

BIG BOX RETAIL IN GUNNISON

ECONOMIC AND FISCAL IMPACT ASSESSMENT



Section III: Economic and Fiscal Impacts of Big Box Retail

March 2005

A. INTRODUCTION

This section is one of three essential steps in analyzing the economic and fiscal impact of big box retail in Gunnison, Colorado.



Section III represents the culmination and ultimate goal of the previous analyses. Here, Civic Economics provides the City of Gunnison with a clear understanding of the economic and fiscal impacts of changes in the retail landscape of the community. Armed with this information, the City can then develop land use, design, and development policies to promote the long-term health of the Gunnison economy.

This analysis focuses specifically on the impact of two outcomes:

- Wal-Mart expansion into a Supercenter within the city limits of Gunnison, and how that will impact retail trade in grocery and non-grocery sectors.
- Wal-Mart withdrawal from Gunnison, and how that will impact retail trade in the non-grocery sectors.

In addition to presenting the methodology and findings of those analyses, Civic Economics has also provided a discussion of the impact these changes may have on wages in the community and on the differential economic impact between locally owned merchants and chain retailers.

The Civic Economics Approach

In the more typical situation, economic and fiscal analysis is a model-based, number-driven exercise requiring little of the extensive analysis Civic Economics has conducted in Gunnison. However, the people of Gunnison have requested a more thorough and localized analysis than these models might support.

The simplest analysis looks only at the site or activity in question and proceeds on the assumption that associated activity is both new to the community and independent of any offsite impacts. For this reason, it is often remarked that even a flu epidemic can be said to have a positive economic impact due to increased spending on preventative measures and health care.

Retail provides a clear example of the necessity for a customized model. The simplest approach to this study would look only at the particular site of a retail development and calculate the economic value of construction, employment, and other activity within the site. This, of course, ignores a basic fact of retail economics, that consumer spending is relatively inelastic. That is, any given household has only so much money to spend on necessities and niceties, so new retail options generally result in a diversion of spending from one outlet to another.

The challenge in such a case is to calibrate the balance of new sales and diverted sales. In order to do so with a degree of certainty, Civic Economics undertook the analyses presented in Sections I and II. Those findings have provided a realistic basis for the assumptions built into the model developed specifically for this study.

A Note on Numbers

The findings presented in this report to the community are generalized. Civic Economics has provided a detailed walk-through of the model, but rarely will the reader find examples of actual inputs. The reason for this is confidentiality. In order to use actual sales figures for actual Gunnison businesses, essential to a quality analysis, Civic Economics contracted to honor the confidentiality of that data just as rigorously as does the City. The pages that follow, then, have been carefully edited to avoid inadvertently revealing sales figures of any existing business. Where possible, publicly available data has been utilized.

Civic Economics has, however, provided City Staff with a fully annotated, readily adaptable version of the model built for this study. With it, staff will be able to conduct future impact studies in-house as possibilities emerge and circumstances change.

B. METHODOLOGY

The economic and fiscal impact findings that follow are the result of an expansive model constructed by Civic Economics expressly for this study. In essence, the model follows these steps:

1. ANALYSIS OF WAL-MART BUSINESS PRACTICES

Identify current and projected Wal-Mart sales in specific general retail segments and groceries

- Break down actual Wal-Mart sales on a per square foot basis for general retail.
- Apply Gunnison supermarket average sales per square foot for groceries
- Project square footage and sales for each in the proposed Gunnison Supercenter

GLOSSARY: *Sales per Square Foot* is a standard measure of retail performance. *General Retail*, as used here, is a cluster of segments typically offered by Wal-Mart.

RESOURCES: Actual City of Gunnison sales receipts, Wal-Mart Stores Annual Reports, estimated Wal-Mart sales in Salida and Montrose

Before proceeding further, Civic Economics analyzed the business practices of the Discount Stores segment of Wal-Mart Stores, Inc. Annual reports allow a thorough understanding of the retail mix and sales across a range of goods. Civic Economics was additionally able to evaluate local performance in relation to corporate averages with actual sales data provided by the City of Gunnison.

Though Wal-Mart sells a wide range of goods in both general merchandise and groceries, company sales are reported in total. To address this problem, Civic Economics assembled a group of retail segments identified as General Retail, which brings together the range of goods generally stocked in the non-grocery section of a Wal-Mart Discount Center or Supercenter.

