated direct spending on Waco operations that led to additional indirect spending by local vendors and induced spending by area households on local goods and services that resulted in an aggregate impact on total spending of \$406.3 million in the Central Texas economy.
- In 2015, Allergan’s direct spending on employee compensation resulted in additional multiplier effects that generated a combined economic impact on Waco area income of \$262.9 million.
- Waco operations in 2015 continued at full employment (24/7), setting the stage for capital investment in 2016 that will be in excess of \$50 million. This investment will further increase the size of Allergan’s state-of-the-art pharmaceutical development and production facilities and add new sterile production lines, while adding \$1.55 million to wage income received by local construction workers.
- For 2016, the total economic impact of Allergan capital investment plus operations on the Central Texas economy is projected to be \$450.3 million.
- Since 2010 Allergan has demonstrated its importance as a corporate citizen in Waco by contributing more than \$713,000 to local nonprofit organizations. Allergan is also projected to pay \$3.84 million in local property taxes in 2016.
- Today, with global market forces in the pharmaceutical industry driven by changes in demographics, innovation, and market structure, Allergan will undoubtedly become an even larger contributor to the future growth in total and per capita income in the Central Texas economy.

Introduction

Waco is fortunate to benefit from the 26-year presence of Allergan, whose operations have a significant and growing economic influence on income and employment in the local economy. The purpose of this report is to describe and quantify that economic impact.



A visit to the 400,000 square foot Allergan facility located on a 69-acre campus in Waco’s Texas Central Park reveals an expanding operation with a highly-educated workforce engaged in the integrated development and production of a number of eye-care and dermatological products, including Restasis for treatment of chronic dry eye and Latisse that produces longer and fuller eyelashes. When Allergan opened its Waco plant in 1989, it provided a needed spark to Waco manufacturing employment that was recovering from the closing of General Tire. Shortly after opening, its local employment grew to more than 100 and within three years reached 270 workers. Since arriving in Waco, Allergan has provided unusually good job security, with half of its employees having more than five years of company service and a quarter having more than 10 years of service. Allergan’s Waco facility currently employs 671 full-time and 79 temporary workers for a total of 750 persons who work around the clock to meet global demand for their products. Allergan has been an important contributor to Waco’s recovery from the 2008-09 global recession, with a substantial expansion in Allergan’s output that sets the stage for significant capital investment in 2016 in state of the art pharmaceutical manufacturing facilities, a new testing laboratory, and additional production capacity to meet the growing demand for its products around the world.

Regional Input-Output Models

The analysis of the Waco economic impact of Allergan incorporates data provided by the company and the U.S. Department of Commerce’s Bureau of Economic Analysis (BEA) Regional Input-Output Model System (RIMS-II). The BEA’s model includes direct, indirect, and induced effects on the Waco economy of export demand in the pharmaceutical industry sector. The direct effects include the cost of operations of the firm used to produce output by purchasing materials and hiring workers.

Indirect effects are local spending by vendors that provide resource materials. Induced spending includes the spending by all affected employees of a portion of their wage and salary incomes on consumption in the local economy. At each stage, the model accounts for spending that leaves the local area, such as spending for imported materials, savings, and outside taxes. Direct spending generates indirect and induced spending that when added together represents the total economic impact of Allergan’s spending on operations. The need for sterile production of pharmaceuticals results in an integrated on-site production process using local employees with a relatively low leakage rate that enhances its multiplier. More than 500 Allergan products are produced and packaged (generally in sterile sealed containers) in Waco and then distributed to 110 countries, with more than half of the output being exported.



Although the effect of spending on operations is the primary measure used to reflect Allergan’s impact on the Waco economy, regional industry multipliers (RIMS-II) are also available for employment and worker incomes that are used to measure Allergan’s economic impact on Waco employment and labor income. Also, in addition to daily operations, Allergan is actively engaged in new construction to expand production facilities that use local contract workers with subsequent multiplier effects. This capital expansion adds to annual local property tax revenue that currently amounts to \$3.29 million and is projected to reach \$3.84 million in 2016.

