

## **PHILIPSBURG RESORT COMMUNITY DESIGNATION REPORT**

**\*\*\* Employment data contained in this report is confidential \*\*\***

Therefore, this summary report omits all data and related analysis that is considered by the Montana Department of Labor & Industry to be confidential

Prepared at the Request of:

Philipsburg Town Council

Prepared By:

Benjamin Gill  
Senior Economist  
Research & Information Services  
Montana Department of Commerce

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## **INTRODUCTION**

This report outlines the analysis of the proposed Philipsburg Resort Community in Granite County, Montana for the purposes of determination for resort community designation pursuant to 7-6-1501, et sec., Montana Code Annotated 2023. The Montana Department of Commerce received the request in August 2023 for resort designation from Philipsburg Town Councilperson, Scott Lyons.

## **INCORPORATED MUNICIPALITY**

To qualify under Montana Statute, a resort community must be, "... an incorporated municipality..." (2023 MCA § 7-6-1501(9)(a)). The proposed Philipsburg Resort Community represents the incorporated town of Philipsburg within Granite County, Montana (Appendix A for reference).

## **POPULATION**

A resort community must have a population of less than 5,500 people according to the most recent federal census (2023 MCA § 7-6-1501(9)(b)). To date, the most recent federal census was conducted in 2020 by the United States Department of Commerce, Census Bureau.

The 2020 Census reports a total population of 841 people for the town of Philipsburg, and therefore, the community meets the population threshold of less than 5,500 people to be considered for a resort community (MCA 2023 § 7-6-1501(9)(b)).

## **ECONOMIC WELL-BEING**

During the 2023 Legislative Session, changes were made to the definition of a resort community. These recent changes to the resort community definition are highlighted with an underline. A Montana resort community, "... derives more than 50% of its economic well-being related to current employment from businesses catering to the recreational and personal needs of persons traveling to or through the municipality for purposes not related to their income production and excluding economic activity from health care, schools, government, and other services that primarily benefit residents..." (2023 MCA § 7-6-1501(9)(c)). In other words, the community's economy – minus health care, government, and other local services – as it relates to employment, must be largely dependent on tourism.

An economy has been defined to be the process or system by which goods and services are produced, sold, and bought in a region. The flow of money coming into, leaving, and circulating within an economy leads to an area's economic growth, decline, or stability. The economic analysis outlined in this report quantifies the different streams of money coming into the proposed Philipsburg Resort Community to identify the major sources of economic activity.

Wage and salary employment data for business establishments located in the proposed Philipsburg Resort Community provided by the Montana Department of Labor & Industry, Research & Analysis Bureau (DLI) was the main data set used for this report. The following analysis utilizes

quarterly wage and salary employment data for calendar year 2022. Using quarterly data allowed for the analysis of seasonal differences in employment.

All data from DLI was provided to the Department of Commerce with the understanding it would not be released in any form outside of the Department of Commerce. ***Therefore, this summary report omits all data and related analysis that is considered by the Montana Department of Labor & Industry to be confidential.***

## **METHODOLOGY**

Analysis techniques, assumptions, and conclusions used in this report were drawn from the Economic Base Theory (EBT). The EBT and its use for analysis of local economies goes back to at least the early 1920s (Arousseau, 1921) and defines a framework that associates economic activity with non-local (“basic” sector) and local (“non-basic” sector) demand. Economic base analytical techniques are, “the oldest, simplest and most widely used technique for regional economic analysis” (Klosterman, 1990, p. 113).

There are two reasons for using the EBT for the purposes of resort designation analysis. First, a precedent has been set; all prior analyses (1985 to present) performed for the purposes of resort area/community designation have relied on the assumptions and techniques of EBT.

Second and assumedly not unrelated to the first reason, EBT provides a cross-walk between economic theory and Montana statutory language. EBT, “... *assumes that the basic sector is the prime cause of local economic growth, that it is the economic base of the local economy*” (Klosterman, 1990, p. 115). Said differently, the “economic well-being” – language used in the relevant Montana Code – of a local area/community is defined by the vitality of the basic sector. Therefore, analyzing basic sector employment provided a quantitative means of determining and ranking the contributing factors to the proposed Philipsburg Resort Community economy.

Under EBT, local economic activities are defined to be either basic or non-basic. Basic, or “export” sector businesses, rely largely on external markets for selling their output or providing goods & services to non-residents. Non-basic businesses are reliant on the spending of income received by basic sector employees and proprietors within the local community. Non-basic economic activity is reliant on local demand whereas basic economic activities depend on markets outside the area.

