

An Initial Assessment of the Potential Economic Impact of the Proposed Quarry Project: Little Falls, New York

Main Street First
Little Falls, New York

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Summary:

The possible development of a retail shopping facility at the site of the old stone quarry in Little Falls has become an issue of considerable controversy since the proposal came to the attention of the public in the fall of 2009. There has since been a great deal of speculation, much of it not founded on any particular facts, about what this proposed development means for the economy of Little Falls in particular, and of the surrounding towns and villages in general. This study is intended to be an objective, preliminary assessment of the most salient issues regarding the potential economic impact of the project.

In the pages that follow, we will explore in some considerable detail the most likely effects that developing a retail shopping project at the Quarry would have on the local economy. For the convenience of the reader, here is a summary of the issues we examined and the conclusions we found:

The Effect on Existing Supermarkets. Much of the controversy regarding the proposed Quarry project revolves around the question of how many and what kinds of grocery stores the local community can support. This is an important question across all of rural New York for many reasons, to include access to quality and affordable food, of course, but also for more subtle reasons such as the economic viability of the municipality and the sense of attachment that residents feel toward their hometown (Thomas 2005). We have ascertained, using business development and capacity data from the US Census Bureau, the Bureau of Labor Statistics, and retail industry trade groups that the trade areas under consideration will be unable to sustain the supermarket square footage that would result from even a small Price Chopper store opening. We have confirmed, by means of interviews with the owners, that the Little Falls and Dolgeville Big M supermarkets would, with a high degree of certainty, be forced to close by the additional leakage of business that would occur upon the opening of a Price Chopper at the proposed Quarry project. This near certain outcome has profound implications for this project, owing to its impact on jobs, the local tax base, and the quality of life in Little Falls and Dolgeville.

The Presumed Synergy Effect. The developer (Sphere Development, LLC, of Cazenovia) has stated, through City officials and news media interviews, that the Quarry project would potentially bring new traffic and new shoppers into the downtown commercial district of Little Falls. Looking at our preliminary gravity models for the project, and in consideration of the population centroids and geographical relationships established by road networks in the trade area, we are forced to conclude that this is simply not true. In fact, the Quarry project will essentially serve as a sort of barrier (or retail “Great Wall”) to intercept traffic and isolate downtown Little Falls from all population centers to the North and East of the City of Little Falls. It is precisely these characteristics, of course, that make the proposed site so attractive to the developer.

The Number of Jobs Created. The developer has suggested to City officials and the news media that approximately 136 new jobs will be created at the Quarry project. Examining actual records of job creation and sustainability in the types of stores that are targeted for the mall, we are confident in projecting that if there are three stores the mall development will directly create a total of about 80 permanent new jobs, with approximately 24 of them being full-time and 56 part-time. However, if there are only two stores, we will gain only 67 jobs (17 full-time and 50 part-time). If we apply the retail jobs multiplier effect to account for induced jobs, which is rather questionable given the composition of the trade area and the likely impact of the mall on the retail stores in downtown Little Falls, we would arrive at a maximum total of 102 potential jobs (38 full-time and 64 part-time) with three stores, and 86 potential jobs (29 full-time and 57 part-time) with only two stores.

The Number of Jobs Lost. Using both governmental, academic and industry data, we have constructed a base-line scenario for net job gains as a direct and induced result of the Quarry project. In the best of all possible worlds, if Little Falls were currently enjoying a rapidly growing population base with rising personal incomes, the Quarry project theoretically could produce as many as 50 net jobs if three stores open. However, that is simply not the demographic reality in Little Falls. Rather, under the base-line scenario for job creation, there is a 50% chance that

the Quarry project will actually create only 3 net new jobs with three stores and a LOSS 10 to 13 jobs with only two stores, after accounting for corresponding jobs lost by existing businesses as a result of direct and indirect competition. Under the worst-case scenario, however, to which we assign a 32% probability, the project will actually create a net LOSS of 27 to 35 jobs with three stores and a net LOSS of 40 to 51 jobs with only two stores. Given the cost of the project in terms of tax incentives, these are hardly encouraging odds of achieving a favorable economic outcome. What does this mean in fiscal terms? Let us remark that nation-wide studies show that even in areas exhibiting positive demographic growth and increases in disposable income, tax-payer incentivized retail shopping malls destroy an average of 9 jobs for every 10 they create, and the cost to the tax-payer is nearly \$370,000 per net job gained.

A Significant Potential for Urban Blight. Under the worst-case scenario, to which we assign a probability of 32%, Shoppers Square will fail as a result of direct competition from the Quarry project and become an empty “Ghostbox” mall that causes urban decay and blight in downtown Little Falls. Even if Shoppers Square manages to remain open, it will still be a source of urban decay, as for the foreseeable future the vacancy rate on the Main Street frontage will be approximately 68%.

The Effect on the Local Economy. Even though the Quarry project is nearly certain to cause the failure of at least the two Big M supermarkets and is likely to dislocate many of the remaining jobs in Shoppers Square and on Main Street, it is arguable that the stores at the mall will generate a higher gross sales figure than the stores they displace, and thus also create a larger retail multiplier footprint. This is misleading, however, because of the large disparity between the amount of the gross sales generated by a chain store that remain in the local economy versus the amount generated by a locally-owned store that remains in the local economy. In fact, the Quarry project will have to generate as much as 355% of the gross sales of the displaced stores in order to merely match the beneficial effects on our local economy, and this seems most unlikely under any possible scenario. Thus, it is safe to say that building the Quarry project will actually result in a net outflow of money from the local economy.

Quality of Life and Regional Marketing Efforts. The downtown commercial center of Little Falls is a valuable asset that positively enhances the unique urban character of the city. Walkable downtown business districts are increasingly seen as a factor that improves the quality of life in cities and large towns, and thus positions Little Falls well for future efforts to attract new residents and potential employers. Further, the downtown commercial district complements the efforts of such organizations as the Herkimer County Industrial Development Agency and the Herkimer County Chamber of Commerce to market the region as an ideal place for light industry and bedroom communities to take advantage of new industrial development in the Albany and Utica metropolitan areas. Developing a second commercial district at the Quarry would almost certainly cause exactly the sort of suburbanization of commerce that destroyed or gravely damaged city centers across the United States in the years 1945 to 1990, and which Little Falls fortuitously escaped largely as a result of its unique geography.

