

Big Box Retail And Austin: An Independent Review

Prepared for:

Austin Independent Business Alliance
Austin Full Circle
Liveable City
AFSCME Local 1624

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EXECUTIVE SUMMARY

On June 24, 2004, the Austin City Council (COA) received a long-awaited study, *Big Box Retail and Austin*¹, prepared by Texas Perspectives (TXP) and the Gateway Planning Group. This study was intended to assess the economic impacts of increased big box development in Austin and was to address seven key tasks assigned by City Council. Three Austin civic organizations (the Austin Independent Business Alliance, Austin Full Circle, and Liveable City) became concerned that the report provided insufficient and/or inaccurate guidance to the Council. In response, they asked three nationally known authorities to review *Big Box Retail and Austin* and provide independent analysis of the report, its methodology, and its conclusions.

While the COA study contains extensive and valuable information, the reviewers are troubled by its essential findings. Our principal concerns are as follows:

- We strongly question the study's central conclusion that the city's principal concern should be establishing design standards for a subset of big box retailers. Design standards alone cannot address economic impacts. Managing and mitigating the economic impacts of big box activity will require appropriate market based solutions that account for the full costs and benefits of big box development.
- Evidence presented in the study is insufficient to support the claim that "there appears to be relatively little direct competition between big boxes and local retailers." Most evidence in fact suggests that a rapid increase in big box retail *does* take business away from many types of local retail.
- The study does not provide any specific measures of the public health, public safety, traffic, and infrastructure costs of big box development. These measures are crucial to assess the true costs of big box development for the City.
- Studies conducted elsewhere show that the low-wage/low-cost strategy employed by many big box retailers generates specific costs for local governments and taxpayers (e.g. indigent health care, affordable housing and public safety). In effect, host communities must subsidize wage and service costs for large, highly profitable corporations.
- The 21.2% big box retail market share cited by the authors is a misleadingly low figure, shaped by the authors' somewhat arbitrary definition of big box, which limits their inquiry to six specific retailers. A more accepted definition, such as the one formulated by Columbia

¹ The complete text of *Big Box Retail and Austin* is available for download at: www.ci.austin.tx.us/redevelopment/downloads/Big%20Box.Austin.final.pdf

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University and cited by the authors, would reveal that big boxes already control a much larger market share in Austin.

- Inaccurate regional retail sales estimates released in the original report paint a false picture of suburban retail drain. In fact, Austin continues to significantly outperform suburban jurisdictions for retail sales.
- A viable strategy for Austin would include policies to support unique local retail establishments, while guiding the placement, and in some cases limiting the size of big boxes.

This review is not, however, entirely critical. Rather, we have sought to provide additional guidance to the City Council in formulating consistent and effective policies regarding big box development in the City of Austin.

We believe the following recommendations provide a roadmap for future policy consideration:

1. Require a Conditional Use Permit for all proposed large-scale retail developments including an impact analysis to demonstrate net benefits and costs to the community, with the possibility of negotiated exactions to mitigate the true costs of the development not offset by tax contributions. Based on the model recently adopted by Los Angeles, such an analysis might include financial impacts, employee impacts, design standards, and reuse provisions to prevent abandoned big boxes.
2. Develop long-term strategies to strengthen and enhance our local retail market. To this end, we strongly recommend future actions in four key areas.
 - Regarding major employers, the City should incentivize only those who pay wages and benefits that allow employees to be self-sufficient.
 - Develop policies that strongly support local independent businesses.
 - Identify the current market share of *all* big box retailers in Austin, not limited to the six specific retailers in the current study, with the goal of establishing a diverse retail balance to sustain a healthy, competitive, market.
 - Explore a regional compact as a means to ameliorate tax incentive competition among area jurisdictions to capture retail activity.

It is important for city leaders to be aware that communities across the U.S. have taken action to manage the development of big box retail. It is widely recognized that big box development generates external costs that cities must address to ensure balanced retail development and benefits that at least equal the costs to

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municipalities. The Conditional Use Permit called for here is not unreasonably burdensome, but necessary to ensure a vibrant retail economy.

This document provides an independent review of *Big Box Retail and Austin*, which was presented to the Austin City Council on June 24, 2004.

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This review has been organized and endorsed by the following civic organizations:

- **Austin Independent Business Alliance**, representing the interests of over 300 locally owned businesses in the Austin area.
www.Austin-IBA.org
- **Austin Full Circle**, an all-volunteer coalition of business, labor, environmental, and neighborhood leaders focused on corporate responsibility and the economic impacts of increased big box development.
www.AustinFullCircle.org
- **Liveable City**, an inclusive network of individuals working together to create a community consensus to promote policies that address the long-term social, environmental, and economic needs of the people of Austin.
www.LiveableCity.org
- **AFSCME Local 1624**, a local union representing employees of the City of Austin and Travis County and an advocate for sustainable wages and benefits for working people throughout the community.
www.AFSCME1624.org

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BIG BOX RETAIL AND AUSTIN: AN INDEPENDENT REVIEW

Background

In recent years, Austin City Council has been faced with numerous issues related to what is known as big box retail. In each case, Council was presented with unique circumstances and sought to craft appropriate solutions. These solutions were of necessity developed on an ad hoc basis; environmental protection, economic development, and neighborhood planning considerations had to be balanced in each case.

Council wisely recognized the need for further information in order to develop a consistent policy framework for dealing with big box retail. In November 2003, the Austin City Council commissioned a study of the impact of "big box retail" to be prepared by Texas Perspectives (TXP) and the Gateway Planning Group (Gateway), a move that was supported by three Austin civic organizations (the Austin Independent Business Alliance, Austin Full Circle, and Liveable City). These respected consultants were asked to report to the Council on the economic, environmental, fiscal, and social impacts of "big box retail," a term left undefined in the commission.

Specifically the report was to address seven tasks delineated by the City:

1. Outline recent trends in retailing nationwide;
2. Provide an overview of the status and history of retail trade in Austin and the greater Austin area;
3. Review the academic and trade literature related to the impact of big boxes and national brand retailers on local economies;
4. Survey the Austin market to determine prices for certain goods from national brand retailers, regional providers, and small locally-owned businesses;
5. Survey national brand retailers, regional providers, and small locally-owned businesses to determine the range and scope of both labor compensation and local procurement;
6. Assess crime and traffic counts to determine relative impacts on public safety and the environment;
7. Integrate the above findings with available information on "best practices" regarding public policy on land use related to retail to make policy recommendations.

On June 24, 2004, Jon Hockenyos of TXP presented the report, *Big Box Retail and Austin*, to City Council. The Austin Independent Business Alliance, Austin Full Circle, and Liveable City became concerned that the report provided insufficient and/or inaccurate guidance to the Council. In response, they asked the three of us to review *Big Box Retail and Austin* and provide an independent

analysis of the report, its methodology, and its conclusions. This document is the result of our analysis.