Basic sector businesses bring “new money” into the local economy which is then partially spent on goods and services provided by non-basic businesses. It is this new money that helps grow and sustain the economy; thus, basic sector businesses are defined to be the most important part of an area’s economy under the EBT. Businesses catering to tourists are considered to be fully or partially basic-sector due to their reliance on non-resident demand for the goods and services provided.

All businesses within the proposed Philipsburg Resort Community were categorized using the 2022 North American Industry Classification System (NAICS). NAICS classifies all businesses into a hierarchical numeric industry group. As previously mentioned, the 2023 Legislative change

to the resort community definition impacts which industries are included in the analysis. As such, health care, schools, and government are wholly excluded from this analysis.

Some industries are considered to be entirely basic in nature such as mining, agriculture, wood products manufacturing, convention & visitor bureaus, hotels, and campgrounds because they rely almost entirely on external markets and non-residents to sell their ore, crops, finished goods, hotel rooms, and camping spots. Conversely, other industries such as childcare services are considered entirely non-basic because the jobs serve local demand.

Most other industries are assumed to fulfill both local and non-local demand. Thus, a portion of the respective industry's employment can be attributed to the non-basic sector with the remaining portion to the basic sector. For these industries, an employment location quotient was used to apportion each industry's basic and non-basic sector employment.

### **LOCATION QUOTIENT**

Location quotients are used to determine whether or not the local economy has a larger share of industry employment relative to a reference economy. If an industry has a greater share of employment within a local economy compared to the reference economy, it's assumed the "extra" employment is basic because those jobs are above what the local economy should need to serve local demand (Florida State University, n.d.). In this analysis, the proposed Philipsburg Resort Community employment economy is compared to the reference economy of the State of Montana as a whole.

By definition, the location quotient is the calculated ratio between employment within the local area – proposed Philipsburg Resort Community – and the reference area – Montana – for a respective industry.

A location quotient less than or equal to one suggests that local employment is less than or exactly equal to what would be expected, respectively, for a given industry to meet local demand. Therefore, all employment within that industry is considered to be non-basic.

$$Location\ Quotient = \frac{\textit{Local Employment in Industry i}}{\textit{Total Local Employment}} \bigg/ \frac{\textit{State Employment in Industry i}}{\textit{Total State Employment}}$$

A location quotient greater than one suggests there is more local employment than would be expected to meet local demand, and thus, the "excess" employment within that industry is considered to be basic. Excluding those industries previously determined to be either entirely basic or non-basic (see above for discussion of those determinations), for each remaining industry with a location quotient greater than one, the basic sector employment of the industry was calculated using the following formula.

$$Basic\ Sector\ Employment = \left( \frac{Local\ Employment\ in\ Industry\ i}{State\ Employment\ in\ Industry\ i} - \frac{Total\ Local\ Employment}{Total\ State\ Employment} \right) * State\ Employment\ in\ Industry\ i$$

Basic sector labor income (wages) was then allocated by multiplying the quarterly or annual average wage per employee by the basic sector employment for the respective industry within the proposed Philipsburg Resort Community.

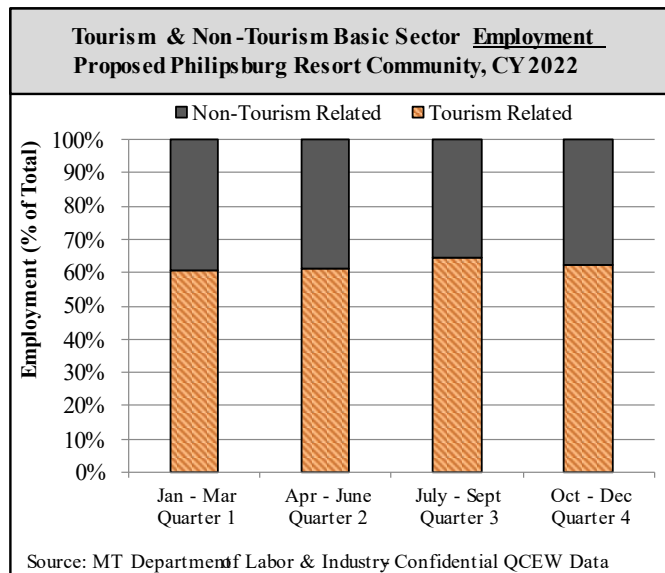
Basic sector employment in select *Manufacturing* (Breweries NAICS 312120 and Confectionaries 311352), select *Retail Trade* (NAICS 44-45), *Museums, Promoters of Performing Arts, Sports, and Similar Events without Facilities*, and *Accommodation & Food Services* (NAICS 71-72) industries was attributed to tourism related activities. The employment within these tourism related industries was compared to the remaining basic sector employment to determine if tourism related activities supported the major portion of basic sector employment within the proposed Philipsburg Resort Community.