General Background:

Size of the Proposed Quarry Project:

Throughout this study, we will refer to projected square footage estimates of sales space for the proposed Quarry project in order to establish the basis of certain key metrics. At this point, we do not have access to the actual plans for the development; nonetheless, our estimates are founded on industry research and comparable projects. Indeed, since the project became public knowledge in September of 2009, we have been presented with two conflicting scenarios of development: in the initial scenario, three stores would open, with one being a Price Chopper, another a Tractor Supply Store, and the third store being unnamed at present; in a more recent scenario, only the Price Chopper and the Tractor Supply are to open initially. Space is available for a total of four stores.

Details of how we arrived at these figures will appear in the pertinent discussion sections. We will gladly update these projections with data supplied by the developer or the municipalities concerned as such information is made available to the public. In all possible cases, however, our metrics are established on per square foot basis, and thus are readily scalable.

Table: Sales Space Square Footage Projections

	Projected Square Feet:
Price Chopper:	28,000
Tractor Supply:	16,600
Un-Named Store:	15,000
TOTAL, 3 STORES:	59,600
TOTAL, 2 STORES:	44,600

General Population Metrics:

Throughout this study, we will refer to population figures for the various trade areas (or market catchments) for the proposed Quarry project, as well as for various other enterprises that currently operate in the City of Little Falls and the region. These population figures are based on the most recent tabulated census data, and may thus be a little higher than the reality as it exists on the ground. For the reader’s convenience, we present those figures in tabular format here:

Table: Estimated Trade Region Population

Locale:	Population:	% Over Age 65	Income Per Capita:
13365 Zip Code – Urban	4991		\$17,162
13365 Zip Code – Non-Urban	4111		\$18,140
13365 Zip Code – Total	9102	19.22%	
13329 Zip Code	3812	16.58%	\$16,387
13452 Zip Code	4743	17.65%	\$17,196
Total Population	17657	18.23%	\$17,701

Demographic Profile of the City of Little Falls:

We shall further break-down some of the pertinent population data for the City of Little Falls, which will experience the most direct impact from the proposed Quarry project. The population of Little Falls was 4,911 in 2009, which represents a loss of 5.1% since the 2000 census. Unemployment in Little Falls is about 10.5%, and jobs are currently being lost at an annual rate of 2.50%. The annual (2007) payroll generated by Little Falls businesses totaled \$59.12 million; the median household income is \$28,018, and the income per capita is \$17,162, which includes all adults and children. A full 14.2% of the population lives below the poverty level. The population of the City of Little Falls is slightly under-educated compared to national averages; 77.94% are high school grads (vs. 79.62% nationally), and 11.07% have a four-year college degree (vs. 15.16% nationally). A significant number of the residents work *somewhere else*, with the average one-way commute to the job site being 19 minutes; in essence, the current Little Falls economy depends greatly on the city’s emergent status as a bedroom community.

Overall, the cost of living in Little Falls is 85% of the national average. However, the cost of food is 107% more than the national average, which at first glance *might* seem to argue for the Quarry project. However, this higher cost of food is endemic across Upstate New York, even in cities with a significantly higher degree of competition in supermarkets; for example, the cost of food in Herkimer is also 107% of the national average, while the cost of food in both New Hartford and Utica is actually 108% above the national average (on the problem of food costs in Upstate New York, see Thomas 2005). Viewed in light of this data, the cost of food in Little Falls is currently equal to or slightly lower than in much of the rest of the region.

On the surface, these numbers might seem bleak. However, Little Falls has much going for it as a community which may contribute to marketing efforts to “sell” the city to prospective residents and businesses. The City’s schools are excellent, as measured by per student school expenditures that are 30% more than the national average, and by a teacher-to-student ratio that is 18% better than the national average. So too, violent crime rates are low, air and water quality are good, access to transportation is adequate, and median home prices are a mere 39% of the national median. Less quantifiable but equally important is the unparalleled access to world-class four-season recreational activities, and the *bona fide* small town environment, complete with a commercially viable and attractive Main Street.

The Viability of the Little Falls Downtown Commercial District:

Much of the discussion in this study presumes that Little Falls currently enjoys a healthy and viable downtown commercial district. In fact, vacancy rates at the time of this writing are only approximately 10%, which is a surprisingly low figure given the severity and depth of the 2007-2009 recession (the “Great Recession”). The most vulnerable link in the downtown commercial district remains the 45 year-old Shoppers Square mall, with some 88,000 square feet of retail space. While its occupancy rates have improved dramatically since the late 1990s, when over 40% of the mall stood vacant, its current vacancy rate is still 13% (compared to a national average of 8%), with approximately 11,500 square feet currently un-leased., and a significant portion of the remaining space poorly or under-utilized. One of the greatest city planning dangers faced by Little Falls is the prospect of Shoppers Square lapsing back into “Greyfield” status, or worse yet, closing entirely and becoming a “Ghostbox” mall.

Nonetheless, the overall favorable occupancy rate suggests that the Little Falls downtown commercial district has successfully survived and adapted to the enormous competitive challenge of the Wal-Mart and other major national discount stores in nearby Herkimer. To be sure, there is a great underutilization of much of the commercial space along Main Street which sorely needs to be addressed by City planners, and the Shoppers Square mall is by most standards an obsolete facility at this point. But by merely possessing a viable and relatively thriving traditional downtown, Little Falls has a tremendous advantage over neighboring communities in its quality of life, and thus is uniquely positioned to market itself as an ideal place to live going forward. In large part, the current health and vitality downtown stem from the ability to retain such essential services as banks and other financial services, a supermarket, pharmacies, specialty stores and restaurants.

The Impact on Jobs and Business:

The creation of new jobs is the number one reason to consider offering tax incentives and other public fiscal inducements for the development of a retail project at the Quarry site. For that reason, it is absolutely essential that we take a detailed and hard-nosed look at exactly the number of jobs that we can realistically expect to gain and lose as a direct and induced result of this course of action. The prudent steward of public resources must ask, and discover, whether this project will create a significant number of net new jobs, or merely shuffle existing jobs around in the city and county.

