

# Impact of Big-Box Stores on Taxes and Public Costs



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Although many cities assume that the development of shopping centers and big-box stores will yield a financial windfall, the tax benefits often prove to be a mirage.

When evaluating a retail development proposal, developers and municipal officials often focus on only one side of the equation: the amount of new tax revenue that the project will generate. It's easy to overlook the fact that retail development also creates new costs and often leads to a decline in tax revenue from existing commercial districts.

In the case of big-box stores and strip malls, these costs and revenue losses can be so high that they reduce the overall tax benefit of the development to a negligible trickle or even result in a net loss for the city.

## Overlooked Costs

Cities rely on different types of tax revenue. In some states, such as California and Arizona, cities are constrained in their ability to raise property taxes and therefore depend more

heavily on local sales taxes and various fees. In other states, cities do not collect a local sales tax and raise more funds through property taxes. This is true in much of New England, where all sales tax revenue goes to the state.

How a particular development will affect a city's finances depends on the local tax structure, as well as the characteristics of the project. In general, there are three main costs that cities commonly overlook in evaluating the financial impact of large-scale retail development:

**1. Lost sales tax revenue from existing businesses** — Because consumers have only so much money to spend, sales at a new shopping center are invariably mirrored by sales losses at other businesses in the region. The sales taxes generated by the new development are in turn matched by an equivalent drop in sales tax revenue from other retail areas.

In California, for example, strict caps on property tax rates have forced cities to rely primarily on a local sales tax, sparking fierce competition to attract big-box stores and shopping



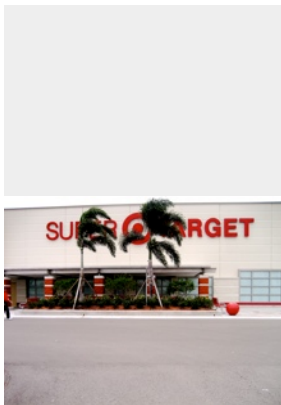
*Big-box stores and malls require more infrastructure and impose greater costs for road maintenance, police, and other service, compared to traditional main-street business districts. Many land use experts blame sprawl for the rapid rise in the cost of local government over the last twenty years.*

## BIGBOXTOOLKIT

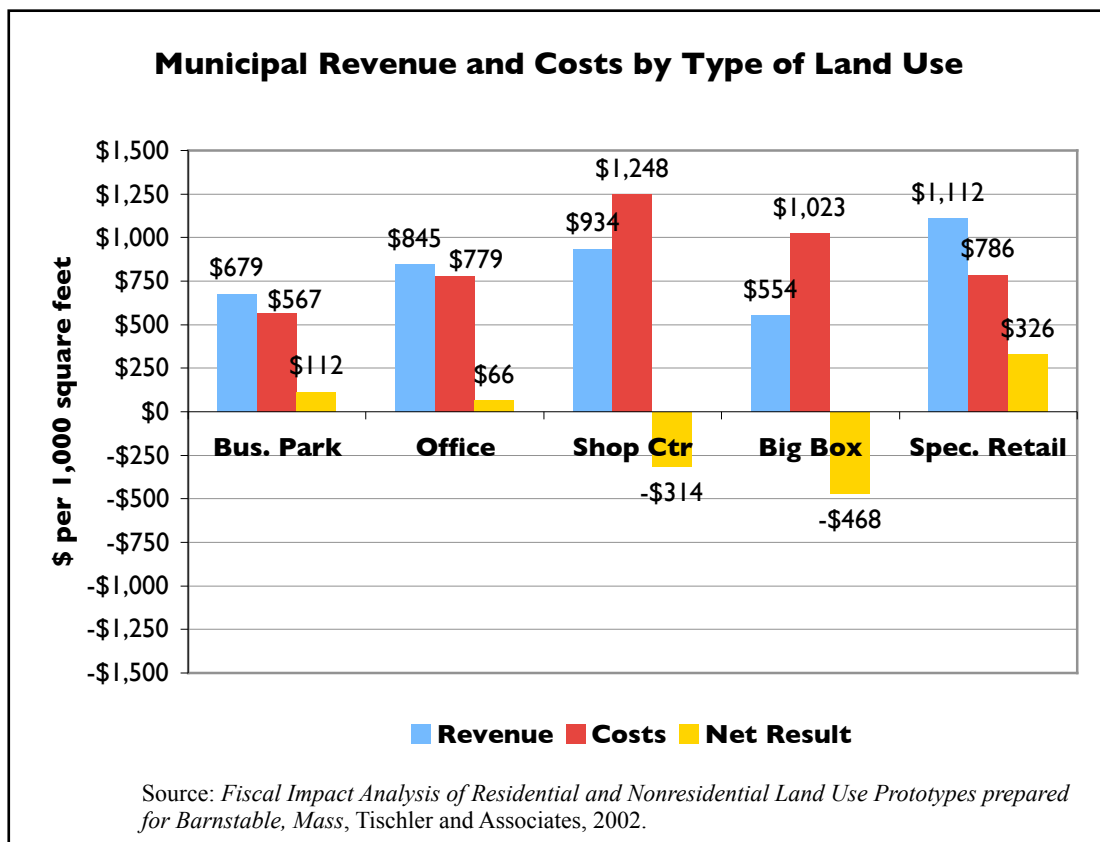
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Despite extensive retail development, the amount of sales tax revenue that California cities are raising per capita has remained the same.