Retail Categories Comprising General Retail

NAICS 4413: Auto Parts, Accessories, and Tire Stores
NAICS 442: Furniture & Home Furnishings Stores
NAICS 443/NAICS 4431: Electronics & Appliance Stores
NAICS 4442: Lawn and Garden Equipment and Supplies Stores
NAICS 446/NAICS 4461: Health & Personal Care Stores
NAICS 448: Clothing and Clothing Accessories Stores
NAICS 451: Sporting Goods, Hobby, Book, and Music Stores
NAICS 452: General Merchandise Stores
NAICS 453: Miscellaneous Store Retailers

Note: NAICS is a standard classification methodology and stands for North American Industry Classification Standard

Source: U.S. Census Bureau; Civic Economics

2. ANALYSIS OF REGIONAL RETAIL ACTIVITY

<p align="center">Identify current and projected supply and demand in specific general retail segments and in supermarkets</p>	<ul style="list-style-type: none"> • Calculate surplus/deficit retail activity • Incorporate population growth and increased cost of living • Assume no changes in composition of Gunnison retail
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<p align="center">Calculate employment associated with sales for Wal-Mart and for existing Gunnison merchants</p>	<ul style="list-style-type: none"> • Using actual Wal-Mart employment in Gunnison and company-wide averages for others
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GLOSSARY: For the purposes of this analysis, data for **Current** and **Current Year** is 2004, the last full year for which complete data was available. Actual impacts for the first year of a Supercenter may, then, be somewhat higher in nominal dollars.

Some of these terms have a different meaning in common usage. **Supply** refers to actual retail sales. **Demand** refers to expected retail sales based on average per capita spending patterns. **Surplus** is said to exist where supply exceeds demand, or where total sales are greater than can be accounted for by residents. **Deficit** is said to exist where demand exceeds supply. A deficit indicates **leakage**, or residents making purchases elsewhere.

RESOURCES: Actual City of Gunnison sales receipts; Annual Reports for Wal-Mart, Safeway, and Kroger; estimated Wal-Mart and supermarket sales in Salida and Montrose

Civic Economics next analyzed current retail activity in general retail and supermarkets. In addition, retail activity was forecast to 2009 using standard cost of living adjustments and estimated population growth. No effort was made to account for more speculative changes that may come to pass.

**Market Growth Projections, 2004-2009
Gunnison Trade Area**

Population	
Growth Rate	8.7% Adds 1,306 persons

Cost of Living	
Groceries	13.6% Carry forward of 1999-2004
General Retail	11.4% rates.

Sources: Population, ESRI BIS, Cost of Living: Bureau of Labor Statistics
Consumer Price Index

This analysis also evaluated current supply and demand for each retail segment. This analysis lays the groundwork for forecasting the key variables in the analysis, which account for the ability of a new retailer to induce additional local retail spending.

3. FORECASTING THE EFFECT OF A SUPERCENTER

<p align="center">Forecast the ability of a Gunnison Supercenter to promote import substitution and nonresident spending</p>	<ul style="list-style-type: none"> • Incorporate surplus/deficit retail sales • Two Variables: <ul style="list-style-type: none"> • Increased local shopping by residents due to Supercenter • Increased local shopping by nonresidents due to Supercenter
<p align="center">Group forecasts according to LOW, MEDIUM, and HIGH increases in total sales</p>	<ul style="list-style-type: none"> • LOW: Supercenter generates minimal new sales; most sales diverted from other local merchants • MEDIUM: Most likely mix of new and diverted sales • HIGH: Supercenter generates maximum new sales; less diverted from other local merchants
<p>GLOSSARY: <i>Import Substitution</i> refers to addressing leakage by purchasing locally what used to be purchased elsewhere and brought in.</p>	
<p>RESOURCES: Actual City of Gunnison sales receipts; Wal-Mart Annual Reports; estimated Wal-Mart and total retail sales in Salida and Montrose</p>	

Retail spending in a given market area is relatively inelastic. Residents have only a given amount of capacity for retail spending; additional retail outlets largely divide that spending with existing outlets. However, there are two ways in which the arrival of a local retailer may increase the amount of overall spending within a given market area.

The first way is through import substitution. This is achieved primarily by adding to the range of goods and services available. In the case of the Wal-Mart Supercenter, for example, the additional clothing selection available will allow some of these purchases to be made in the City of Gunnison that were previously made elsewhere. Prompting consumers to shop locally for one item when they may have otherwise left town in search of an entirely different item will also enhance import substitution. “Shop Local” campaigns are the conventional method for achieving this end, but reducing the comparative allure of competing jurisdictions can contribute, as well.

The other method for increasing retail sales in the region is by inducing additional nonresident spending. With certain new retail outlets, additional spending may be drawn from tourists that would have ordinarily have occurred elsewhere. A Wal-Mart Supercenter may well increase tourist spending in the grocery section by drawing spending that may presently occur in Salida, Montrose, or elsewhere before the visitor ever reaches Gunnison.