**RESULTS & DISCUSSION**

Within the proposed Philipsburg Resort Community, 44 percent of analyzed businesses are either entirely or partially dependent on tourism demand. The three most prominent tourism related industries are full-service restaurants, clothing retailers, and jewelry retailers.

For the full calendar year of 2022, 62 percent of all basic sector employment was attributed to tourism related activity. Those tourism related basic sector jobs earned 48 percent of total basic sector wages and salaries within the proposed Philipsburg Resort Community.

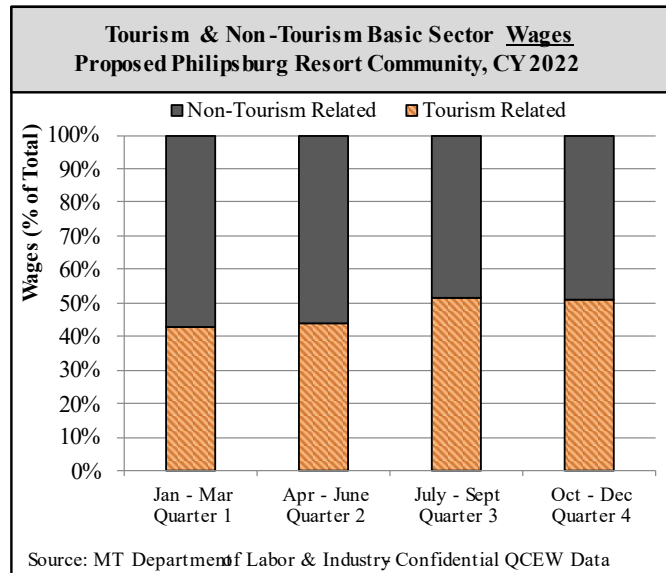
FIGURE 1



Tourism related basic sector employment within the proposed Philipsburg Resort Community peaks during the third quarter (64 percent from July through September); this aligns with the Montana’s traditionally heightened level of tourism during the summer months (Figure 1).

Tourism related basic sector wages peak in the third and fourth quarter of calendar year 2022 (52 percent and 51 percent respectively) – see Figure 2. While a peak in the third quarter typically aligns with the Montana’s tourism seasonality, a near peak in the fourth quarter does not. This fourth quarter shift is likely caused by increases in tourism related basic sector employment and hourly wage increases due to extremely low unemployment and high inflation statewide following the pandemic in 2020 & 2021. These effects were most pronounced (nationwide) in the service industries.

FIGURE 2



## CONCLUSION

The analysis summarized in this report for the proposed Philipsburg Resort Community indicates the community of Philipsburg qualifies for designation as a resort community under the criteria defined by Montana Statute (MCA 2023 § 7-6-1501).

The community is an incorporated town with a population of less than 5,500 residents. A large number of analyzed businesses (44 percent) employing the majority of Philipsburg’s basic sector workers (62 percent) are dependent on tourism while wages in the tourism related industries generally fall below those of other basic sector industries.