The authors of this review have great respect for the work of TXP and Gateway. Moreover, we recognize the daunting scope of the charge to assess the impact of big box retail. Nonetheless, we share strong concerns about the report and the guidance it provides to a Council facing important policy issues. In the following pages, we have highlighted these concerns. Some of these deal with methodology and execution and are necessarily technical. Others deal with findings and implications and are necessarily subjective. This document, admittedly, raises as many questions as it answers; the authors worked on this evaluation on a voluntary basis and could not devote resources to conduct a complete re-analysis of the entire scope of work.

Specifically, we strongly question the central conclusion of *Big Box Retail and Austin* that the principal concern of city government should be in establishing design standards for a subset of big box establishments. Design standards alone cannot address economic impacts.

As studies and actions in numerous communities across the country demonstrate, the impacts of rapidly evolving big box retail on local conditions are serious and pervasive. Managing and mitigating these impacts requires appropriate market-based solutions that go beyond simple design standards.

We have organized this review into seven sections, corresponding to the seven tasks assigned by the City Council at the outset of the study.

TASK 1: OUTLINE RECENT TRENDS IN RETAILING NATIONWIDE.

Defining Big Box Retail

Big Box Retail and Austin provides a solid discussion of the variety of retailers that might be labeled "big box." These retailers are distinguished from one another in two ways. The first is the retail strategy of each merchant. The second is the nature and size of the building itself, whether freestanding or attached.

These distinctions are important for different reasons. The retail strategy of a merchant presents *economic and social issues* for consideration. The site and nature of the building, on the other hand, presents *planning, environmental and design issues*.

In this case, six merchants were identified for further evaluation. Four of them (Wal-Mart, Target, Sam's, and Costco) are easily recognized as big box retailers. They offer an enormous variety of merchandise and do so in massive, freestanding stores.

Two additional merchants identified for further evaluation (Home Depot and Lowe's) are substantively different from the general merchandisers above. These stores are essentially category killers, focusing on a particular range of goods under the rubric of home improvement. Like the general merchandisers above, Home Depot and Lowe's operate massive, freestanding stores. However, their retail strategies are more analogous to other category killers such as Best Buy and Fry's in electronics, both of which are widely recognized as big box retailers.

In our view, the particular selection of these specific retailers (a mix of general merchandisers and category killers) is somewhat arbitrary and in many ways shapes the conclusion of the study. Why the authors chose a 100,000 square-foot cutoff and excluded other category killer big boxes such as Barnes and Noble, Frye's, Circuit City, Toys "R" Us, Office Depot, etc., is unclear. Other, more common definitions - such as the Columbia University definition first cited by the authors - could lead to different conclusions.

In particular, the definition in *Big Box Retail and Austin* muddies the distinction between economic and design considerations. Having effectively selected a subset of large national merchants based on size and building design, the study unsurprisingly focuses on design solutions, relegating economic considerations to secondary status.

Big Box Competitive Strategies and Property "Churning"

There is an additional characteristic of national big box retail not fully addressed in the study. As the authors convey in their overview of the retail market, in areas where big box establishments are concentrated, retailers face fierce competition, resulting in a lot of "churning" or rapid turnover of firms and properties. Competition from tax-advantaged internet retailers is also pinching these markets. As Wal-Mart, Target, Circuit City, and Home Depot expand, K-Mart, Best Products, J.C. Penney, and Wards radically downsize or close all store locations.

In addition, successful big box retailers often abandon older, smaller stores for bigger sites or shift to new locations. The short residency of many big box retailers in specific sites leaves large vacant buildings that sometimes trigger more extensive commercial vacancy and blight in specific commercial areas. According to Wal-Mart's own website (www.wal-martrealty.com), the chain now has roughly 400 vacant stores available nationwide, including 42 in Texas and two in Austin.

A recent report by the City Attorney's Office of Los Angeles emphasizes the potentially negative impacts associated with the practice of big box superstores negotiating leases that permit them to vacate a location, while maintaining the lease on the stores and parking.

[This practice] "facilitates a pattern of superstores locating in a community, engaging in predatory pricing that drives out competitors, consolidating their operations by shutting down stores once competition is eliminated and then tying up the massive parcels they have assembled through long-term leases that prevent the reestablishment of rival retailers and the recycling of industrial and commercial property. This ultimately results in declining property values for the surrounding community as a hulking vacant structure sits on an enormous parcel attracting graffiti and debris."²

A study of the Kansas City market found that big boxes (defined in that study as a retail store of 25,000 square feet or more) accounted for 56.8 percent of the total vacant commercial property in the Kansas City area in 2000³. This pattern of property churning, characteristic of big box development, points toward the need for a special ordinance ensuring that vacated property be maintained by the developer or tenant and that vacant property is promptly put on the market. At the same time, the city might explore ways to guide new big box development or other uses to pre-existing vacated properties instead of greenfield sites.

² City Attorney's Office of Los Angeles, "Options for Regulating the Development of Superstores," Report No. R03-0585, Dec 2003, page 5.

³ R.H Johnson Company, *Metropolitan Kansas City: Year 2000 Shopping Center Report*. Kansas City, Missouri, 2000.

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TASK 2: PROVIDE AN OVERVIEW OF THE STATUS AND HISTORY OF RETAIL TRADE IN AUSTIN AND THE GREATER AUSTIN AREA.

Movement of Spending to the Suburbs

Big Box Retail and Austin makes an effort to identify the share of the regional retail market captured within the City of Austin over time. However, the printed report released to the *Austin American-Statesman* made a serious error in calculating these shares⁴.

In the original calculations, TXP estimated that Austin's share of regional retail activity had fallen from 83.5% to 53.9% from 1990 to 2003, indicating a precipitous trend in which Austin's retail share may soon fall below its population share. Prompted by the authors of this Review, TXP corrected these figures, yet left the conclusions unchanged.

Austin Metropolitan Area Retail Sales History
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	Sales Tax Allocations (Millions)		Tax Rates		Retail Sales (Millions)	
	2003	1990	2003	1990	2003	1990
Austin	\$105.10	\$48.40	0.0100	0.0100	\$10,510.00	\$4,840.00
Bastrop	\$2.50	\$0.40	0.0150	0.0100	\$166.67	\$40.00
Bee Cave	\$1.60	\$0.10	0.0200	0.0150	\$80.00	\$6.67
Cedar Park	\$6.80	\$0.40	0.0200	0.0100	\$340.00	\$40.00
Georgetown	\$5.90	\$0.90	0.0175	0.0100	\$337.14	\$90.00
Lakeway	\$0.90	\$0.10	0.0125	0.0100	\$72.00	\$10.00
Leander	\$0.50	\$0.10	0.0100	0.0100	\$50.00	\$10.00
Pflugerville	\$1.80	\$0.10	0.0150	0.0100	\$120.00	\$10.00
Round Rock	\$46.10	\$2.90	0.0200	0.0150	\$2,305.00	\$193.33
San Marcos	\$12.50	\$3.00	0.0150	0.0150	\$833.33	\$200.00
Sunset Valley	\$3.80	\$0.00	0.0175	0.0100	\$217.14	\$0.00
Taylor	\$2.10	\$0.60	0.0200	0.0100	\$105.00	\$60.00
West Lake Hills	\$1.60	\$0.30	0.0150	0.0100	\$106.67	\$30.00
MSA Municipal Total	\$194.90	\$58.00			\$15,242.95	\$5,530.00
Austin Share	53.90%	83.50%			69%	88%

	2003	1990
Austin Pop. Share	50.0%	55.8%
Austin Sales Share	69.0%	88.0%

Source: Texas Comptroller

⁴ In Table 6 of the draft circulated prior to release, "Sales Tax Allocations" were treated as a proxy for retail sales in each municipality. However, a further calculation is required to adjust for the differing sales tax rate in each municipality. In fact, because Austin has the lowest municipal sales tax rate among those studied, the city share of total retail sales was substantially undercounted.