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These factors serve as the key variables in the economic impact model constructed for this study. These variables are:

- Import substitution effect: Estimating the increase in local sales to Gunnison residents that may be prompted by the presence of a Wal-Mart Supercenter in the city.
- Tourism effect: Estimating the increase in sales to part-time residents and visitors that may be prompted by the presence of a Wal-Mart Supercenter in the city.

Each of these variables is expressed as a percentage increase in total sales in either general retail or grocery sales. Where possible, Civic Economics has provided the reader with a combined percentage increase, from which savvy readers cannot calculate total sales at any existing merchant. To facilitate reporting and understanding the outputs, these variables were grouped as low, medium, and high.

4. ECONOMIC IMPACT ANALYSIS

<p>Calculate impacts on retail sales in specific general retail segments and supermarkets</p>	<ul style="list-style-type: none"> • As scenarios move from low to high, total sales increase
<p>Calculate impacts on employment in specific general retail segments and supermarkets</p>	<ul style="list-style-type: none"> • Assume employment changes proportional to sales increases and decreases
<p>Calculate impacts on city sales tax revenues</p>	<ul style="list-style-type: none"> • City sales tax revenues rise and fall with total sales in the city
<p>RESOURCES: Actual City of Gunnison sales receipts; Wal-Mart Annual Reports; estimated Wal-Mart and total retail sales in Salida and Montrose</p>	

The economic impact model is designed to calculate a variety of impacts as variables are adjusted. Each impact is expressed as a number that reflects the following simple calculation:

$$\left(\begin{array}{c} \text{Forecast Total} \\ \text{WITH a Gunnison} \\ \text{Supercenter} \end{array} \right) - \left(\begin{array}{c} \text{Forecast Total} \\ \text{WITHOUT a Gunnison} \\ \text{Supercenter} \end{array} \right)$$

Therefore, where a Supercenter will increase the total, it appears as a positive number; where a Supercenter will decrease the total, it appears as a negative number.

The primary impacts reported are:

- **Change in Jobs:** The number of jobs that will be gained or lost in the retail segment.
- **Increased Sales:** The total number of dollars by which sales in the segment will be increased or decreased.
- **Increased Sales Tax Revenue:** The total number of dollars by which sales tax revenue to the City of Gunnison will be increased or decreased.

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Civic Economics was also asked to make a final calculation to assess the economic impact of a complete withdrawal from Gunnison by Wal-Mart Stores.

5. ANALYSIS OF WAL-MART WITHDRAWAL

Calculate impacts on employment, retail sales, and city sales tax revenues	<ul style="list-style-type: none">• Assume proportional employment changes with sales increases and decreases
Group impacts according to LOW, MEDIUM, and HIGH adjustment scenarios	<ul style="list-style-type: none">• LOW: Local merchants move slowly to capture lost Wal-Mart sales; heavy movement to other communities• MEDIUM: Most likely rate of adjustment by local and new merchants• HIGH: Local merchants and new entrants quickly capture lost Wal-Mart sales; no movement to other communities
RESOURCES: Actual City of Gunnison sales receipts; Wal-Mart Annual Reports	

This task was both simpler to calculate and harder to forecast than the effects of a Supercenter.

Calculations were quite simple because Civic Economics was able to access actual sales of the current Wal-Mart store. Forecasting was harder because there are no examples of other communities having experienced a comparable withdrawal, as described in Section II of this study.

Here, the primary variable is the degree and speed of adjustment to fill the rather large void a withdrawal would leave in Gunnison retail. Because Wal-Mart typically provides minimal advance notice of a closing, existing merchants are unable to prepare in advance for the new retail environment.

Due to confidentiality concerns, Civic Economics is unable to report the percentages by which each scenario forecasts sales recovery.

C. ECONOMIC IMPACT FINDINGS

Civic Economics calculated economic impacts for the following:

- a. Economic Impact of a new Wal-Mart Supercenter
 - i. General Retail
 - ii. Groceries
 - iii. Combined
- b. Economic Impact of Losing Existing Wal-Mart Discount Store

Economic Impact of a new Wal-Mart Supercenter

The Wal-Mart Supercenter would replace and expand upon the existing Wal-Mart Discount Center that is currently located in Gunnison. According to estimates provided by the City of Gunnison, the new store will measure 104,000 square feet while the current Discount Store is 44,000 square feet. As the chart below describes, Civic Economics expects the grocery portion of the new Supercenter to occupy approximately 40 percent of the new store or 41,600 square feet. The portion of the store selling general merchandise will expand from 44,000 square feet to 62,400 square feet. Additional space will be utilized for a mix of wider aisles, better displays, and a small increase of merchandise.