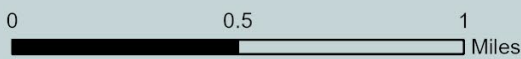
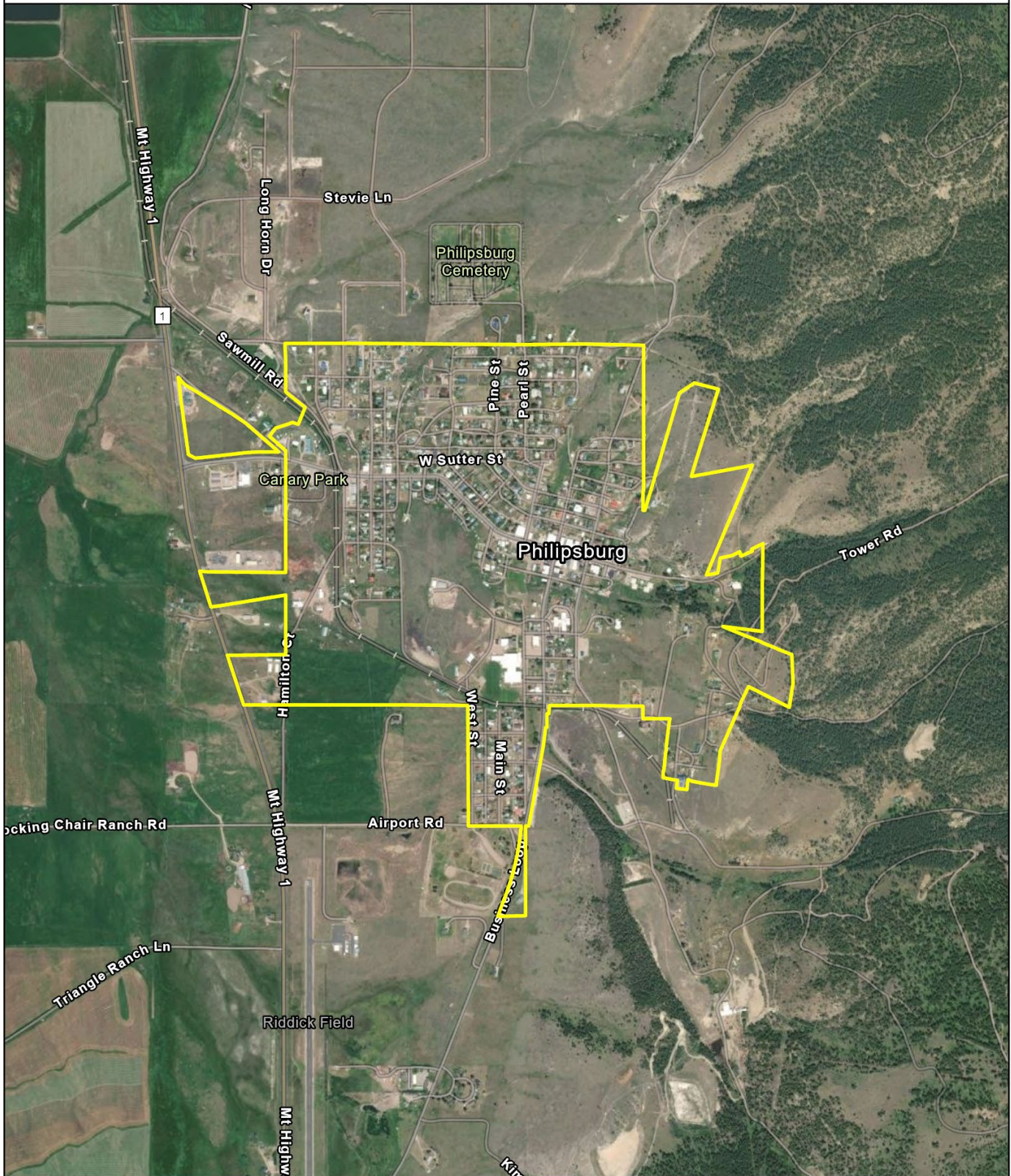
This circumstance is like that of Red Lodge in 1985 when that community’s economy was under review for possible resort community designation. Like Philipsburg, the majority of wages and salaries were earned by workers employed in non-tourist related basic sector industries. However, the majority of basic sector employment was with businesses involved in the tourism industry. As was determined in the case of Red Lodge, it is concluded that Philipsburg derives the primary portion of its economic well-being from the presence and employment of businesses dependent on tourism related activity.

## REFERENCES

- Aurousseau, M. 1921. The Distribution of Population: A Constructive Problem. *Geographical Review* 11 (4): 563-82.
- Florida State University. (n.d.) Department of Urban and Regional Planning: Planning Methods III: Forecasting – Economic Base Theory. Retrieved from <http://mailer.fsu.edu/~tchapin/garnet-tchapin/urp5261/topics/econbase/lq.htm>
- Klosterman, Richard E. 1990. *Community and Analysis Planning Techniques*. Rowmand and Littlefield Publishers, Inc. Savage, Maryland. See Chapters 9 – 13.

APPENDIX A.

# Philipsburg: Proposed Resort Community



Data Source: Philipsburg city boundary (yellow line) from Montana State Library. Reference and imagery from ESRI.



**APPENDIX B.**

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\*\*\* OMITTED DUE TO CONFIDENTIAL NATURE OF INFORMATION \*\*\*

**APPENDIX C.**

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**APPENDIX D.**

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**APPENDIX E.**

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