When the figures for retail market shares are corrected for actual retail sales, it becomes clear that Austin continues to outperform suburban jurisdictions by a substantial margin. In 1990, Austin's share of metropolitan population stood at 56%, yet city stores accounted for 88% of regional retail sales. By 2003, city population was at approximately 50% while city stores still accounted for 69% of all retail sales in the metropolitan area. Even today, as Austin's suburbs continue to expand in both population and business activity, the City of Austin captures retail activity far exceeding its share of regional population.

As the Austin MSA continues to grow, the retail and population shares of the City will likely see some convergence in future decades. However, *Big Box Retail and Austin* paints a misleadingly dire picture of suburban retail flight, exaggerating decline and pointing to very different policy concerns than a more accurate calculation. Indeed, rather than creating a sense of desperation to remain competitive, the corrected figures should lead to a discussion of why urban retail is so vibrant in Austin and how those advantages might be supported and further developed.

Big Box Retail and Austin forecasts that Austin will likely drift downward until reaching “a market share that is more closely aligned with the central city's share of regional population.” We do not believe that resignation to suburban-style retail is the proper response to the data. On the contrary, we believe these figures highlight the city's substantial advantages as a retail destination. The mixed use, pedestrian friendly, and “weird” retail offerings in Austin cannot be duplicated in the suburbs and should instead be nurtured and protected in order to preserve the city's share of urban retail activity and sales tax generation.

TASK 3: REVIEW THE ACADEMIC AND TRADE LITERATURE RELATED TO THE IMPACT OF BIG BOXES AND NATIONAL BRAND RETAILERS ON LOCAL ECONOMIES.

Background

It is important to recognize that retail activity is generally the result, rather than the cause, of economic growth in a city or region. Retail is basically dependent upon the condition of the local economy, especially core regional export industries. *Retail activity cannot grow more rapidly than disposable income within a given regional economy.* To the extent that new or expanding retail establishments grow faster than local purchasing power, there is competition and some crowding out. Some new activity displaces sales at existing establishments – retail big box expansion can crowd out sales from local merchants or other national chains already in place. The job, sales and tax gains from a given big box project cannot be viewed as net gains to a community.

This is also why it makes little economic sense to offer public incentives to retail. Retail incentives often simply shift economic activity from one place to another

rather than generating new products and jobs. Unfortunately, many communities try to capture retail activity from neighboring jurisdictions in an attempt to secure new tax revenue. In most cases, these strategies, sometimes called "beggar thy neighbor," lead to a net loss in social welfare for citizens of a region. Sensible regional compacts to limit retail tax giveaways could do much to ameliorate these negative impacts.

Economic Impact of Big Box Retail on Local Merchants

In Finding #2 of their report, the authors state: "There appears to be relatively little direct competition between big boxes and local retailers; where competition exists, prices tend to be comparable." This bold conclusion is essentially based on three pieces of evidence:

- Literature that suggests that local merchants can most effectively compete with big boxes by offering something different;
- A limited survey of national big box, regional big box (e.g. HEB, Academy), and a few local retailers in six product categories;
- An analysis of the Austin retail market share limited to six companies defined by the authors as national big boxes.

In each case, evidence offered in the study is not sufficient to support the "relatively little direct competition" conclusion.

Evidence of Significant Direct Competition

The first problem with this bold claim is that it fails a basic reality test. A ten-minute discussion with a local merchant in the book, grocery, hardware, toy, office supply, electronics or sporting goods business would likely reveal that they are under intense competitive pressure from national big box retailers.

Citing Iowa State economist Kenneth Stone, the authors note that local merchants can only survive by offering different products or unique higher-level service to customers. But the central point of Stone's work is that discount mass merchandisers have a devastating effect on local merchants in towns that do not host a big box. To quote from the abstract of one of Stone's papers, "There is strong evidence that rural communities in the United States have been more adversely impacted by the discount mass merchandisers (sometimes referred to as the Wal-Mart phenomenon) than by any other factors in recent times."⁵ Stone replicated his study of rural Iowa communities with eight small- to medium- sized cities (communities of over 50,000). His findings were similar: communities with national mass merchandisers experienced growth in retail sales, but this growth resulted from cannibalizing retail in nearby towns that then experienced a decline in their retail sales.

⁵ Stone, Kenneth E., "The Impact of the Wal-Mart Phenomenon on Rural Communities" *Proceedings of Increasing Understanding of Public Problems and Policies-1997*, p. 2.

Jones and Doucette, in a study of the urban market of Toronto found that big box employment in supermarkets, electronics, hardware, toy, sporting goods, books and office products increased significantly between 1993 and 1997, while employment in non-big box formats in the same categories decreased. The Toronto study also surveyed over 18,000 local retail shops and found that their share of local retail sales declined over the same period.⁶

The fact that local retail survivors have moved or been pushed into a new niche or significantly changed their business tactics does not equate with "relatively little direct competition." Indeed, as several commentators have noted, innovative niche and service strategies of smaller retailers are always subject, if successful, to replication by larger national retailers. The authors of *Big Box Retail and Austin* imply this form of competitive vulnerability when they discuss differentiation among big box merchants with some moving into higher quality and service intensive segments.

The product and price comparison survey in the study, while interesting, is far too limited in scope to draw conclusions about competitive conditions across Austin's retail markets. Indeed, the preponderance of existing evidence is consistent with the reality test mentioned above: national big box retailers *do* put significant competitive pressure on local merchants.

The key point is not that local merchants can or should be protected from the competitive pressures of big box retail. However, it is naive to believe that rapid big box development will not have a significant impact on locally owned retailers in many segments. Big box development does not represent a pure windfall in new sales, employment or tax revenue for the city; there will certainly be at least some crowding out of other retail activity. Careful analysis and management of big box development is critical if one believes - as TXP itself previously found in its 2002 white paper, *Austin's Economic Future* - that the unique and durable strength of the Austin retail base is our diverse mix of local establishments.