Table III-1: Wal-Mart Space Usage Before and After Expansion

	Discount Store	Proposed Supercenter	Total Space Added
General Retail (Sq.Ft.)	44,000	62,400	18,400
Groceries (Sq.Ft.)	0	41,600	41,600
Total	44,000	104,000	60,000

Source: City of Gunnison, Wal-Mart Annual Report 2004, Civic Economics

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General Retail

A Wal-Mart Discount Store has operated in Gunnison since the 1990's. This has allowed ample time for merchants in and around Gunnison to adjust; adjustments may have included going out of business, altering the merchandise mix to avoid head-to-head competition with Wal-Mart, or positioning to capture shoppers attracted by Wal-Mart. Under the current proposal, Wal-Mart will expand space dedicated to general retail by only 18,400 square feet, or 40% of the present space. Thus, compared to the introduction of an entirely new merchant in the market, competitive effects will be minimized.

When looking at the current General Retail situation in the Gunnison Trade Area it is surprising to find a slight deficit in this broad category. Put another way, Gunnison residents are spending fewer dollars on these items locally than would be expected based on population size. This deficit is significant in the economic impact of an expanded Wal-Mart because it means that some of the anticipated sales at a Supercenter will constitute import substitution.

To approximate the additional general merchandise sales that would be created by expanding the general merchandise area in the Wal-Mart Supercenter, retail sales per square foot that are occurring at the current store were carried over to the additional 18,400 square feet. Although all of this new space will not hold 40 percent more merchandise, studies have shown that general merchandise sales have increased with the expansion to a Supercenter. This is likely due to the improved merchandising practices made possible by the additional space, and by cross-shopping opportunities presented to grocery shoppers.

Table III-2: Economic Impacts of a Supercenter, General Retail

GENERAL RETAIL IMPACTS		Increased Sales Attributable to Supercenter			
		Low 1.6%	Medium 3.2%	High 4.9%	
Economic Impacts	Current Year	Change in Jobs	-3	+2	+6
		Increased Sales (\$ Millions)	2.62	3.39	4.12
		Increased Sales Tax Revenue	\$69,000	\$86,000	\$106,000
	2009	Change in Jobs	-6	0	+7
		Increased Sales (\$ Millions)	6.02	7.02	7.96
		Increased Sales Tax Revenue	\$155,000	\$179,000	\$203,000

Source: ESRI BIS, Civic Economics

Table III-2 summarizes the economic impact of expanded general retail activity attributable to a Supercenter. In all three cases, the Supercenter will generate additional general retail sales within the City of Gunnison, thereby creating additional sales tax revenue.

The table also highlights anticipated changes in employment in general retail in Gunnison. Even with the projected growth from 70 employees in the current store to 85 employees in the general merchandise section of a Supercenter, the low scenario shows a net loss of jobs while the medium and high estimates show modest overall

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employment gains for the City of Gunnison. This is the case due to the high productivity of Wal-Mart employees. Wal-Mart achieves sales per employee twice as high as other merchants in General Retail. This high productivity eliminates jobs as general merchandise sales are moved from other businesses to a Wal-Mart.

Groceries

The major difference between Wal-Mart's Discount Stores and Supercenters is the addition of groceries to the stores. The grocery selection is expected to occupy approximately 40 percent of the total square footage, or 41,600 square feet.

City Market, owned by Kroger, and Safeway currently dominate the supermarket segment in Gunnison. Unlike the General Retail category described above, the supermarket retail segment operates at a very large surplus of sales, meaning that the sales of groceries are much higher than would be expected based on the population of the market area. This is attributable to the large non-resident portion of the Gunnison economy, including tourists and second homeowners.

With Wal-Mart essentially opening up a new 41,600 square foot grocery store in a town that currently has approximately 70,000 square feet of grocery stores, a majority of sales will merely be diverted from existing stores. As revealed in the Retail Preferences Survey and interview sessions, the grocery stores currently in Gunnison meet the needs of the vast majority of residents.

However, they do not meet the needs of all residents, particularly low-income, price sensitive shoppers. The possibility of increasing sales to this group, while not substantial, must be factored into the potential for increasing grocery sales in the Gunnison Trade Area. Also, the number of tourists who currently shop at Wal-Mart Supercenters before or after visiting Gunnison must be factored in as well.

To estimate sales for the grocery portion of the Wal-Mart Supercenter, the average sales per square foot currently taking place in the City of Gunnison was used as the baseline. The current supermarket sales per square foot in the City of Gunnison compares favorably with national averages, suggesting there is some room to support additional growth in grocery sales.

Table III-3 shows the range of economic impacts to be anticipated from the opening of the grocery section at the Wal-Mart Supercenter.