Economic Impact of Waco Spending on Operations

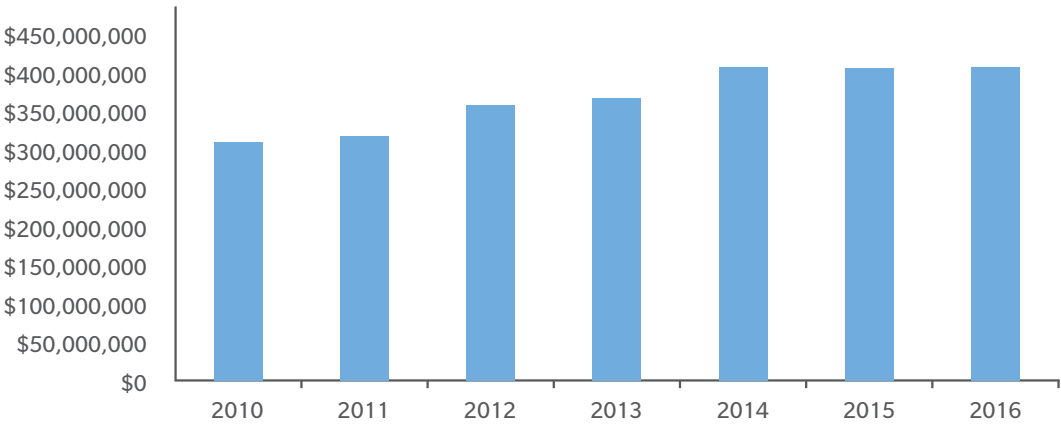


Figure 1 Impact of Allergan on Waco MSA Spending on Operations

Figure 1 depicts the total annual economic impact of spending on operations by Allergan that begins with the in-house production of plastic containers that are filled, sealed, labeled, and packaged in separate production lines by on-site workers. From 2010 to 2014, Allergan spending on operations increased 31 percent before operations reached full capacity output that continued in 2015. This full capacity rate of production is projected to continue in 2016 while the company completes new capital investment on equipment and site facilities that will enable it to increase the future rate of operations.

Year	Direct	Indirect + Induced	Total
2015	\$167,194,000	\$239,087,420	\$406,281,420
Projected 2016	\$167,587,000	\$239,649,410	\$407,236,410

Table 1 Economic Impact of Allergan Operations Spending on Waco MSA

The Impact on Waco Employment

Figure 2 shows the aggregate annual impact of Allergan on the total employment in the Waco metro area since 2010. All of the production work at Allergan is performed by local in-house employees, whose number increased from 588 in 2010 to 750 in 2015. Taking into account indirect and induced employment effects, Allergan’s contribution to Waco metro area employment increased 27.5 percent from 1,835 jobs in 2010 to 2,340 jobs in 2015. The projected 2016 impact of Allergan on Waco employment in operations will remain stable, although additional workers will be employed for capital investment.

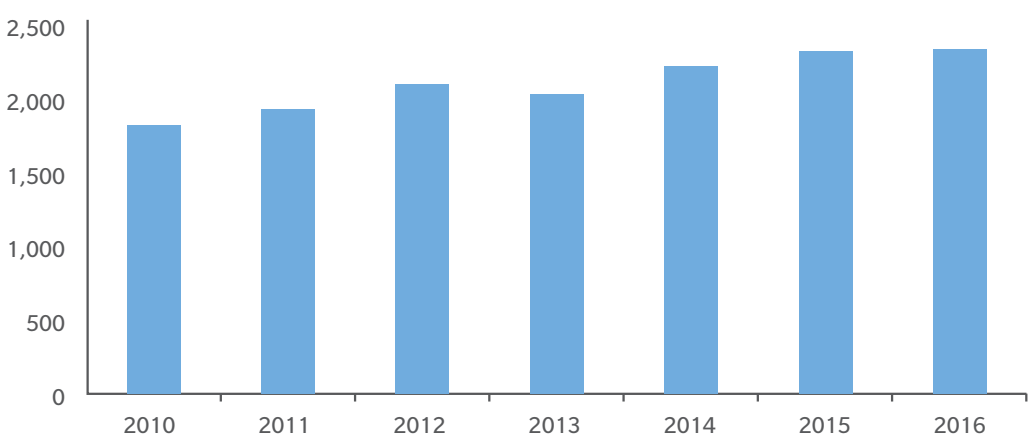


Figure 2 Impact of Allergan on Waco MSA Employment

Table 2 shows the number of direct jobs employed in operations by Allergan and the number of additional indirect and induced local workers created that add up to the total impact on Waco employment in 2015 and projected in 2016. Allergan’s Waco operations in 2015 had a direct impact of 750 local jobs that generated an additional 1,590 jobs locally, resulting in an increase of 2,340 jobs throughout the Waco region. Projected job growth in operations will remain relatively stable at full capacity, although construction jobs will be created by capital investment in site improvement.