Directly related to the question of jobs is an analysis of the potential impact of the proposed development on other businesses in the trade area, and especially in downtown Little Falls. Happily, we can state some good news right up front: the manner in which the downtown commercial district in Little Falls has evolved to survive the challenge of big-box retailers in nearby Herkimer has rendered the overall small-business and services climate much more robust and resilient to competition by discount retailers. Nonetheless, the city faces an immediate and significant threat of urban blight, given the vulnerability of the Shoppers Square mall. Because of this threat, we must endeavor to ascertain the probability that the proposed Quarry development will cause enough diversion of sales from existing retail businesses in Shoppers Square to cause the loss of anchor tenants and thus threaten the viability of the mall itself. This is doubly important, because not only will a failure of Shoppers Square lead to an

unnecessarily higher rate of job loss in the mall, it will contribute to an urban decay that will threaten many of the existing service and retail businesses along Main Street in a way that direct competition from a chain store would not. For example, desirable businesses such as restaurants, financial services and arts establishments may chose not to remain in a blighted area.

Jobs Gained at the Quarry Project:

A number of rosy figures for the potential jobs created by the Quarry project have circulated. Here we will take a look at the number of sustainable new jobs that the tenant stores at the Quarry project can realistically be expected to generate. Needless to say, the number of jobs created by the Quarry project depend greatly on whether two or three stores open at the shopping center, thus we will examine both scenarios.

Price Chopper is not a publically traded company, so many of its store operating details are closely held information. Fortunately, there is plentiful data on the supermarket industry from reliable sources ranging from the Census Bureau and the Bureau of Labor Statistics to trade groups such as the Food Marketing Institute, so accurate estimation of the economic impact we can realistically expect from the Price Chopper is a fairly trivial matter.

According to a particularly well-documented study of market analysis patterns for the food retail industry, a grocery/supermarket serving a market catchment population of between 10,000 and 25,000 people will employ an average of 15 full-time employees (Henning 1998). Alternatively, the industry average for employment at supermarkets may be calculated at 1.96 employees per 1,000 square feet of sales space. While historically Price Choppers have averaged between 37,000 and 50,000 square feet, management has committed itself to opening smaller stores in the 25,000 to 30,000 square foot range in rural markets. Indeed, this is an industry-wide trend, as noted by Jerry Golub, vice-president of perishables at Price Chopper, who remarked at a Food Marketing Institute Conference in 2005 that “The actual size of supermarkets is going down” (Kiley 2005). Lacking further details from the developer, we feel safe to assume that this trend would likely be the case for a Price Chopper in Little Falls as well.

These figures suggest that the proposed Price Chopper at the Quarry project would employ a total of between 49 and 58 employees, or a mean of 54 employees. Nationally, about 19% of all supermarket jobs in a rural store are full-time and the remaining 81% are part-time, so we can realistically expect approximately 10 full-time jobs and 44 part-time jobs at the Price Chopper. None of these jobs are represented by trade unions, and the Golub family (which controls Price Chopper) is outspoken in its opposition to such organizing initiatives as the Employee Free Choice Act.

What kind of jobs can we expect from Price Chopper? The median hourly salary in the supermarket industry is \$9.24, and the average workweek is 30 hours. Non-supervisory workers earn an average weekly wage of \$335 before taxes. Not surprisingly, the preponderance of supermarket jobs are filled by younger employees, with a full 30% of jobs held by persons 16 to 24 years old. While working conditions are generally pleasant, we can expect about 7.3 work-related injuries and illnesses per 100 full-time equivalents in a supermarket such as the Price Chopper. Simply put, these are decent introductory-level jobs for people with little or no work experience.

The Tractor Supply Company has been identified as a likely second tenant at the Quarry project. Because Tractor Supply is a publically-traded company (NASDAQ: TSCO), a great deal of detailed information about its operations is readily available. The company is currently embarked upon an ambitious and rapid expansion of stores across the US, and rigorously applies a set of standard models to new store openings. We can safely assume that the store will contain about 15,500-to-16,600 square feet of selling space, and will employ 13 people year-round; based on system-wide averages, we can expect 7 full-time jobs and 6 part-time jobs. During the holidays, seasonal help may take the total as high as 17 employees. None of the employees will be represented by trade unions. We can expect that the Tractor Supply store will do about \$3.4 million in annual sales if successful.

The final tenant is unknown to us at the present time, but we may safely assume that it will be a retailer in one of the categories in which job gains are fairly predictable. For the sake of estimation, we shall roll over the figures from the Tractor Supply, as they are close enough to other likely retail categories, such as a drug store or discount store, to serve our purposes at this time.

Lastly, it is common for real estate promoters to assume a retail jobs multiplier of 1.5, which in this case would generate an additional 40 induced and indirect jobs under the best (and, unfortunately, least likely) of economic outcomes for the City of Little Falls. However, recent academic research on the retail economy has shown that such retail multipliers are widely misunderstood, even more widely misapplied in hyperbolic projections by real estate promoters, and in any event exceptionally weak in their correlation to sales and jobs (Swenson 2009). Indeed, in the case of the proposed Quarry project development, as we shall discuss below, the most likely outcome will result in a dislocation of existing retail jobs that are currently located in the downtown commercial district. Thus, the actual effect of the retail jobs multiplier very likely will be significantly less than the standard retail multiplier suggests, and any developer’s projection of total jobs that includes such a retail multiplier effect should be taken with a grain of salt. In this study, we shall apply a more realistic retail jobs multiplier of 1.28, in keeping with the most current and accurate research available (e.g., Swenson 2009).

Table: Projection of New, Permanent Jobs Created at the Quarry Project; Three Stores

	Total Jobs:	Full-Time Jobs:	Part-Time Jobs:
Price Chopper	54	10	44
Tractor Supply Company	13	7	6
Un-Named Retail Store	13	7	6
DIRECT TOTAL	80	24	56
Retail Multiplier Jobs	22	14	8
BEST CASE TOTAL	102	38	64

Table: Projection of New, Permanent Jobs Created at the Quarry Project; Two Stores

	Total Jobs:	Full-Time Jobs:	Part-Time Jobs:
Price Chopper	54	10	44
Tractor Supply Company	13	7	6
DIRECT TOTAL	67	17	50
Retail Multiplier Jobs	19	12	7
BEST CASE TOTAL	86	29	57

Current Jobs in the Area Impacted by the Quarry Project Proposal:

The proposal to develop a retail shopping project at the Quarry site has the potential to adversely impact not only the retail and service jobs associated directly with the Little Falls downtown commercial district, but also those retail jobs associated with the Dolgeville Big M supermarket. It is essential that we consider carefully the way in which the proposed project may lead to job losses or dislocations in the trade area. The first step in this consideration is to review a census of the current job picture (Catalina 2009).