Table III-3: Economic Impacts of a Supercenter, Groceries

GROCERY IMPACTS		Increased Sales Attributable to Supercenter			
		Low 6.5%	Medium 13.0%	High 19.5%	
Economic Impacts	Current Year	Change in Jobs	-29	-16	-3
		Increased Sales (\$ Millions)	3.99	6.13	8.23
		Increased Sales Tax Revenue	\$114,000	\$175,000	\$236,000
	2009	Change in Jobs	-36	-19	-3
		Increased Sales (\$ Millions)	5.45	8.09	10.74
		Increased Sales Tax Revenue	\$155,000	\$231,000	\$306,000

Source: ESRI BIS, Civic Economics

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Wal-Mart grocery sales will be split between sales new to the region and sales diverted from other merchants within the region. This diversion will result in lost jobs at other stores, ranging from 29 in the Low Scenario, in which Wal-Mart grocery sales are made up almost entirely of diverted sales, up to a loss of three in the High scenario, in which Wal-Mart adds almost 20 percent new sales in groceries to the Gunnison Trade Area. These losses occur, as in general merchandise, due to the extreme productivity of Wal-Mart employees, which measures sales relative to employment and does not imply any subjective measure of individual employee achievement. Since they are twice as productive as national averages would suggest, any shift of sales to a Wal-Mart will result in a decrease in jobs overall. So, the additional 60 grocery employees that Wal-Mart is expected to hire will be offset by even greater losses from other stores. This is consistent with the findings of other studies, as well as the trends in both Montrose and Chaffee Counties after a Wal-Mart Supercenter opened.

The Supercenter grocery section is, however, expected to increase total grocery sales in the region through import substitution and nonresident spending. As a result, city sales tax revenue will increase as well.

One item of note is the projected sales per square foot in local supermarkets after a Supercenter is added to the mix. The transfer of sales from existing supermarket merchants to the Wal-Mart Supercenter would initially cause a steep drop in sales per square foot at existing stores, bringing Gunnison grocers below their corporate averages. This challenge is gradually corrected over time as market demand grows due to normal population and cost of living increases.

Market forces might accelerate this correction by decreasing the square footage dedicated to grocery sales in the City of Gunnison, causing the sales per square foot for the remaining merchants to again exceed industry standards. While there has been much speculation about the ability of existing grocers to compete, Civic Economics cannot make any predictions of the likelihood of closures. Local and corporate management and local consumers will have more to do with determining the fate of individual merchants than will Wal-Mart.

Combined General Retail and Groceries

Table III-4 presents the aggregated economic impacts of all sales at a Gunnison Supercenter.

Table III-4: Economic Impacts of a Supercenter, Combined

COMBINED IMPACTS		Increased Sales Attributable to Supercenter			
		Low	Medium	High	
Economic Impacts	Current Year	Change in Jobs	-32	-14	+3
		Increased Sales (\$ Millions)	6.61	9.52	12.35
		Increased Sales Tax Revenue	\$183,000	\$261,000	\$342,000
	2009	Change in Jobs	-42	-19	+4
		Increased Sales (\$ Millions)	11.47	15.11	18.70
		Increased Sales Tax Revenue	\$310,000	\$410,000	\$509,000

Source: ESRI BIS, Civic Economics

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Complete Withdrawal of Wal-Mart from Gunnison

One final scenario Civic Economics has been asked to evaluate is the complete withdrawal of Wal-Mart from Gunnison. The analysis of Section II: Prospects for Gunnison Retail makes a strong case that such a withdrawal is unlikely. However, that possibility has been analyzed below to allow the City of Gunnison to prepare for such an event.

Table III-5 presents the range of outcomes that would follow the loss of Wal-Mart.

Table III-5: Economic Impacts of the Complete Withdrawal of Wal-Mart from Gunnison

		Recovery of Sales by Other Merchants			
		Low	Medium	High	
Economic Impacts	Current Year	Change in Jobs	-55	-55	-55
		Decreased Sales (\$ Millions)	-13.21	-13.21	-13.21
		Decreased Sales Tax Revenue	-\$336,000	-\$336,000	-\$336,000
	2009	Change in Jobs	-53	-8	+36
		Decreased Sales (\$ Millions)	-14.02	-17.01	0.00
		Decreased Sales Tax Revenue	-\$357,000	-\$179,000	\$0

Source: ESRI BIS, Civic Economics

As can be seen, the immediate impact of losing such a large store would be drastic. Although local merchants will quickly pick up some sales from the Wal-Mart, a large portion of Wal-Mart sales would be lost from Gunnison. Approximately 55 jobs would be lost along with \$336,000 in sales tax revenue. This analysis assumes that any recovery and adjustment period would start slowly, so all values in the base year are the same. Civic Economics is precluded by confidentiality concerns from including in this chart or this discussion any percentages indicating the recovery of sales by other local merchants.

Predicting the future is highly speculative at best; in this case no precedent is available and potential outcomes are broad. Therefore, the range of impacts presented is broad. The Low scenario assumes local merchants continue to pick up some new sales but still fall far short of recapturing sales in Gunnison.