The Market Share of Big Box Retailers

The report makes a solid effort to estimate the share of the Austin retail market that has been captured by the six retailers selected for study. The methodology is reasonable, developing sales estimates for selected retailers based on corporate average sales per square foot. **However, we are troubled by the finding that "implied big box market share is 21.2%." This market share estimate is totally contingent on how the authors define big box retail, and it should be made very clear that this market share includes only the six merchants studied.** A broader unqualified interpretation of this market share figure has led to confusion not just in the press but in Council chambers, as well.

⁶ Jones, Ken and Michael Doucette, "The Impact of Big Box Development on Toronto's Retail Structure," Center for the Study of Commercial Activity, Toronto, 1999.

We believe the same methodology should be applied to additional merchants, particularly the so-called category killers that operate large stores and seek to capture large market share in particular retail sectors. In general terms, the big boxes are large-format stores that typically range in size from 20,000 to over 150,000 square feet. However, the definition of "big" is relative and must be related to the product category in question.

For the supermarket/grocery sector, a big box superstore normally must be in the 50,000 to 100,000 square-foot range. For warehouse operations, such as Costco and Sam's Club, big boxes normally contain 120,000 square feet. In contrast, for book retailers, 25,000 to 50,000 square feet could qualify as a big box operation. For other specialty retail categories, for example, eyeglasses, a 5,000 square-foot store might constitute a "big box."

The key point is that category killer stores are several times the size of a traditional outlet in their category. Therefore, if the study significantly expanded its definition to incorporate even category killers of over 50,000, including such stores as Frye's, Circuit City, and Best Buy, the 21.2% market share calculation would increase substantially.

Another approach would be to look at market shares in specific retail categories. Using only the figures provided in the current study, for example, it is possible to calculate that Home Depot and Lowe's combine for approximately 50% of the total market in building materials. Clearly, where a 20% market share sets off few alarm bells, 50% might generate a very different reaction. These calculations should be done in other retail sectors to identify areas where competition is potentially - or already - impaired.

Home Improvement Competition	
	Sales 2003
Home Depot	\$492,778,524
Lowe's	\$194,846,201
BigBox Total	\$687,624,725
Building Materials Total	\$1,370,000,000
Big Box Share	50%

Source: *Big Box Retail and Austin*, TXP

Differential Indirect Effects of Big Box Versus Local Retail

Big Box Retail and Austin makes a limited effort to evaluate the economic impact of big boxes on local economies. Indeed, it disregards entirely one of the seminal studies in this area. The study⁷ conducted by Civic Economics focused on the market for books and music at Sixth and Lamar and has been reviewed and cited around the nation for well over a year⁸. That study documents the

⁷ *Economic Impact Analysis: A Case Study of Local Merchants vs. Chain Retailers*, was sponsored by Liveable City, Austin Independent Business Alliance, BookPeople, and Waterloo Records and is available for download at www.liveablecity.org/lcfullreport.pdf.

⁸ For a partial list of media and organizational citations of the Liveable City Study, see www.civiceconomics.com/html/retail_network.html.

substantial economic advantage to those communities with strong locally-owned merchants. *Big Box Retail and Austin* does cite a subsequent study conducted in Maine that replicated these findings using a national big-box retailer for comparison.⁹

The dramatic move on the part of a number of big box retailers to purchase offshore has further diminished the potential local benefit of purchasing by national chains. For example, in 1995, Wal-Mart claimed that only 6% of its merchandise was imported, while by 2003, fully 50-60% of its products came from foreign producers.¹⁰

Another indirect economic effect deals with the procurement of services in the host community. Professional services such as law, accounting, advertising, and banking are generally provided locally for local merchants. By contrast, national big box retailers generally procure these services in the headquarters community or in the national market.

Studies that show the significant benefits of local retailers to local economies, as opposed to the drain often presented by big box chains, are dismissed in the report as "of limited scope," but we believe they should be part of the discussion in Austin, as they are elsewhere in the nation. If big boxes crowds out local retail activity, then the economic impacts include not only lost sales, but also a loss in indirect activity from re-spending by local merchants on locally produced services and goods.

TASK 4: SURVEY THE AUSTIN MARKET TO DETERMINE PRICES FOR CERTAIN GOODS FROM NATIONAL BRAND RETAILERS, REGIONAL PROVIDERS, AND SMALL, LOCALLY OWNED BUSINESSES.

As noted above, the study did a limited survey of national big boxes, regional big boxes, and a few local merchants, concluding that where competition between big boxes and local retail does exist "prices tend to be comparable." However, the survey is not of adequate scope to draw any meaningful conclusions about competition or product price differentials.

The Market Basket Survey

It appears that TXP attempted a thorough and thoughtful market basket study to assess consumer savings provided by the six selected big box retailers. The study found comparable prices on comparable items between big boxes and local merchants, but often found different grades of goods available. Again, the

⁹ "The Economic Impact of Locally Owned Businesses vs. Chains: A Case Study in Midcoast Maine," Institute for Local Self-Reliance and Friends of Midcoast Maine, September 2003. Retrieved from <http://newrules.org/retail/midcoaststudy.pdf>.

¹⁰ Cleeland, Nancy and Evelyn Iritani, "The Wal-Mart Effect: Scouring the Globe to Give Shoppers an \$8.63 Polo Shirt," Los Angeles Times, November 24, 2003, p. A-1.

finding offered is "little direct competition," but further research suggests a different explanation for the distinction.

Big Box Retail and Austin highlighted two items from the market basket for further discussion, a charcoal grill and a pair of blue jeans. These items, coincidentally, illustrate keenly the nature of the competition between big boxes and local merchants.

The Weber Smokey Joe grill is an American icon, providing the entry-level model for a manufacturer that has built its name on quality. In the market basket study, TXP found that the big boxes carried only the "basic" model, while local merchants offered instead "Silver" and "Gold" versions. A call to the Weber customer service line, however, confirmed that the Silver model (#10020) sold at many retailers is, in fact, the basic model. As part of its purchasing agreement with Weber, Wal-Mart does not market it as "Silver," obscuring the direct competition with other retailers on this item.

Blue jeans are also highlighted as an example of the difficulty in comparison-shopping between local and big box retailers. The recent entry of Levi Strauss into big box discount retail channels has been extensively discussed in the business press. The challenge for Levis was that their longstanding dedication to quality and to American workers was inconsistent with the low-cost strategy of big boxes. To meet the low-cost demands of Wal-Mart, the company created a new line of products, identified as Levis Signature, and outsourced all manufacturing of this line to overseas firms.

Both of these examples, held out in *Big Box Retail and Austin* as confounding direct comparison, actually highlight the economically harmful strategies of big box retailers. In the case of Weber, identical products sold in big boxes and local stores are labeled differently. In the case of Levi's, a far more insidious outcome is clear; American workers were displaced as the company sought ever cheaper labor overseas in direct response to pressures from Wal-Mart.