Year	Direct	Indirect + Induced	Total
2015	750	1,590	2,340
Projected 2016	753	1,596	2,349

Table 2: Impact of Allergan on Employment in Waco MSA

The Impact on Waco Employee Compensation

From 2010 through 2015 Allergan’s Waco employee compensation (including benefits) increased 38.7 percent from \$42.7 million to \$59.2 million, due to both growth in the number of workers and higher average compensation per worker. A relatively large share of compensation received by in-house Allergan workers is spent locally generating a strong multiplier effect on labor income throughout the Waco economy that resulted in an aggregate impact amounting to \$263 million in 2015. In 2016, total labor compensation in the Waco region generated by Allergan operations is projected to increase \$2.9 million to \$265.9 million.

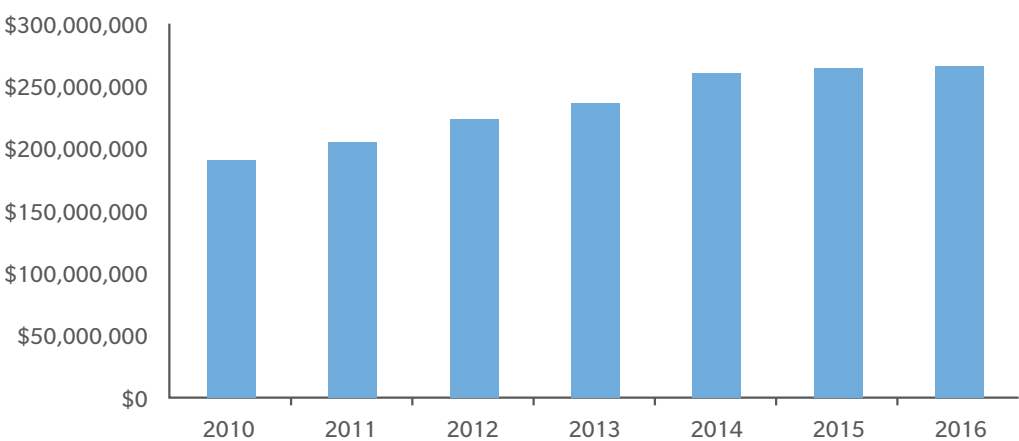


Figure 3: Impact of Allergan on Waco MSA Compensation

Year	Direct	Indirect + Induced	Total
2015	\$59,224,000	\$203,730,560	\$262,954,560
Projected 2016	\$59,884,000	\$206,000,960	\$265,884,960

Table 3: Impact of Allergan Employee Compensation on Waco MSA



The Impact of Waco Capital Spending

Allergan’s operations have been a primary contributor to the post 2008-09 recession growth in Waco MSA manufacturing output, employment, and worker earnings. However, most of the gains occurred from 2010-14 before Allergan reached full capacity. Figure 4 shows that Allergan is projecting a substantial increase in capital spending that will provide a new testing laboratory and expanded capacity development and production that will increase the impact of future operations.

	2010	2011	2012	2013	2014	2015	2016
Machinery & Equipment	\$9,634	\$12,062	\$12,062	\$23,700	\$23,600	\$21,507	\$41,755
Site Improvement	\$5,788	\$14,944	\$12,051	\$15,825	\$32,419	\$36,972	\$40,076
Construction Engineering	–	\$4	\$310	\$1,115	\$1,105	\$1,142	\$1,552
Total Capital Spending	\$15,422	\$27,010	\$35,022	\$40,640	\$57,124	\$59,621	\$83,383

Table 4: Allergan Capital Spending from 2010 to 2015 and Projected 2016 (\$ thousands)

Capital spending creates a one-time economic impact on the local economy when local contractors are used that add to plant and equipment. Machinery and equipment is highly specialized with only 10% purchased from local firms, but a significant percentage of construction spending on site improvement is received by local contractors. The combined local direct capital spending amounts to 52 percent of the total.

This local direct effect of capital spending results in additional indirect and induced spending that increases its total economic impact on the Waco economy. Figure 4 shows this total economic impact on Waco of capital spending by Allergan from 2010 through 2015 and projected for 2016.