The Medium Scenario assumes that local merchants capture increasing portions of the lost sales and that the city is able to attract a small discount merchant able to attract some former Wal-Mart shoppers. This medium scenario is the most likely course for Gunnison if Wal-Mart withdraws. Such a recovery does not require the arrival of another large format discount store, only that local retailers make conscious adjustments to their offerings to attract former Wal-Mart shoppers.

The High Scenario assumes total recovery by the Gunnison market; this outcome likely requires the arrival of another large format discounter. Although a gain of 36 jobs is shown due to the effect of moving highly efficient Wal-Mart jobs to less efficient hypothetical employers, this job gain is highly unlikely. Any larger merchant the size of a Wal-Mart will be highly efficient, as well. These employment gains will likely not be possible if a comparable retailer replaces Wal-Mart.

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While the immediate economic impacts of losing a Wal-Mart are not encouraging, the situation would improve over time as supply and demand have a chance to move closer to equilibrium. Though Wal-Mart provides little advance notice of closures, the situation should be monitored for any indication of the company's intentions. Civic Economics believes that conscientious communities can, with careful planning, facilitate the return of local merchants to retail niches long-ago abandoned upon the arrival of Wal-Mart and its peers.

D. ADDITIONAL CONSIDERATIONS – WAGES AND THE LOCAL PREMIUM

Civic Economics has been asked to evaluate two more considerations that could not be accurately incorporated into the model utilized above. First, though precise wage differentials cannot be identified among specific Gunnison merchants, there exists compelling evidence that grocery workers in current Gunnison establishments earn higher wages than would be available in a Wal-Mart Supercenter. Second, Civic Economics has previously identified a distinct difference in the economic impact between chain retailers and local merchants, known as the Local Premium.

Grocery Sector Wages

The impact analysis findings above have quantified net effects on total jobs in Gunnison based on a variety of outcomes. Here, Civic Economics evaluates the further effect on total wages in the community. The methodology for this analysis was adapted from a study prepared for the Orange County Business Council.¹

A review of Wal-Mart annual reports reveals that workers in the company’s stores receive comparable, if not identical, average wages whether they work in grocery or non-grocery departments. This analysis assumes that to be the case.

Using 2002 County Business Patterns from the Census Bureau, Civic Economics identified average wage and benefit costs per employee for the following retail classifications:

Table III-6 Industry Classifications for Specified Retail Sectors

Sector Title	NAICS	Description
Retail Trade	44	This classification includes all retail trade employees.
Food and Beverage Stores	445	This subclass of 44 includes only retail businesses primarily engaged in food and beverage sales.
Grocery Stores	4451	This subclass of 445 includes food and beverage retailers carrying a general line of goods. It does not include Wal-Mart.
Supermarkets and Other Grocery (except Convenience) Stores	445110	This subclass of 4451 removes convenience stores.
Department Stores	45211	This classification includes all department stores.
Discount Department Stores	452111	This subclass of 45211 includes only discount stores. Statewide data suppressed.

Source: North American Industry Classification System

¹ *The Impact of Big Box Grocers on Southern California: Jobs, Wages, and Municipal Finances*; Marlon Boarnet, Ph.D., University of California at Irvine, and Randall Crane, Ph.D., University of California at Los Angeles; Orange County Business Council, September 1999.

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Civic Economics calculated average compensation per employee across these sectors for Gunnison, Chaffee, and Montrose Counties and the State of Colorado. Two notes are appropriate here:

- Wages per employee do not account for full time and part time status, only total persons on the payroll. “Wages” do include a full range of employee benefits, not only basic wages.
- Data suppression narrows the range of data available. Where uncertainty arises, Civic Economics presents the range of possible wage differentials.

Table III-7 shows employee wages for the sectors analyzed.

Table III-7: Average Employee Wages by Retail Sector, 2002

	State of Colorado	Chaffee County	Montrose County	Gunnison County
Retail Trade	\$ 23,788.55	\$ 21,343.62	\$ 23,517.62	\$ 17,041.54
Grocery Stores	--- --- --- Unavailable --- --- ---			\$ 21,280.00
Supermarkets and Other Grocery Stores	\$ 24,969.23	\$ 23,429.69	\$ 23,515.24	--- ---
Department Stores	\$ 17,836.50	--- --- --- Unavailable --- --- ---		

Source: 2002 County Business Patterns, Census Bureau

Data for NAICS 452111, which focuses specifically on Discount Department Stores, is unavailable within the State of Colorado due to the dominance of one major retailer. Data for NAICS 45211, which includes all Department Stores, is unavailable at the county level for the same reason.

Table III-8 shows the percentage difference between wages in these classes.