Beginning with existing retail supermarket jobs, currently the Little Falls Big M employs 27 persons (17 full-time, 10 part-time), and the Dolgeville Big M employs 26 persons (16 full-time, 10 part-time). Additionally, the remaining businesses in the Little Falls Shoppers Square employ a total of 44 employees (21 full-time and 23 part-time, to include 11 seasonal workers at HR Block), for a total employment at Shoppers Square of 71 persons. Finally, a survey of businesses located on Main Street and Albany Street in Little Falls indicates an additional 197 private-sector jobs (122 full-time and 75 part-time) that depend to some extent on the retail multiplier associated

with the Shoppers Square facility and the Main Street commercial district. Thus, the total number of jobs in the trade area that are potentially affected by the Quarry project comes to 294 (176 full-time and 118 part-time).

Table: Current Jobs in the Area Impacted by the Proposed Quarry Project

	Total Jobs:	Full-Time Jobs:	Part-Time Jobs:
Dolgeville Big M	26	16	10
Little Falls Big M	27	17	10
Other Shoppers Square	44	21	23
Other Main Street	164	106	58
Albany Street	33	16	17
TOTAL	294	176	118

Discussion of the Impact of a Price Chopper on the Big M Supermarkets:

One of the major questions regarding the proposed Quarry project is whether or not it will cause any job losses in the City of Little Falls and the Village of Dolgeville. We thus think it will profit those addressing this question to spend some time examining data that strongly suggest that significant job losses will occur in both Little Falls and Dolgeville as a direct consequence of the Quarry project. In essence, as we shall see, the majority of the jobs at the Price Chopper will not represent net new jobs for Little Falls, but rather jobs dislocated from the Little Falls and Dolgeville Big M supermarkets.

Currently, the City of Little Falls and the Village of Dolgeville are each served by a Big M independent supermarket. The owners of both the Big M in Little Falls and the Big M in Dolgeville have publically and privately indicated that they will almost certainly fail if Price Chopper opens a store at the Quarry site. A look at the economic realities of the grocery industry and the trade area reveals quite clearly that the owners would in fact have no other viable option than to close their doors.

Like many independent grocers, the Big M typically positions itself using a “convenience” value-proposition, and serves a demographic living within an industry-standard 1-to-3 mile radius of the store. The Little Falls Big M currently copes with a fairly high leakage factor (well over the industry norm of 20%) of shoppers who would rather drive a longer distance to obtain different value propositions in competing stores, such as Hannaford and Wal-Mart in Herkimer. The Price Chopper proposed for the Quarry site, on the other hand, will presumably position itself as a regional market using a hybrid “cost” and “selection” value proposition, and targeting a catchment of up to 10 miles in radius, or within a 15-minute drive (Civic Economics 2007, Hartford Food System 2006).

A realistic study of potential job losses must begin with a consideration of the nature of capacity and competition in the supermarket industry (NAICS 4451). To begin, it is a fact of merchandising that the retail pie is fixed in size, and grows only incrementally with population and disposable income (Kramer 2006, Stone 1995). Every dollar gained by the stores at the Quarry project must necessarily come at the expense of existing stores in the trade area. The supermarket industry in particular is intensely competitive, and on average the after-tax net profit margin of a store is only 1.84%. (FMI 2008) For an individual store, an increase in the leakage rate of as little as 10% to 15% can make the difference between an operating profit or a loss.

Perhaps the simplest and most intuitive means of measuring capacity in the supermarket industry is to use figures compiled by the US Census Bureau that measure the average number of people that are required to support a grocery store. As of 2007, on average 4,695 people were necessary to support one supermarket in the United States. It is worth noting that this figure coincides very neatly with the populations living within the approximately 1-to-3 mile radius that defines the “convenience” market catchment that the Little Falls and Dolgeville Big M supermarkets serve. The location of a Price Chopper within the same small “convenience” catchment served by the

Little Falls Big M would have the result of dividing a population of about 5,000 between two stores, with devastating effects on the Big M. Similarly, if we assume a fairly standard 20% additional leakage rate for the Dolgeville Big M in the wake of the Price Chopper, the support base for that supermarket falls by about 762 people to 3,050; again significantly below the national average.

The supermarket industry itself typically uses a far more sophisticated system for measuring traffic gravity patterns and assessing purchasing power and thus the demand for sales and square footage in a trade area. We have thus done our own study of population and traffic flows in the trade areas served by the Little Falls and Dolgeville Big Ms, and have calculated the sales demand using the standard industry norms (esp. Kramer 2006, Myles 2003, UW Cooperative Extension 2005). We have assumed that a Price Chopper located at the Quarry site would contain about 28,000 square feet of sales space; if the store is in fact larger, it would exacerbate the immediate over-capacity conditions we describe below.

1.) Little Falls Big M. The trade area serviced by the Little Falls Big M supports a sales demand for 20,606 square feet of supermarket space, or 4.13 square feet per capita. The Little Falls Big M occupies approximately 16,000 square feet of sales space; upon the opening of a Price Chopper at the Quarry site, the supermarket sales capacity in the immediate Big M trade area would grow to 44,000 square feet, or 8.2 square feet per capita. Thus the Price Chopper would cause an over-capacity of a staggering 214% of what the Big M's trade area can feasibly support. There is simply no conceivable way that both supermarkets could coexist in the Little Falls trade area.