TASK 5: SURVEY NATIONAL BRAND RETAILERS, REGIONAL PROVIDERS, AND SMALL, LOCALLY OWNED BUSINESSES TO DETERMINE THE RANGE AND SCOPE OF BOTH LABOR COMPENSATION AND LOCAL PROCUREMENT.

Social Costs

Big Box Retail in Austin does an excellent job of highlighting the low wages and attendant social costs associated with many discount big box retailers. Several studies have documented the social costs associated with Wal-Mart, perhaps the most brutal of the low-wage big boxes. The Democratic Staff of the Committee on Education and the Workforce estimates that one 200-person Wal-Mart store may result in a cost to federal taxpayers of \$420,750 per year¹¹. Wage compensation below what is adequate to allow employees to be self-sufficient generates cost for state and local governments as well.

However, after documenting the potential costs of these "low road" competitive strategies, the authors exile concerns over these social costs to the national level or "worthy of national dialog, [that] should play out on the national stage."

There are two problems with dismissing the social costs of low-wage big boxes as a national or federal concern. First, while many government expenditures that compensate for below self-sufficiency wages are borne by federal or state governments, certain costs do fall on local jurisdictions. Public programs to provide indigent health care, aid to low-income children, and affordable housing are examples of local programs in which low wages drive up local costs.

¹¹ *Everyday Low Wages: The Hidden Price We All Pay For Wal-Mart*, A Report by the Democratic Staff of the Committee on Education and the Workforce, Washington D.C: U.S. House of Representatives, February 16, 2004, page 9.

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Living Wage Measures for Metro Austin

Family Security Index, Austin MSA

	1 Adult 0 Children	2 Adults 0 Children	1 Adult 1 Child	2 Adults 2 Children
Housing	\$ 533	\$ 645	\$ 858	\$ 858
Food	\$ 147	\$ 270	\$ 206	\$ 418
Childcare			\$ 366	\$ 569
Medical	\$ 281	\$ 548	\$ 460	\$ 727
Transport	\$ 278	\$ 391	\$ 278	\$ 391
Other	\$ 177	\$ 276	\$ 294	\$ 321
Monthly Expenses	\$ 1,416	\$ 2,130	\$ 2,462	\$ 3,284

Taxes and Tax Credits

Payroll	\$ 108	\$ 163	\$ 188	\$ 251
Income	\$ 138	\$ 182	\$ 250	\$ 298
Child Care Credit			-\$40	-\$83
Dependent Credit			-\$40	-\$80
Tax Payments and Credits	\$ 246	\$ 345	\$ 356	\$ 386

Necessary Monthly Income

Income	\$ 1,662	\$ 2,475	\$ 2,818	\$ 3,670
Household Average Wage	\$ 10	\$ 15	\$ 17	\$ 22

Necessary Annual Income

Income	\$ 19,953	\$ 29,694	\$ 33,819	\$ 44,044
Poverty Threshold	\$ 8,959	\$ 11,531	\$ 11,869	\$ 17,463

Source: Family Security Index, Center for Public Policy Priorities, 2003

The table above provides an estimate, for various family types, of how much a full-time worker in Austin must make to pay for essential costs of living. With Wal-Mart and other low-road big box retailers paying between \$8-\$10 dollars per hour, often without benefits, the vast majority of their workers are not self-sufficient. This trend generates costs for housing, food assistance, childcare, and health care, a fraction of which is borne by local government. Once this "small fraction" is multiplied by the total number of non-managerial retail workers, the local costs may be significant.

Second, it is important for local governments and citizens to recognize, and perhaps give different treatment to, big box retailers who *do* provide family-supporting wages and benefits. While many national big boxes follow the low-road competitive strategy, a few compete on the "high road" of higher wages offset by higher productivity, higher quality and better service. The following table compares Costco to Sam's, a warehouse-style chain operated by Wal-Mart. Costco manages to pay livable wages, while outperforming Wal-Mart, by treating workers better and reaping higher productivity and lower worker turnover as a result. Note that the wages listed in the chart below are for Sam's, Wal-Mart's

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warehouse-style chain; workers at Wal-Mart's conventional stores can earn substantially less per hour.

Compensation Comparisons, Costco and Sam's, 2003

	Costco	Sam's
Average Hourly Wage	\$ 15.97	\$ 11.42
Annual Health Cost (per worker)	\$ 5,735	\$ 3,500
Covered by Health Plan	82%	47%
Annual Retirement Cost (per worker)	\$ 1,330	\$ 747
Covered by Retirement Plan	91%	64%
Employee Turnover (per year)	6%	21%
Labor and Overhead Costs (as % of sales)	10%	17%
Sales per Square Foot	\$ 795	\$ 516
Profits per Employee	\$ 13,647	\$ 11,039
Yearly Operating Income Growth (5 years)	10%	10%

Source: Holmes Stanley and Wendy Zellner, "Higher wages mean higher profits, but try telling that to Wall Street," Business Week, April 12, 2004, p.76

We argue that it incumbent upon the city to consider the social costs of low-wage national big box retailers, and to differentiate between high-road and low-road firms when considering sites, zoning variances, and general support for big box development. External costs of low worker compensation should not be borne by host communities who end up subsidizing labor for large, highly profitable corporations. These issues *cannot* be addressed through design standards.

TASK 6: ASSESS CRIME AND TRAFFIC COUNTS TO DETERMINE RELATIVE IMPACTS ON PUBLIC SAFETY AND THE ENVIRONMENT.

Among the most disappointing outcomes of *Big Box Retail and Austin* is the absence of any concrete measures of the infrastructure and public safety costs for big boxes. A number of studies and impact analyses have shown that large big box developments generate increased costs for host localities and neighborhoods. Traffic and congestion costs, street and road maintenance costs, environmental costs (runoff, storm water), public safety costs (greater than average use of police and EMS) and depressed property values in nearby neighborhoods are among the documented costs associated with big box development.

It is beyond the scope of this analysis to estimate the range of costs for increased big box development in Austin. However, the Town of Barnstable, Massachusetts, contracted for a systematic study of the net fiscal impacts of various residential and non-residential land uses in 2002. The table below provides an estimate of local operating and capital expenditures per 1,000 square feet of big box (defined as over 40,000 SF). In this analysis, the fiscal impacts of big boxes actually showed a *net loss* for the city, due to high public service and capital expenditure costs that were not offset tax contributions of big boxes.