Table III-8: Average Employee Wage Differentials by Sector, 2002

	State of Colorado	Chaffee County	Montrose County	Gunnison County
Grocery vs. All Retail	105%	110%	100%	125%
Grocery vs. Department Stores	140%	--- --- --- Unavailable --- --- ---		

Source: 2002 County Business Patterns, Census Bureau

These wage differentials are subject to some interpretation. For one thing, union membership and pay scales are not consistent statewide. Secondly, these data indicate that average compensation for retail workers in Gunnison is substantially lower than both the statewide and neighboring county averages. Finally, due to these differences, it is difficult to speculate with confidence where the suppressed data might fall.

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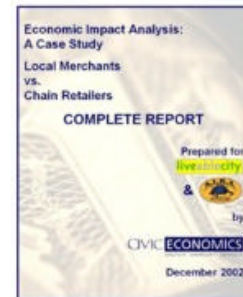
However, Civic Economics can say with a high degree of confidence that Gunnison County grocery workers earn between 25% and 40% more than workers in Gunnison County discount department stores.

Put another way, each job lost in a Gunnison supermarket and replaced with a job in a discount store results in a loss of 20-28% in wages paid to local residents. This decrease in local income is over and above any reduction in jobs identified above in the Economic Impact Findings.

The Local Premium

There is another line of research with application in this study. In two previous studies, Civic Economics has calculated the enhanced economic impact of locally owned merchants compared to chain retailers.

In Austin, Texas in 2003², two independent merchants faced the prospect of a competitor opening across the street supported by public subsidies. The local businesses, BookPeople and Waterloo Records, are well-known local institutions with large stores and sales volumes. Borders Books & Music was the prospective competitor. Civic Economics undertook an analysis to forecast the economic impact of the new store.



To facilitate the analysis, Civic Economics did not use a conventional multiplier model. Instead, the firm opened the books of the two local firms and calculated the actual values that multipliers are designed to estimate. This required a thorough accounting for the ways in which the firms spent money in the local economy. For Borders, which did not cooperate with the study, the same values were estimated from publicly available data.

The results were surprising. For every \$100 in consumer spending at the local merchants, \$45 was distributed into the Austin economy. For Borders, that figure was \$13. While the study has been downloaded hundreds of times and has been cited in media outlets and planning cases worldwide, Civic Economics has consistently cautioned that the Austin study looked only at three specific businesses and may not be applicable in other circumstances.

In Chicago, Illinois in 2004³, Civic Economics had the opportunity to expand on this line of research. There the firm worked with ten local firms including retailers, restaurants, and service providers for comparison with their leading national chain competitors. To provide further guidance to policy makers, the study evaluated economic impact per square foot in addition to impact per \$100 in consumer spending.



While less extreme, the differential economic impacts were again notable. For every \$100 in consumer spending with the local firms, \$68 was recirculated in the Chicago economy, compared to \$43 for the chains. Economic impact per square foot for the local firms was \$179, compared to \$105 for the chains.

² Economic Impact Analysis: A Case Study of Local Merchants vs. Chain Retailers is available for download at www.LiveableCity.org.

³ The Andersonville Study of Retail Economics is available for download at www.AndersonvilleStudy.com.

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To facilitate public understanding of these studies, Civic Economics developed the concept of the Local Premium, which captures the enhanced local economic impact provided by local businesses over their chain competitors. In two cities and across twelve merchants, this Local Premium has ranged from 58% to over 200%, reflecting the wide range of business practices evaluated. The essential and consistent finding, though, is that any shift of economic activity from local firms to nonlocal firms results in a significant outflow of dollars from any community.

In the Gunnison case, the overwhelming majority of grocery sales currently occur at local outlets of chain firms, with very little activity at local grocery stores. Since the Wal-Mart Supercenter will be transferring sales from one national firm to another, the local premium does not apply. However, move to a Wal-Mart Supercenter is expected to include expanded offerings in two more relevant categories: automotive parts and sporting goods. Since Gunnison has a number of local businesses that compete for these market segments, any shift from local merchants to the Wal-Mart Supercenter will likely lead to a decrease in local economic impact.

More explicitly, a consideration of both wage rates and the Local Premium points to the simple fact that the Gunnison economy will suffer a loss in vitality for every dollar of retail activity a new chain retailer may draw away from competing grocers or locally owned merchants.

E. CONCLUSION

Civic Economics has conducted a wide range of analyses and engaged in a substantial community input process in developing this economic and fiscal impact analysis. Section III is the culmination of that process and provides the City of Gunnison with several important considerations as it moves forward with the planning process.

Import Substitution and Nonresident Spending

The primary issue in developing the model and analysis was to address two well-understood phenomena. Gunnison loses potential retail sales to other markets as residents travel for the purpose of shopping in another community or simply shop while visiting on other business. Every small community will incur substantial leakage, as there will always be a wide range of goods and services unavailable or more competitively provided in larger markets. Nonetheless, broadening the array of goods available and the appeal of the local retail market can mitigate leakage.