mall. But despite extensive retail development over the last twenty years, the amount of sales tax revenue that California cities are raising per capita has remained the same. (Public Policy Institute of California, "City Competition for Sales Taxes: Symptom of a Larger Problem?" Research Brief, Jul 1999.)

Some cities can become tax winners by playing host to a new shopping center that draws customers from nearby cities, but these gains are usually fleeting. It's only a matter of time before that new shopping center is eclipsed by an even newer retail development that pulls shoppers to another town.

Some evidence suggests big-box stores may not even produce a temporary revenue gain. One study of 116 cities in California found that, in all but two cases, the presence of Wal-Mart, Target, Costco, Kmart, or Sam's Club stores did not correspond to increased sales tax revenue.

(*Supercenters and the Transformation of the Bay Area Grocery Industry: Issues, Trends, and Impacts*, Bay Area Economic Forum, 2004, 74-81)

**2. Declining property tax revenue from existing business districts and shopping centers** — Neighborhood and downtown business districts, as well as older strip malls and even big-box stores, are often harmed by new retail development on the outskirts. As these areas lose sales and experience growing vacancies, the value of the property declines and, with it, the tax revenue.

Allowing older commercial districts to deteriorate, while fostering retail development elsewhere, also wastes public resources. Public investment in the roads, water lines, and utilities that serve older retail areas end up sitting idle or underutilized, while taxpayers foot the bill for new infrastructure to serve the new big-box store or shopping center.



*The more spread-out and auto-intensive the development, the more costly it will be. Traditional main-street business districts, because of their compactness, are very efficient users of public services. Sprawling chain stores are not. They require more roads, more road maintenance, additional miles of utilities, and more police time.*

**3. New costs for providing public services to the development** — Big-box development also creates substantial direct costs. Every time a corn field or a forest succumbs to a new shopping center, the local government incurs new expenses for maintaining roads, water and sewer lines, and police and fire services.

The more spread-out and auto-intensive the development, the more costly it will be. Traditional main-street business districts, because of their density and compactness, are very efficient users of public infrastructure and services. Sprawling big-box stores are not. They require longer roads, more road maintenance, additional miles of utilities, and more fire and police time.

One case study in Barnstable, Mass., found that the annual cost of providing city services to traditional downtown and neighborhood business districts (which the study labeled "specialty retail") was \$786 per 1,000 square feet of retail space. Big-box stores were 30% more costly, requiring \$1,023 in services per 1,000 sq. ft., while strip malls were even more expensive at

\$1,248. (Tischler & Associates, *Fiscal Impact Analysis of Residential and Nonresidential Land Use Prototypes*, prepared for the Town of Barnstable, Jul. 1, 2002.)