**Operating and Capital Expenditures for Nonresidential Land Uses
Town of Barnstable, Massachusetts, 2002**

Annual Expenditures per 1000 Square Feet	Specialty	
	Retail	Big Box Retail
Town and Council Manager	\$ 4	\$ 4
Administrative Services	\$ 52	\$ 56
Community Services	\$ -	\$ -
Police	\$ 486	\$ 629
Public Works	\$ 200	\$ 265
Regulatory Services	\$ 15	\$ 16
Schools	\$ (81)	\$ (87)
Other Operating Requirements	\$ 54	\$ 65
Capital Improvement Requirements	\$ 55	\$ 74
Total Expenditures	\$ 786	\$ 1,023
Total Net Revenue	\$ 1,112	\$ 544
Net Fiscal Impact per 1000 Sq. Ft.	\$ 326	\$ (468)

Source: Tischler and Associates, Inc, Fiscal Impact Analysis of Residential and Non-Residential Land Use Prototypes, Prepared for the Town of Barnstable, Massachusetts, July 1, 2002

Clearly, the parameters and cost estimates would likely be different for Austin. It seems crucial, however, to obtain solid estimates of the capital expenditures and public service costs for big box development so the city can consider appropriate

impact fees or negotiate compensation based on the full costs of these developments. At the very least, new retail development should not put the city in the red.

TASK 7: INTEGRATE THE ABOVE FINDINGS WITH AVAILABLE INFORMATION ON "BEST PRACTICES" REGARDING PUBLIC POLICY ON LAND USE RELATED TO RETAIL TO MAKE POLICY RECOMMENDATIONS.

Communities across the U.S. have recognized that unregulated big box development generates external costs and have taken actions to limit these costs. Our very limited review of the case record revealed at least 19 cities, towns or counties that had imposed regulations and/or specific mitigation fees on big box developments that went beyond design standards to address economic impacts.

In sum, the literature and record of community studies strongly suggest that big box retail development incurs significant costs that must be weighed against anticipated benefits (cheaper prices and presumed increased sales and property tax revenues) to local communities and governments. These include:

- *High Infrastructure Costs:* Big box development generates increased traffic and congestion costs, street and road maintenance costs (especially due to increased truck traffic on access roads), water and sewer costs, street and access improvement costs.
- *High Public Safety Costs:* Several studies have suggested that big box retailers generate higher local public safety costs than conventional retail. Layout, location, extended hours of operation and zero-tolerance policies toward shoplifting may generate a higher rate of police calls for big boxes. Scale, access, and parking lot design may also generate more responses to minor traffic accidents by local police and EMS. These higher service costs must also be considered against the tax revenue contributions touted by big box developers.
- *Environmental Costs:* Big box development generates high site-related environmental costs especially for storm-water drainage and construction-related groundwater pollution. In addition, high traffic generation contributes to air and noise pollution, and paved parking lots, typically topping 20 acres, contribute significantly to the "heat island" effect.
- *Neighborhood Costs:* Big box development generates traffic congestion and noise and light pollution that can adversely impact nearby neighborhoods. Poorly designed big boxes may also undermine the fabric of a neighborhood by creating unsightly, poorly integrated eyesores. These factors may combine to reduce property values (relative to values that would exist without big box development) in nearby blocks or

neighborhoods. These negative net impacts on proximate property values should also be considered against the tax revenues directly generated by a development.

- *Effects on Local Retail Markets:* Big box development, if not intelligently managed, can crowd out locally owned retail. The preponderance of evidence shows that the rapid expansion of national big box retailers *has* cut into locally-owned retail in a number of markets. The loss of local retail sales and employment must be considered against gains in sales, employment and tax revenues associated with big box expansion. Because local merchants tend to purchase more from local suppliers, local retail losses have a greater impact on the local economy than national big box sales.
- *Social Costs Borne Locally:* As noted in *Big Box Retail in Austin* and in the above discussion, many big box retailers rely on low levels of employee compensation to sustain their competitive advantage. Workers who do not receive wages and benefits adequate to make them self-sufficient must rely on other work, additional family income, or taxpayer-funded benefits to make end meet. This business model generates substantial social costs, some of which are borne by local governments and institutions.

Mitigating Costs

Under current law and policy, the City of Austin has three main mechanisms to mitigate the specific costs and effects of big box development:

1. Impact fees or negotiated exactions
2. Design standards that may be incorporated into ordinances or zoning regulations
3. General and specific zoning regulations on commercial property or land uses

In their current or proposed form, these mechanisms are not, in our view, up to the task of fully mitigating the external costs of big box development. We will first discuss the limitations of impact fees and possible design standards and then briefly outline some policy recommendations that might allow the city to better manage and mitigate the costs of big box development in the future.

Impact Fees

To the extent that a local government can document the marginal costs created by a development, a local unit may be able to impose impact and linkage fees. However, we would have to consider the specific statutory requirements on “impact fees,” defined in Chapter 395 Texas Local Government Code (including roadway, water, storm water, drainage, and flood control facilities). We must

also consider constitutional law constraints that may make it difficult to charge mitigation fees for diffuse social costs.

In determining exactions based on individual circumstances, the City is required to measure that impact in a meaningful, though not precisely mathematical way, and must show how the impact, thus measured, is roughly proportional in nature and extent to the required improvements. (For a recent discussion of the constitutional constraints see *Town of Flower Mound, Texas v. Stafford Estates Limited Partnership*, 47 Tex.Sup. J. 497 (2004)).

Design Standards

Design standards currently under development by city staff may help mitigate certain site and non-site specific costs of big box development. Depending on what form they take, design standards might be effective at controlling negative neighborhood effects, as well as problems with traffic and accessibility outside the purview of impact fees.

However, several key cost elements of big box development cannot be addressed through design standards. Negative effects on local retail markets, social costs borne locally and higher public safety costs would seem to be outside the purview of new design standards for big boxes.

Zoning

Because impact fees and proposed design standards cannot alone address the serious economic impacts of increased big box development, perhaps the strongest tool available to Texas cities is zoning. State law grants cities broad authority to zone for purposes of “... promoting the public health, safety, morals or general welfare...” of communities. Cities have specific authority to regulate many issues relevant to sound city planning including building height, size, location, and use, as well as density and open spaces (Chapter 211, Texas Local Government Code).

Austin’s Land Development Code, like that of most cities, was drafted well before anyone envisioned stores exceeding 50,000 square feet, let alone the 200,000 square-foot supercenters of today. Given dramatic increases in store size over the past 15 years and the well-documented costs of these enormous structures, it seems reasonable to require a Conditional Use Permit for all new, large-scale chain retail developments. If adopted, such a measure would give the city a strong planning tool to shape and guide placement of mega-stores, preventing sales leakage at the city borders while limiting the overall negative effects to our economy and residents.

Recommendations for Further Policy Consideration

Below we outline recommendations intended to help the city manage and offset costs and to provide for sensible placement and planning of big boxes in our community. We advance these policy initiatives for broad consideration only, understanding that detailed elements would need to be fleshed out by city staff and legal counsel.