As a tourist destination and gateway community, Gunnison also has the potential to increase local spending by nonresidents. Indeed, from an economic development perspective, destination communities are wise to maximize opportunities for visitors to contribute to the local economy wherever this can be done without harming the interests of residents.

One data challenge this study faced from the beginning and cannot remedy is the lack of any credible measure of the visitor market in Gunnison. In conventional destinations, the standard measure of “room nights,” a simple count of the nights each hotel room is occupied, captures the largest share of tourists. Such a measure will not work in Gunnison County, where those staying in hotels represent a fraction of total visitors. Any effort to estimate total tourists in the area using the sporadic data that is available will lack credibility. Someone in the area, whether it is the City or another body, should commission a specialty firm to conduct a thorough study of area tourism so that future initiatives can model tourist behavior with accuracy.

That a Wal-Mart Supercenter will contribute to an improvement in both of these measures is clear, and those factors have been factored into the model Civic Economics developed for this study. Indeed, these are the primary user-defined variables driving economic outcomes.

Public Revenue and Community Employment

Due to those improvements in leakage and import substitution, a Gunnison Supercenter will generate an increase in total sales in the community. This, in turn, translates into an increase in sales tax revenue available to the City of Gunnison to serve the needs of its residents. In an era of municipal fiscal distress from coast to coast, rising sales tax revenue has powerful appeal to elected officials and policy makers.

However, it is also clear that a Supercenter will bring adverse impacts by diverting sales from other firms. The Wal-Mart system, exhaustively studied in academic and media circles, achieves enormous sales revenue relative to its spending on labor on the shop floor. However, that productivity comes at a cost to host communities. As sales shift from other stores with higher employment relative to sales, the number of jobs available in the community necessarily declines.

This shifting of jobs from existing retailers to Wal-Mart manifests itself clearly in the final economic impacts. Indeed, only in the High Scenario, which requires that the new store induce significant new sales in the community, is a loss of jobs avoided. This finding is

consistent with studies across the nation. The circumstances in which large-format discount retail can function as an employment driver are very narrow, indeed, and those circumstances are simply not present in Gunnison.

Thus, the alternatives currently available to the City of Gunnison present an undoubtedly difficult trade off between much-needed public revenue and much-needed employment.

Circulation of Community Wealth

This report has documented two additional factors related to the economic linkages companies may have in a community. Based on available data, it is apparent that Wal-Mart offers a wage and benefit structure that is 20-28% lower than what is offered by competing grocers. For this reason, the shift of sales from existing grocers to Wal-Mart brings not just a reduction in jobs available but a reduction in wages, as well. These lost wages will be unavailable to circulate in the Gunnison economy.

Further, Wal-Mart will compete with locally owned merchants for sales in a range of goods and services beyond groceries. Civic Economics has documented in previous studies that such local merchants maintain stronger local economic linkages than their chain competitors. That differential is known as the Local Premium, which quantifies the enhanced economic benefit to the community when sales take place with the locals. The Local Premium has ranged from 58% to over 200% in various circumstances, and this study did not attempt to quantify it for Gunnison. It should be sufficient to note local firms generally circulate money in the local economy far more efficiently than any chain.

An additional but related consideration not addressed in this economic impact analysis is the value to the community of consumer savings. Within economic circles, there is some debate over how, or whether, to attempt to calculate an economic impact for those dollars. In not doing so, Civic Economics joins the majority of analysts. However, even had this study incorporated a value for savings, the change in the final impacts would have been trivial.

Planning and Market Forces

The partners in Civic Economics are planners and economic developers. The firm is built upon the simple idea that good public policy must be designed to work with market forces, not against them, and that policy makers must be armed with the best economic information possible.

Public policy should also seek to accentuate positive market outcomes and mitigate negative ones. Zoning is a prime example. Prior to the development of this tool, slaughterhouses were free to encroach on schools, and homeowners were free to operate factories in the den. With time, zoning and its associated tools have evolved to empower communities to place reasonable restrictions on some market actors in order to improve prospects for others. "Economic development" itself represents an intervention in markets in order to enhance local opportunities. The regulatory options facing the City of Gunnison today fall squarely within those precedents.

Having gained intimate familiarity with Gunnison and its retail economy, Civic Economics cannot offer the community a recommended answer to the question of whether and under what circumstances to allow development of big box retail in the community. Ultimately, only the people of Gunnison can determine the weight they assign the pros and cons outlined in this report. The purpose of this study was to lay out for policy makers the key economic issues so decisions can be based on realities as much as perceptions, minds as much as hearts. We trust it has done so.