2. Dolgeville Big M. The trade area serviced by the Dolgeville Big M supports a sales demand for 15,025 square feet of supermarket space, or 3.94 square feet per capita. The Dolgeville Big M occupies approximately 15,600 square feet of sales space. Applying the principle of retail gravitation (i.e., Reilly's Law), we may safely conclude that Dolgeville lies within the trade area of the proposed Quarry project. Upon the opening of a Price Chopper at the Quarry site, the supermarket sales capacity that potentially serves Dolgeville residents would grow to 43,600 square feet, or 11.4 square feet per capita. Thus the Price Chopper would cause an over-capacity of a 290% of what the Big M's trade area can feasibly support. In light of published case studies of trade patterns in the face of new retail development in rural areas, we anticipate that the Dolgeville Big M will experience at a minimum additional retail leakage rate of 15-to-25% of current gross sales (e.g., Nelson 2006).

One final, key point to note in sketching out a gravity model of the trade area is that the proposed Price Chopper, by virtue of its location "upstream" along the routes leading into Little Falls, will completely cut-off the Little Falls Big M from potential shoppers to the North and East of the City. Again, the effect on the Big M's sales will be disastrous.

Base-Line Scenario for Job Losses in Little Falls and Dolgeville:

Around the nation, municipal planners considering tax-incentives for retail development are becoming increasingly aware of the very real problem of "job-piracy" associated with such projects (LeRoy 2008). Currently, the United States possesses a vast overcapacity of retail space; in 1977 we had 8 sq. ft. of store space per capita, whereas today we have 38 sq. ft. for each person! Thus, because dividing the retail sales "pie" is a zero-sum game in normal circumstances (i.e., a stable or declining population and/or household income in the trade area), the creation of jobs at a new retail development all too often merely cannibalizes existing jobs in older retail centers. Nationally, some 90% of retail job "creation" in fact represents nothing more than the incentivized movement of jobs from older shopping facilities in downtown areas or older malls in gentrifying suburbs to new developments located at the current fringes of a given community.

How can we calculate the exact odds of losing jobs in Little Falls and Dolgeville, to include the all but certain job losses at the Big M, as a result of developing the proposed shopping project at the Quarry? Needless to say, this is a question of vital importance for public officials to answer, and yet it is an exasperatingly difficult question, precisely because it involves contingent future outcomes that are difficult to predict. Let us start to tackle this

problem by reviewing the vast wealth of data drawn from over twenty years of study of retail development patterns around the country. Here are some interesting statistics that the prudent planner might consider as useful background material:

Table: Useful Retail Shopping Mall Economic Impact Statistics

Statistic:	Explanation:	Source:
20	The average numbers of businesses lost in a small town (population 2,500-to-5,000) when a competing discount chain store opens in the trade area.	<i>Stone 1995</i>
16.9%	The average sales decline suffered by existing small town (population 2,500-to-5,000) businesses when a competing discount chain store opens in the trade area.	<i>Ibid</i>
19%	The percentage of competing local retail stores that close within one year of a discount chain locating in the same trade area.	<i>Ibid</i>
26%	The number of retail stores nationwide that reduce employment in the wake of a chain discount store opening in the trade area.	<i>Angelou 2003</i>
2.15	Average jobs created by a local retail business per \$1 million in revenue.	<i>Ibid</i>
1.25	Average jobs created by a chain retail store per \$1 million in revenue.	<i>Ibid</i>
53.3%	The amount of a local business's revenue that remain in the local economy.	<i>Institute for Local Self-Reliance 2003</i>
14.1%	The amount of a chain store's revenue that remain in the local economy.	<i>Ibid</i>

One way to approach the problem of developing a quantitative model for projecting expected job losses is to look at the strategies used by existing retail businesses when a new mall or discount chain encroaches upon the trade area. In a highly influential study of the impact of retail development on communities across the United States, Edward Shils of the Wharton School of Business surveyed over 500 local businesses faced with expanded competition from new retail development in their trade area, and ascertained that payroll cuts of varying depths are among the commonest competitive strategies (Shils 1997). Using this data, we can formulate a preliminary model that assigns probabilities to a retail employer planning to cut a percentage of the payroll in response to new competition:

Table: Change in Total Retail Employment

Percent of Jobs Added/Cut:	Probability:
+ 20% or more	1%
+10%	3%
+5%	2%
No Change / No Decision	37%
-5%	5%
-10%	9%
-15%	4%
-20%	8%
-25%	6%
-30%	4%
-35%	3%
-50% or more	18%

Thus we may assign a base-line probability of 52% that businesses facing competition from the Quarry project will plan for job losses of 10% or greater. Given the relative robustness of the Little Falls downtown commercial area, we find it unlikely that job losses much in excess of 10% may be anticipated, excluding those at the Big M supermarket, in the absence of store closings. However, as we shall see below, there is also a statistically significant probability that a specific set of contingent events may cause the failure of Shoppers Square, leading to much wider job losses as well as blight in downtown Little Falls. We thus may establish the following base-line scenario for job losses as a result of the Quarry project:

- The Big M stores in Little Falls and Dolgeville will cease operations within 12 months, with a 95% certainty, causing the loss of 53 jobs (33 full-time and 20 part-time) in Little Falls and Dolgeville. Additionally, the shrinkage of these jobs will cause an inverse retail jobs multiplier effect, with the loss of a further 15 jobs.
- The remaining retail-oriented businesses may anticipate a median 52% chance of losing 10% or more of their existing jobs. Thus we expect an even 50% chance of seeing at least 24 more anticipated jobs lost due to competition from the Quarry project, plus an additional 7 jobs owing to the inverse retail jobs multiplier.

As we mentioned in the section on potential job gains at the proposed Quarry project, there is some considerable difficulty accounting for the retail jobs multiplier effect in situations in which the new development is certain to dislocate a substantial number of existing jobs. For that reason, it seems prudent to tabulate the net jobs gained or lost both ways, which is to say, both discounting and accounting for the potential retail jobs multiplier effect at the both the Quarry and in the downtown commercial district.