1. **Require a Conditional Use Permit for all proposed large-scale retail developments, including an impact analysis to demonstrate net benefits and costs to the community, with the possibility of negotiated exactions to mitigate substantial costs.** Based on the recently adopted Los Angeles model, such an analysis may include:
 - Estimated cost to the City for additional public safety, infrastructure, and traffic;
 - Anticipated effects on existing businesses;
 - Estimated net gains/losses for property tax and sales tax revenues
 - An employment plan for the first year of operation, including job titles, the number of employees anticipated in each job title, and wage and benefit packages;
 - Anticipated costs for public health care and housing for workers if salaries do not meet the Family Security Index (FSI) as calculated for the Austin area (see page 17);
 - Architectural renderings showing all four sides of the structure, signage, and landscaping in conformance with whatever design standards the City may subsequently adopt;
 - A plan for the re-lease, reuse, or sale of vacated structures to prevent abandoned big boxes from undermining commercial areas.

2. **Develop long-term strategies to strengthen and enhance our local retail market.**
 - Regarding major employers, the City should amend its economic incentives policy so that incentives are available only to companies paying wages and benefits that allow employees to be self-sufficient.
 - Develop policies that provide strong support for local independent businesses. For example the Austin Independent Business Alliance proposal for Independent Business Investment Zones is worth considering.
 - Identify the current market share of all big box retailers in Austin, not limited to the six specific retailers in the current study, with the goal of establishing a diverse retail balance to sustain a healthy, competitive market. As a starting point, use the Columbia University definition of “big box.”

- Explore a regional compact as a means to ameliorate tax incentive competition among area jurisdictions to capture retail activity, thereby reducing “beggar thy neighbor” impacts.

In conclusion, we would posit that the above analysis and recommendations do not constitute unreasonable demands or burdensome regulations on big box retailers. Indeed, a basic principle of market economics is that *business firms should carry the full costs of producing or selling their products*. Violation of this principle damages the operation of competitive markets; if some external costs are borne by third parties, as outlined in both the original study and this analysis, this creates an implicit subsidy that unfairly lowers the prices of the subject firm below true marginal costs. Requiring companies to carry the true costs of their own business is perfectly consistent with the fair and efficient operation of the free market.

POINT-BY-POINT REVIEW OF CITY STUDY MAJOR FINDINGS

Big Box Retail and Austin, prepared by TXP, Inc., presented eleven findings and a general conclusion to the Austin City Council on June 24, 2004. This document compares each finding with the response by Dan Houston, Michael Oden, and Bill Spelman.

Note that this comparison does not correspond to the seven key tasks originally assigned by Council, but to the Summary of Findings and Conclusions presented on pages 3-7 of *Big Box Retail and Austin*. Specifically, it does not address an assigned key task omitted from the final report, the assessment of crime data and traffic counts related to big box development. For information on this issue, please see pages 18-19 of the Independent Review above.

City Finding #1: “Big boxes create consumer value through lower prices.”

In supporting this finding, the authors state: “The benefit to consumers is straightforward - as reported by Bianco and Zellner in *Business Week*, “New England Consulting Group estimates that Wal-Mart saved its U.S. customers \$20 billion last year alone. Factor in the price cuts other retailers must make to compete, and the total annual savings approach \$100 billion.”

PARTIALLY DISAGREE: Big boxes often offer low prices, but the total net benefits to consumers are hardly straightforward; further, the figures cited in the study are not verifiable.

Big box prices are indeed low and have driven down prices across many retail segments. Lower prices undoubtedly benefit consumers by stretching their retail dollars. However to some extent, low prices and associated consumer benefits are made possible by low wages, poor working conditions, and large, cheaply built facilities that generate costs to individuals and communities. While prices may appear low, many chains pass on substantial invisible costs to taxpayers and communities. These include: subsidized housing, health care and other services for low-wage workers; increased public safety and infrastructure costs; and jobs lost to offshore suppliers. In essence, host communities end up subsidizing large, highly profitable corporations.

Regarding the \$20 billion estimate of national consumer savings, the authors acknowledged in the June 24, 2004, City Council presentation that they “cannot verify that number” and that New England Consulting Group was “unwilling” to share information about how it arrived at this figure.

City Finding #2: “There appears to be relatively little direct competition between big boxes and local retailers; where competition exists, prices

tend to be comparable. In general, locally owned retailers employ a different business model to succeed.”

STRONGLY DISAGREE: Evidence presented by study authors is insufficient to support the claim of “little direct competition.”

The preponderance of evidence in academic literature and specific impact studies suggests that a rapid increase in big box retail *does* negatively affect many types of smaller scale local retail. The fact that local retail survivors have been pushed into a new niche or significantly changed their business tactics does not equate with “little direct competition.” This claim also fails the basic reality test, as a ten-minute conversation with any local retailer will likely reveal.

City Finding #3: “All big boxes are not identical, and shifts in consumer preferences may widen these differences going forward.”

AGREE: Certain big box chains do demonstrate significantly greater corporate responsibility in terms of wages and costs to taxpayers; consumers *and* communities should demonstrate an active preference for these companies, where possible.

Costco is an excellent example of a big box chain that offers employees a livable wage and benefits package, greatly reducing the costs to taxpayers and host communities. Clearly, it makes sense for communities - as well as consumers - to give preference, where possible, to big boxes that pull their own weight financially, while discouraging those that generate greater costs to the community.

City Finding #4: “The healthiest consumer market is the market that maximizes consumer choice on a sustainable basis, i.e., a market that is competitive.”

Here the authors cite the Herfindahl-Hirschman Index to determine market concentration and then state that big boxes represent only 21.2 percent of the current Austin market, noting this figure “is still well below a level that suggests competition is being undermined.”

DISAGREE WITH DATA AND FINDING: The 21.2 percent market share cited by the authors is a misleadingly low figure, shaped by the authors’ unorthodox definition of big box, which limits their inquiry to six specific retailers.

A more accepted definition, such as the one formulated by Columbia University and initially cited by the authors, would include many other widely recognized big boxes such as Circuit City, Office Max and Best

Buy. Using this more common definition would reveal that big boxes already control a much larger market percentage in Austin. For example, based on figures provided in the study, Home Depot and Lowe's combine for roughly 50 percent of the local market in building materials - clearly a more alarming figure if diverse retailing and sustainable competition are the goals.

Regarding competition, we also note a basic principle of market economics that *business firms should carry the full costs of producing or selling their products*. If external costs for some firms are borne by third parties, as detailed in Response #1 above, this creates an implicit subsidy, skewing the playing field for others and ultimately weakening fair competition.

City Findings 5 & 6: “New Urbanist land use policy...offers the possibility of mitigating some of the concerns associated with the big boxes, as well as potentially creating an opportunity to leverage destination consumers for local businesses ... The City should promote design standards that reflect community values.”

DISAGREE REGARDING ECONOMIC IMPACTS. While we support stronger design standards for large retailers, more stringent design standards will not cure many of the negative economic impacts of unfettered big box development.

To address economic issues, we must be willing to explore market-based strategies that will encourage businesses that offer overall economic benefits to Austin, while limiting or discouraging those that bring a high cost to our community.

City Finding #7: “Big boxes put downward pressure on wages.”