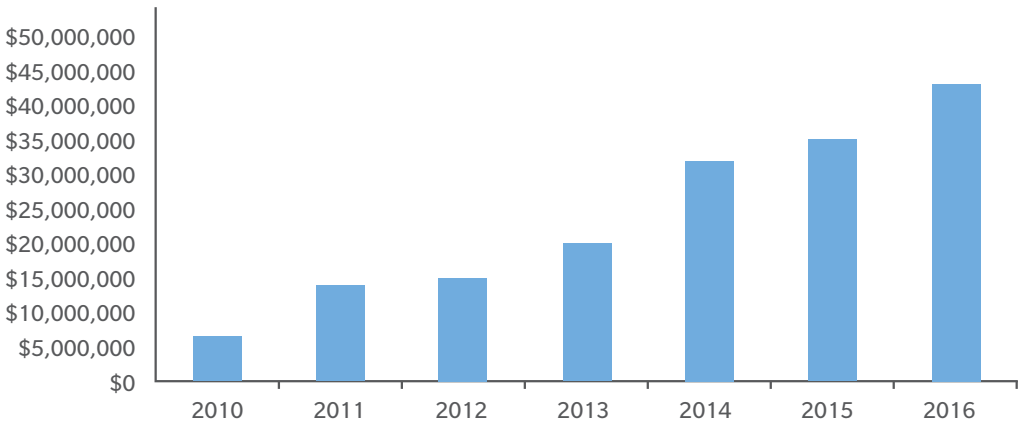


Figure 4: Impact on Waco of Local Capital Spending

Total Economic Impact of Allergan on the Waco Economy

The total annual economic impact of Allergan capital investment and operations from 2010 through 2015 and projected 2016 are shown in Figure 5. The estimated economic impact of Allergan in 2015 on the value of Waco MSA total spending on capital and operations amounts to \$441,235,420. Although growth in operations awaits the completion of capital investment to expand capacity, the combined 2016 projected economic impact of capital investment and operations amounts to \$450,369,410.

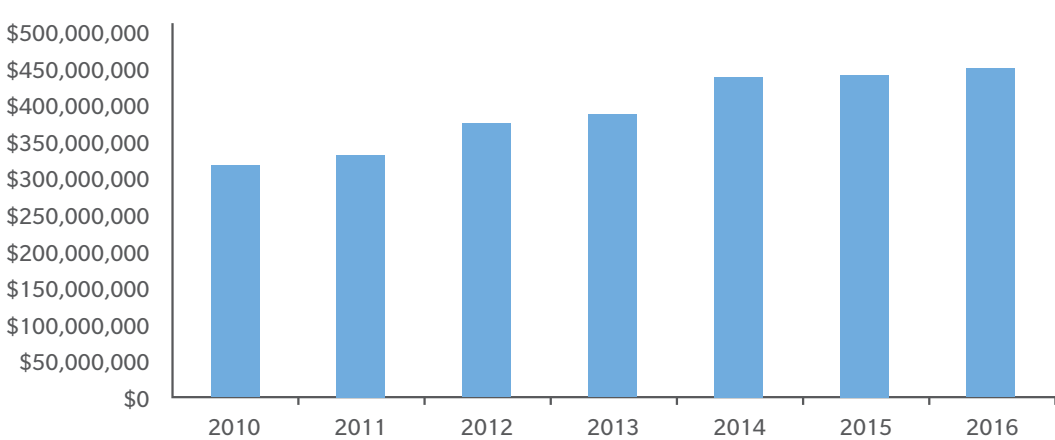


Figure 5: Total Economic Impact of Allergan Operations and Capital Spending on the Waco Economy

Over the five-year period from 2010 through 2015 the total economic impact of Allergan operations and capital spending expansion on the Waco economy increased 48.0 percent, which amounts to an average annual increase of 8.2 percent. Over the same period Allergan’s contribution to local employment grew at an average rate of 5.0 percent per year and labor earnings growth averaged 6.8 percent per year.

Since 2010 Allergan has also contributed \$713,500 in charitable contributions to Waco organizations in the form of grants and disaster relief. The year 1989, when Allergan selected Waco as a production site for innovative eye care products in the pharmaceutical industry, marked the beginning of a 26-year period during which many local businesses and households have been able to share in the firm’s success in the global marketplace. Today, future market forces in the pharmaceutical industry based on projected changes in demographics, innovation, and market structure point toward Allergan having an even greater economic impact on the Waco economy in the future.



About the Author

Tom Kelly is Professor of Economics and Director of the Center for Business and Economic Research at Baylor University. He holds a B.A. in economics from Rice University, an M.A. in economics from Baylor University, and a Ph.D. in economics from Oklahoma State University. He teaches courses in business forecasting and urban and regional economics and has forecasted business conditions in Central Texas since the middle 1970s. As Director of the Center for Business and Economic Research, he has developed models to project local demographic trends, to measure the impact of changes in the local industrial structure on employment and income, and to link the economic development of Waco to statewide, national, and global trends.