Table: Net Jobs – Three Stores at Quarry, Base-Line Scenario (50% Probability)

	Jobs Gained:	Jobs Lost:	Net Jobs:
No Retail Jobs Multiplier	80	77	3
Using Retail Jobs Multiplier	102	99	3

Table: Net Jobs – Two Stores at Quarry, Base-Line Scenario (50% Probability)

	Jobs Gained:	Jobs Lost:	Net Jobs:
No Retail Jobs Multiplier	67	77	(10)
Using Retail Jobs Multiplier	86	99	(13)

We must, of course, also consider the worst-case scenario for the impact on jobs, in which Shoppers Square fails as a viable enterprise and thus forces the closure or relocation of the businesses located there. We assign to this worst-case outcome a 32% probability (see the detailed analysis in the discussion of urban blight, below). In this case, we may expect to see:

- The Big M stores in Little Falls and Dolgeville will cease operations within 12 months, with a 95% certainty, causing the loss of 53 jobs (33 full-time and 20 part-time) in Little Falls and Dolgeville. Additionally, the remaining 44 jobs in Shoppers Square will be lost, either temporarily while they relocate or permanently in the event of a business closure.
- The remaining retail-oriented businesses may anticipate losing 10% or more of their existing jobs under this worst case scenario, thus anticipating shedding at least 20 more jobs.
- An additional 30 jobs may be lost in the City of Little Falls and the Village of Dolgeville, owing to the inverse retail multiplier effect.

Table: Net Jobs – Three Stores at Quarry, Worst-Case Scenario (32% Probability)

	Jobs Gained:	Jobs Lost:	Net Jobs:
No Retail Jobs Multiplier	80	107	(27)
Using Retail Jobs Multiplier	102	137	(35)

Table: Net Jobs – Two Stores at Quarry, Worst-Case Scenario (32% Probability)

	Jobs Gained:	Jobs Lost:	Net Jobs:
No Retail Jobs Multiplier	67	107	(40)
Using Retail Jobs Multiplier	86	137	(51)

All this is to say that if three stores open at the Quarry shopping center, then there is a 50% chance that the proposed project will create a net gain of approximately 3 new jobs in the trade area, and a 32% chance that it will create a net LOSS of between 27 and 35 jobs. Conversely, if just two stores open at the Quarry shopping center, then there is a 50% chance that the proposed project will create a net LOSS of approximately 10 to 13 jobs in the trade area, and a 32% chance that it will create a net LOSS of between 40 and 51 jobs.

Considering the likely public cost and other economic impacts of the proposed project, these are not particularly good odds. In any event, these projections correlate well with the well-documented nation-wide pattern of retail shopping mall development “pirating” jobs from existing businesses rather than creating new jobs.

The Significant Potential for Urban Blight:

Although the rather lack-luster base-line scenario described above represents the most *probable* outcome of developing a retail project at the Quarry, it is by no means the *worst-possible* outcome. Indeed, there remains a statistically significant chance that a series of all-too predictable contingent events will result in the closure of Shoppers Square and the wholesale dislocation and/or loss of jobs associated with that facility, culminating in conditions of building deterioration that result in blight. The purpose of this section is to discuss and quantify this potential for the proposed Quarry project to cause urban decay in downtown Little Falls.

An analysis of the retail industry reveals that most communities in the United States are largely “over-retailed,” which is to say, they currently possess an over-supply of retail space. This presents municipal planners and those responsible for stewarding the tax-base in many communities with the uncomfortable challenge of dealing with a glut of vacant retail space. Increasingly, this vacant retail space takes the form of underperforming or abandoned shopping malls, which are derogatively referred to as “Greyfields” and “Ghostboxes” (Kures 2003).

The underutilization of much of Shoppers Square is well-known, and largely irrelevant to the immediate question at hand. The viability of Shoppers Square in the face of competition from a new mall coincides neatly with the fates of its anchor tenants. The Family Dollar closed its doors in the fall of 2009 and that space remains vacant. As we have seen, the Big M, which accounts for 23% of the property taxes paid by all of Shoppers Square and occupies 18% of the mall’s total square footage, is all but certain to close as a direct result of developing a mall at the Quarry. In essence, given the situation as it exists at the present time, this leaves the CVS Caremark as the only anchor tenant if the Quarry project goes forward. Even if the CVS remains, the Shoppers Square will by default become a “Greyfield” mall since all but 32% of the square footage fronting on Main Street will be vacant.

The actual base-line probability for the Quarry project causing the failure of the Shoppers Square mall may be calculated as a composite event comprised of the intersection of two separate contingencies: the probability that the Shoppers Square mall will remain viable in the event of the opening of a new retail project at the Quarry (normative 81% probability), and the probability of CVS remaining as an anchor tenant in these same circumstances (normative 84% probability). In both cases, our statistics are drawn from academic studies of changes in the pattern of retail sales in the wake of new retail development within a trade area (e.g., Kures 2003, LeRoy 2008, Chilton ND, Civic Economics 2007). To be clear, either one event or the other could trigger the failure of Shoppers Square, and both events may be calculated independently. Thus, the adjusted probability of realizing our worst-case scenario, the failure of Shoppers Square and the creation of blight conditions in downtown Little Falls, stands at approximately 32%.

As we saw above, besides causing blight and urban decay, the failure of Shoppers Square would eradicate even the nominal net jobs gained under the base-line impact scenario for the Quarry project. If Shoppers Square becomes a “Ghostbox” mall as a result of the Quarry project, then altogether Little Falls would suffer a net LOSS of between 27 and 35 retail jobs.

The Impact on the Local Economy:

It is common for the promoters of retail development to project a spill-over effect from sales at a shopping facility into the local economy. Typically, the figure used ranges from a retail multiplier of 1.5:1 to 2:1, depending on such factors as capacity, market saturation, market leakage, and local per capita income. In the case of Herkimer County, we feel that the developer would be justified in using a figure at the lower end of the range, owing to the proximity of robust competition less than a 10 minute drive away in Herkimer, and owing to the quite low per capita income in Herkimer County.

Thus, using a rough and ready estimate that the Quarry project would do \$600 in annual sales per square foot (this figure is weighted toward the preponderance of grocery sales space), we can imagine that the developer would be justified in suggesting a retail multiplier effect of around \$18 million of additional taxable sales. However, we have very grave concerns regarding the accuracy and the applicability of such a figure.

As to the applicability, one of our key findings in this preliminary study of the economic impact of the proposed Quarry project is that a significant amount of the sales and nearly all of the jobs produced by the project will prove to be cannibalized and dislocated from existing businesses in Little Falls and Dolgeville. Indeed, in our most likely scenario, the Big M Supermarkets in both Little Falls and Dolgeville will cease operations. Thus most of the additional sales produced by the retail multiplier effect are already circulating in the local economy. Admittedly, a chain store like Price Chopper is likely to be more efficient and generate a higher volume of sales than the two Big M's combined, but this is more than offset by our next grave concern, regarding the accuracy of the implicit addition of the mall's gross sales figures and the retail multiplier as a direct measure of local economic impact.