AGREE. As the cost of living in Austin continues to rise, our city can ill afford the additional downward pressure on residents' wages associated with the majority of big box chains.

We must explore policies that give our citizens the best advantage in today's job market.

City Finding #8: “Lower wages tend to create social costs that are not fully accounted for in the price of the goods that consumers purchase.”

AGREE. These well-documented social costs - including health care, housing, food, and child care - are ultimately borne by taxpayers and host communities.

A recent Congressional report found that each 200-person Wal-Mart store costs taxpayers over \$420,000 per year in subsidies for underpaid workers.¹² As a community, we should be rightly reluctant to subsidize fair labor costs for large, highly profitable corporations.

City Finding #9: “Local retailers may have stronger linkages, per dollar of revenue, to the local economy than big boxes.”

AGREE: It is well-documented that local retailers offer much stronger support for local economies than do national chains; city policies should be crafted to strengthen and enhance local retailers.

This fact has been documented in several studies, including one conducted locally, which found that \$45 of every \$100 spent at a locally-owned store stays in the community vs. only \$14 for every \$100 spent at a national retailer. Policies that support local retailers will in turn strengthen our local economy.

City Finding #10: “Small local retailers enhance the local economy over and above the value created for consumers through contribution to the area’s cultural vitality.”

AGREE. The continued success of Austin as a retail hub for the region will be based on sustaining and burnishing our unique retail base.

While big boxes will undoubtedly remain part of our retail mix, a sophisticated strategy would involve more support for unique local retail establishments and districts, while guiding, and in select cases limiting, unfettered development of big boxes in Austin.

City Finding #11: “The local fiscal impact of retail is a function of maintaining a retail base that can meet local demand.”

This finding notes that consumers tend to shop close to home, but states that near the city limits “leakage” may occur, in which consumers cross municipal boundaries to shop.

DISAGREE WITH DATA AND FINDING. Inaccurate numbers released in the original report paint a false picture of suburban retail drain; in fact, Austin significantly outperforms suburban jurisdictions for retail sales.

¹² *Everyday Low Wages: The Hidden Price We All Pay For Wal-Mart*, A Report by the Democratic Staff of the Committee on Education and the Workforce, Washington D.C: U.S. House of Representatives, February 16, 2004, page 9.

In their original calculations, the authors estimated that Austin's share of regional retail activity had fallen from 83.5% to 53.9% in the last 13 years, seeming to indicate a precipitous trend. However, when these figures are corrected for actual retail sales (rather than "sales tax allocations," which disregards differing sales tax rates in each jurisdiction), it is clear that Austin is significantly outperforming suburban jurisdictions. In 1990, Austin's share of the metropolitan population stood at 56%, yet city stores accounted for 88% of regional retail sales. By 2003, city population was at approximately 50% while city stores still accounted for 69% of all retail sales in the metropolitan area - a healthy ratio by anyone's standards. Rather than creating a sense of desperation to remain competitive, these corrected figures should lead to a discussion of why urban retail is so vibrant in Austin and how those advantages might be further supported and developed.

More strategic policies for the development of big box retail in Austin would keep negative economic impacts to a minimum while holding sales tax revenues within the city limits.

CITY STUDY CONCLUSION: The authors dismiss the city's role in addressing economic and social concerns, relegating these issues to "play out on a national stage." They then outline three broad goals for the city:

- (a) Insure continued capture of "fair share" of total local retail demand and insure market share of local retailers remains "at least consistent;"
- (b) Recognize contribution to cultural vitality by local retailers through proactive assistance; and
- (c) Work with development sector and other stakeholders to ensure that community goals and business needs are integrated into any ultimate regulatory scheme for retail design and urbanism.

INDEPENDENT RESPONSE: The authors' dismissal of economic and social concerns to the national level troubles us for two reasons. First, the majority of big box retailers do generate specific costs for local jurisdictions, including greater service costs for police and EMS, indigent health care, affordable housing and increased public safety and infrastructure costs. Second, it is important for local governments and citizens to recognize, and where possible give preference to, big box retailers who do provide family-supporting wages and benefits.

Regarding the study's recommended goals:

- (a) As previously noted, we believe the study's figures are incorrect for both Austin's share of regional retail activity and the current market share for big boxes in Austin. Corrected figures point to different policy conclusions, including limiting and shaping future big box development.

- (b) We fully concur with the recommendation that the city develop and offer increased proactive support for local retailers.
- (c) We strongly question the conclusion that the principal concern of city government should be in establishing design standards for a subset of big box establishments. Market-based strategies are needed to address the well-documented negative economic impacts associated with unfettered big box development.

ABOUT THE AUTHORS AND SPONSORS

Big Box Retail and Austin: An Independent Review has been a team effort among the three authors and the three sponsoring organizations.

About the Authors

Dan Houston is a partner in the firm of Civic Economics, an economic analysis and strategic planning consultancy with offices in Austin and Chicago. In the two years since its founding, the firm has established a nationwide reputation for creative approaches to economic development challenges, bringing its unique approach to sustainable prosperity to eleven states in the United States and Mexico. The firm has also developed specialized expertise in studying the dynamics of localized retail and service provision. Before establishing Civic Economics, Mr. Houston served as Senior Project Manager for economic development at Angelou Economics in Austin.

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Dr. Michael Oden is an Associate Professor of Community and Regional Planning in the School of Architecture at the University of Texas at Austin. Dr. Oden's teaching and research areas include local and regional economic development, regional growth dynamics, program evaluation methodologies, and affordable housing policy. Prior to joining Community and Regional Planning (CRP) program he worked at the Project on Regional and Industrial Economics at Rutgers University, the Organization of Economic Cooperation and Development in Paris, and as the senior economist on the Appropriations Committee of the Michigan State Senate.

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Dr. William Spelman is a Professor of Public Affairs in the Lyndon Baines Johnson School of Public Affairs at the University of Texas at Austin. An urban policy specialist, Dr. Spelman holds a Ph.D. in public policy from Harvard University's John F. Kennedy School of Government. He has a background in operations research and evaluation and in local government law, administration, and finance. Dr. Spelman served on the Austin City Council from 1997-2000, and has served the community in a variety of volunteer positions, including the Board of Directors for Liveable City.

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About the Sponsoring Organizations



The **Austin Independent Business Alliance** is a voluntary association representing the interests of over 300 locally owned businesses in the Austin area.

www.Austin-IBA.org



Austin Full Circle is an all-volunteer coalition of business, labor, environmental, and neighborhood leaders focused on corporate responsibility and the economic impacts of increased big box development.

www.AustinFullCircle.org



Liveable City is an inclusive network of individuals working together to create a community consensus to promote policies that address the long term social, environmental, and economic needs of the people of Austin.

www.LiveableCity.org



AFSCME American Federation of State, County, and Municipal Employees Local 1624 is a local union representing employees of the City of Austin and Travis County and an advocate for sustainable wages and benefits for working people throughout the community.

www.AFSCME1624.org