Assessing the Effects of Retail-Based Development at the Community Level

by Dr. Rhonda Phillips

Retail-based development is a sometimes-overlooked but vital component of local economies. Certainly, the arguments for supporting retail-based development include the following elements: Retail is a "clean" development; retail generally is considered to be less destructive to the natural environment than other land uses such as manufacturing; retail is a growth industry and, although employment has declined in other sectors, the retail sector continues to expand; and retail is a mainstay of local economies – sales taxes are a major revenue source for many communities. On average, retail tax payments to the community are higher than for office, residential or industrial properties.

Despite these positive attributes, retail-based development may be met with opposition. One way that a community can ascertain whether or not a proposed retail project is appropriate is to gauge its economic influence. There are three primary methods for assessing this influence: through cost-benefit analysis, fiscal impact analysis and economic impact analysis.

Cost-benefit analysis is both expensive and timely to conduct; unless the proposed project is large and inclusive in scope, incorporating public monies, then a less comprehensive approach can be used. Oftentimes, the city or county's financial officers will conduct some version of a fiscal impact analysis to assess the impact of a proposed project. The fiscal impact is calculated by totaling the public cost and public revenues associated with the projected project. Economic impact analysis assesses a project's influence in terms of the number of jobs created, tax revenues generated, and the investments associated with the project's development. The impact is both direct and indirect, with a multiplier effect.

Each of the three analysis methods has advantages and disadvantages. Given the constraints of data collection and availability, time and budget resources, what is needed is an assessment method that combines the advantages of these methods in a more useable format. The following six-step method utilizes data both from the developer's project feasibility study and from the community. While this modified economic impact assessment method is not as rigorous as cost-benefit, or as oriented toward revenue outcomes as fiscal impact analysis, it will

provide a basis for gauging the influence of a proposed retail-based project.

Step 1: Estimate sales tax revenues to community.
Because this will be of vital concern to the host community, the amount of sales tax revenues should be estimated, based on the project's projected sales. This information should be readily available as part of the feasibility study conducted by the developer (and modified accordingly). The rate and return percentage (between city or county and state) can be obtained from the local government. If possible, the amount of sales tax revenue should be shown with a time projection of five years or more, depending on the magnitude of the development.

Step 2: Estimate property tax revenues to community.
Typically, commercial uses will generate more property tax than manufacturing, residential or other uses. Again, this data may be found in the feasibility study, or by obtaining property tax rates from the local government office. Because other property uses do not generate sales tax revenues, the total tax revenues generated from retail uses will be much higher.

Step 3: Estimate impact on local jobs.
The number of direct jobs created by the retail-based project can be gauged from the developer's feasibility study information. After this is determined, the number of indirect jobs can be estimated. In other words, for each direct job created by the retail project, other jobs will be created to support the economic activity generated. A general multiplier for the retail sector can be used to estimate these secondary or indirect effects at a ratio of 1 to 0.46. In other words, for each 100 jobs created directly by the retail project, another 46 jobs will be created in other sectors to support the consumer demand and production required.

Step 4: Estimate any other direct investments.
What are the construction costs and the total amount of private sector investment in the project? This can be counted as a direct benefit to the community. Conversely, public sector monies in the project should be estimated as costs, as described in Step 5.

signal capabilities and improving sidewalks to support the project.

Step 6: Calculate economic return to community.
Add the total direct benefits that will accrue to the community from the project: direct sales and property taxes, and direct construction and total investments into the project. Subtract from this any direct costs to the local government for the project. This should provide a basic ratio of benefits (revenues and investments) to costs. Listed separately but also important are the number of direct and indirect jobs created by the project. Finally, if desired, an indirect impact can be calculated on the amount of the direct benefits by using a suggested multiplier of 1.85. Thus, if total direct benefits are calculated at $3 million for Year 1, then the total benefits accrued to the community would be $5.55 million (direct plus indirect). The multiplier of 1.85 is modest; many economic impact analyses use very high multipliers of 3, 4, or higher. However, it is wiser to assume the modest value of 1.85 to avoid overstating of benefits, as is evidenced in some economic impact studies.

The approach outlined is simple, yet effective in its ability to illustrate the economic benefits of a retail-based development project. The approach does not incorporate other aspects, though, such as social, environmental and transportation impacts. Oftentimes, the ability to show the community the positive economic aspects of the project is enough to overcome potential opposition. However, in situations where other aspects are more important, a broader approach such as cost benefit analysis will be needed.

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