Here is the problem: at first blush it sounds like \$36 million in gross sales, plus the retail multiple of another \$18 million in additional sales, is better for the local economy than the lower comparable figure produced by the existing stores in the area. However, developers seldom if ever adjust their sales figures by another very important multiplier: the amount of those sales that remain in the local economy. Several influential studies by the Civic Economic group (2002, 2004) show that in the case of chain stores such as Price Chopper or Tractor Supply, only about 13%-to-43% of gross sales remains in the local economy, whereas in the case of locally-owned businesses such as Big M and many of the "mom and pop" businesses located in the downtown commercial district of Little Falls, a full 45%-to-68% of gross sales remains in the local economy. This difference is huge: on average, while every square foot of retail space occupied by a chain store generates \$105 in local economic impact, the same square foot occupied by a locally-owned store generates \$179 in local economic impact.

If we factor in the possibility that a substantial portion of the gross sales at the Quarry project will enjoy partial exemption from sales taxes for a number of years, then the differential between the equivalent gross sales becomes even more exaggerated from the view point of fiscal policy.

The Impact on Taxes:

The terms of the PILOT have yet to be specified, so the total impact on the tax bases of the City of Little Falls, the Little Falls Central School District, and Herkimer County remains unclear. Nonetheless, we have identified several critical impacts on the tax base that are highly likely to occur.

The High Cost of Retail Jobs:

Using tax incentives to develop retail jobs can in fact work, but it is a brutally inefficient way to deploy scarce developmental resources. A fascinating study of the use of development incentives to encourage retail jobs in the greater St. Louis metropolitan region between 1993 and 2007 revealed some stark pitfalls to this approach to economic growth (East-West Gateway 2009). While retail development, which included mostly shopping centers

tenanted by chain stores, did in fact create net new jobs, for every 10 jobs created another 9 jobs were lost as a direct result of the new, subsidized competition. Moreover, the public cost was \$370,370 per job created, which seems particularly steep when considering that the new jobs paid only an average of \$18,000 per year. More communities have lost taxable sales than gained them, and officials have found the program very dissatisfying from an oversight viewpoint.

Erosion of the Existing Tax Base:

In considering the Quarry project, Little Falls and Herkimer County face a conundrum that confronts many other municipalities across the nation: while the economic development process traditionally focuses on job creation, the tax-incentivized development of retail shopping centers poses special problems regarding the protection of the existing tax base and economic infrastructure (Gsottschneider 1998). All too often new retail development, and especially incentivized development, causes a permanent deficit in the tax base owing to the cost of municipal services associated with the project exceeding any new tax revenues that the retail shopping center may generate. Meanwhile, as the result of the new retail development, the existing tax base in the rest of the municipality declines as a result of additional competition. New retail development is thus typically a mixed blessing in the best case, and a fiscal disaster under less than optimal outcomes.

In the case of the Quarry project, the threat to the tax base of the concerned jurisdictions is fairly simple to project. The Dolgeville Big M contributes \$24,000 in taxes to its governing municipalities, and Shoppers Square contributes about \$70,000, of which \$16,000 is directly attributable to the Little Falls Big M. As we have seen, we will almost certainly lose both the Dolgeville and the Little Falls Big M supermarkets as a result of the proposed Quarry project, and there is a fair likelihood of Shoppers Square suffering debilitating vacancy rates and perhaps even closing. Exactly how such events would play out on the tax revenue streams in the concerned municipal jurisdictions is far from certain, but surely must be taken into account when considering the Quarry project proposal.

The Futility of Pursuing Retail Development as a Municipal Revenue Strategy:

In general, a strategy of pursuing retail development to stimulate economic growth is an expensive and often futile one for municipalities (LeRoy 2008). An influential report on land use, prepared by Development Economics of Washington, DC, concludes that retail development costs municipalities more in public services than such development generates in revenue (Randall 2004). The report reviews and summarizes the findings of fiscal impact statements conducted in eight communities in central Ohio in the period 1997 to 2003, with the purpose of comparing the tax revenue generated by such development with the cost of providing services such as road maintenance and police protection required by the development activities.

In 87% of the cases studied, retail development created a drain on municipal budgets. On average, retail development creates a net loss of \$0.44 per square foot. We estimate that the Quarry project development will contain approximately 59,600 square feet of retail sales space, which suggests that even if the Quarry project were to pay its full tax load from the beginning, the City of Little Falls would stand to lose around \$26,224 per year to provide essential municipal services to the project. That figure will be significantly higher, to the extent that the municipality forgoes the collection of taxes during the term of the PILOT agreement.

We should remark that the findings of this study by Development Economics have been replicated elsewhere. Another noteworthy study of development in Barnstable, Massachusetts (Tischler 2002), by Tischler & Associates, also found that retail space is one of the most expensive categories of land use in terms of costs to the municipalities. Shopping centers generate annual deficits to the municipality of \$0.314 per square foot, and big-box retail centers generate even steeper deficits of \$0.486 per square foot.

Finally, we should note that a consensus is emerging among urban planners and economic development specialists that creating incentivized retail development is nothing less than redundant. Tax incentives have not only contributed to a remarkable overcapacity of retail space in the U.S., but has also distorted the natural market processes whereby retailers continually seek to identify and service the consumer. Indeed, if there is any particular industry that, by its very nature, requires little in the way of tax or other public incentives to locate in a viable trade area, it is the retail industry. As some wags in economic planning circles like to put it, “offering incentives for retail development is like paying teenagers to think about sex.”

The Impact on Quality of Life as an Economic Development Concern:

It is common knowledge that in the years between 1945 and approximately 1995, the United States underwent a profound demographic shift which saw a significant movement of commerce and residency out of urban centers and into the suburbs. By 1970, downtown housing had largely disappeared, retail stores had left city centers en masse for suburban shopping malls, and most central business districts had little to offer besides office jobs in the best of circumstances (Moulton 1999). Very few cities in the United States retained functioning central business districts; Little Falls, New York, was one of those fortunate few, largely as the result of a unique geography that limited suburban development. Even so, the Little Falls downtown commercial center did not escape the economic turmoil of the recessions of the 1990’s, as Shoppers Square occupancy rates fell as low as 40% at one point (Christopherson 1999).