Most of this difference is due to additional costs for road maintenance and police services. Because big-box stores generate substantial car traffic and typically increase the number of road miles that residents travel for shopping, cities end up having to spend more on road maintenance. Although developers may offer to pay for new traffic infrastructure (turn lanes, signals, etc.), the real issue is ongoing operational costs.

Big-box stores also require substantial police services. This is partly because the added traffic generates more accidents and necessitates more policing. It's also due to the fact that big-box stores generate large numbers of police service calls — far more on average than local retailers do on a per square foot basis. Many of these calls are for shoplifting. (See our fact sheet, *Wal-Mart's Impact on Local Police Costs*.)



*Traditional downtown business districts generate half as much car traffic per square foot of retail as conventional shopping centers. This is one reason why they are less costly in terms of infrastructure and services.*



*To minimize the public costs of development, zoning should require new retail construction to be dense and multi-story, favoring pedestrians and accommodating office and residential uses on upper floors.*

## The Bottom Line for Cities

Once the full range of costs are factored in, retail development can end up being a net drain on city finances. The Barnstable case study found that not only did main-street retail produce lower services costs, it also generated more property tax revenue per square foot, because these retailers occupied higher-value, often historic, buildings. The net result was the main-street retail produced an annual tax surplus of \$326 per 1,000 square feet, while big-box stores cost the city \$468 more per 1000 sq. ft. than they contributed in tax revenue.

These findings are specific to Barnstable. Whether a particular big-box development will be a net loss or gain for a city depends on its tax structure and what services it has to provide. In areas where roads are maintained by the state, a big-box store might be a financial gain for a town, but only because the road costs are born by all of the state's taxpayers. Cities that rely heavily on local sales taxes are more likely to find big-box stores a financial plus, but only in the short-term and only if the costs to the region as a whole are ignored.

In states where cities derive the majority of their revenue from property taxes, such as Massachusetts, shopping centers are more often a net financial loss. The same is true for cities that depend on local income taxes, as those in Ohio do. Studies in Ohio have found that big-box development is often a net drain, because its low-wage jobs produce little revenue relative to its high public costs. (Randall Gross, *Understanding the Fiscal Impacts of Land Use in Ohio*, Development Economics, August 2004.)

## Requiring a Fiscal Impact Analysis

Because the information supplied by developers is typically incomplete and may not represent an unbiased analysis of the public costs and benefits of a project, a growing number of cities now require that retail development proposals undergo a comprehensive fiscal impact analysis conducted by an independent consultant cho-

sen by the city and paid for by a fee assessed to the developer. Such an analysis can provide city officials with a more complete picture of the impacts and help them determine whether to approve or reject a project. For more details, see our *Guide to Retail Impact Analysis* and our *Community Impact Review Policy Kit*.

## Better Ways to Grow the Tax Base

A city's long-term financial health hinges on creating high-quality jobs, protecting local assets, and fostering more efficient land use patterns. Here are three key strategies for ensuring that retail uses are a net financial benefit:

**1. Protect and strengthen established local business districts** — Limit retail sprawl in outlying areas and foster new investment, infill development, and small business growth in existing main-street business districts. This will maximize tax revenue from these districts, while minimizing new costs because the public infrastructure and services are already in place.



**2. Insist that new retail development mimic traditional Main Streets** — Compact, multi-story, walkable retail districts make far more efficient use of public infrastructure and services than sprawling, auto-oriented, single-story outlets do. To minimize the public costs of development, zoning should require new retail construction to be dense and multi-story, favoring pedestrians and accommodating office and residential uses on upper floors.

**3. Preserve open space** — Studies in more than 80 communities have found that farm land, forest, and open space generate more tax revenue than they cost in public services. ◇