In the late 1990s, however, this trend toward suburbanization began to reverse itself, and a resurgence of residential and commercial activities started to occur in downtowns. In short, living, working and shopping in city centers became fashionable once again, particularly among an upscale, more affluent demographic. Cities with viable, attractive, well-planned downtown commercial districts have since enjoyed a quality of life advantage in attracting desirable new residents and industries (Moulton 1999).

Little Falls possesses an enormous if largely unrealized advantage in the presence of a viable downtown commercial center. Whereas twenty years ago, urban economic development was aimed at preserving and attracting manufacturing industries, today the tables have turned, and municipal leaders of small cities are finding that commerce and tourism drive their local economies (Moses 2001), and population growth comes in large part from people relocating not in quest of proximity to a specific job but rather in pursuit of a higher quality of life. In this new economic climate, small cities that possess—and are savvy enough to market and promote—attractive, walkable city centers with ample mixed-use residential, commercial and retail development enjoy a marked advantage over cities which lost their city centers in the demographic turmoil of the years 1945 through 1995.

The civic and business leadership of Herkimer County has begun to implement a several-pronged effort to effectively market the unique advantages of the corridor along the NY State Thruway between Albany and Utica as a location ideal for both commuters and businesses, and particularly those supporting the industrial growth of the metropolitan areas. We feel that Little Falls has an excellent opportunity to “brand” itself as a jewel of the Mohawk Valley, offering excellent road access to both Utica and Albany, and offering a quality of life that is second to none in the region. We fear that building a second commercial center at the Quarry site is a page drawn from the playbook of the 1970’s, and is foredoomed to damage the viability of the downtown commercial district and thus gravely impair the ability of Little Falls to market its quality of life. Little Falls residents currently enjoy adequate access to supermarkets and general retail stores that position themselves along a range of value propositions within a 5-to-10 minute drive, and thus we must firmly assert that the proposed Quarry project is not only redundant to the economic needs of the area, but it would negatively impact the unique quality of life in Little Falls and thus hinder the efforts of the city and the county to effectively market the region.

Developer-Related History:

Full due diligence regarding the developer will be an important action item for the appropriate municipalities before proceeding far along in this proposed project. Since ultimately the risks associated with a particular developer will potentially have an economic impact on the local community, we have several salient questions regarding the history of Sphere Development:

- Sphere Development is a relatively new development company, having incorporated in 2006. Much of the anecdotal discussion of the achievements of Sphere actually pertains to projects undertaken by Patriot Enterprises, a separate legal entity that is in fact Sphere's construction partner.
- Sphere has a short track record in developing malls of this scope. To date, Sphere has opened one mall in Madison and one Tractor Supply in Rome. There are two additional Tractor Supply stores under development, in Lowville and Malone.

Moreover, several of Sphere's development proposals and projects raise questions:

- The Madison facility is complete, and has delivered nowhere near the number of jobs initially promised by the developer. A comparison of the original site plan to the site as it was actually developed is especially interesting.
- The Lowville project is in court because the municipality refused to grant a building permit due to Sphere's difficulties complying with codes regulations. Sphere sued the town and village to force the issuance of a permit, and lost ([Waterville Times](#), Nov. 22, 2009).
- Proposed retail mall developments in Manlius and New Scotland have been impacted by community opposition. Currently the New Scotland project has been abandoned by Sphere, and the Manlius project does not have sufficient support from local residents, even after Sphere issued e-mails encouraging supporters of the project to vote for pro-mall candidates during the recent election.

Recommendations:

This study has made a case that the proposed retail project at the Quarry will most likely have a detrimental impact on the local economy of Little Falls and, to a lesser extent, of Dolgeville. If three stores open at the Quarry shopping center, then there is a 50% chance that the proposed project will create significant job dislocation and result in only 3 net new jobs in the trade area, and a 32% chance that it will create a net LOSS of between 27 and 35 jobs. However, if only two stores open at the Quarry shopping center, then there is a 50% chance that the proposed project will create a net LOSS of approximately 10 to 13 jobs in the trade area, and a 32% chance that it will create a net LOSS of between 40 and 51 jobs.

We are likely to suffer immediate erosion of the tax base as the result of store closures that are all but certain, and even after the term of the PILOT has expired (and if the developer/owner does not seek renewal), the retail project is likely to cost the municipal jurisdictions some \$0.44 per square foot annually, or \$26,200, in costs that exceed taxes collected. Additionally, the project will have a detrimental impact on the historic downtown commercial district of Little Falls, and thus on the overall quality of life in the city. For these reasons, and the others we have discussed, we are forced to conclude that this proposed retail project at the Quarry simply does not make sound economic sense for any of the municipal jurisdictions impacted.

Thus, our recommendations are as follows:

- In order to preserve existing jobs, protect the tax base, and preserve the valuable downtown commercial district in Little Falls, do NOT approve the PILOT for the Quarry project.

The Potential Economic Impact of the Proposed Quarry Project, Little Falls, NY

- Explore the ongoing vitalization of the downtown commercial district by such means as encouraging tax revenue enhancing development such as office space, light commercial, or specialty retail.
- Explore efforts to enhance the quality of life in Little Falls by encouraging cultural and arts related enterprises to locate in the downtown commercial district.
- Encourage the enhancement of the downtown commercial district by exploring options to improve the quality of key retail stores in Shoppers Square.
- Explore means to better “brand” and market Little Falls as a city possessing a unique downtown commercial district that enhances the quality of life of city residents.

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About Main Street First:

Main Street First is an organization of residents of Little Falls, as well as other stakeholders in the cultural and commercial life of our city. The mission of Main Street First is threefold:

- To encourage and promote economic growth that is both “smart growth” and fiscally-responsible growth, while preserving the unique character of Little Falls and diligently protecting our tax base,
- To oppose the development of a second commercial center on the outskirts of Little Falls, which would lead to the unintended consequence of economic devastation in the city center,
- To function as a citizen watchdog group that ensures that the City of Little Falls plans for the economic revitalization of Little Falls in a fully open and transparent manner.

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