

# **Fiscal and Economic Analysis of Homer Town Square Proposed Development Alternatives**

prepared for:

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## Contents

1. Introduction .....	1
2. Current land use and taxes in the Town Square area .....	2
3. Estimated changes under alternative development scenarios .....	5
4. Results of Fiscal and Economic Analysis .....	8
5. Case study results from the Main Street program .....	11

## 1. Introduction

This report presents a fiscal and economic analysis of potential development within the Homer Town Square area. We first consider current land use patterns and tax revenues. We then estimate the fiscal and economic effects of a development scenario provided by Christopher Beck and Associates. Fiscal effects are measured by property and sales tax revenue. Economic effects are measured by employment within Homer. Finally, we report empirical results from a broad national sample of similar efforts to promote economic development and quality of life through improvements to downtown areas and commercial centers.

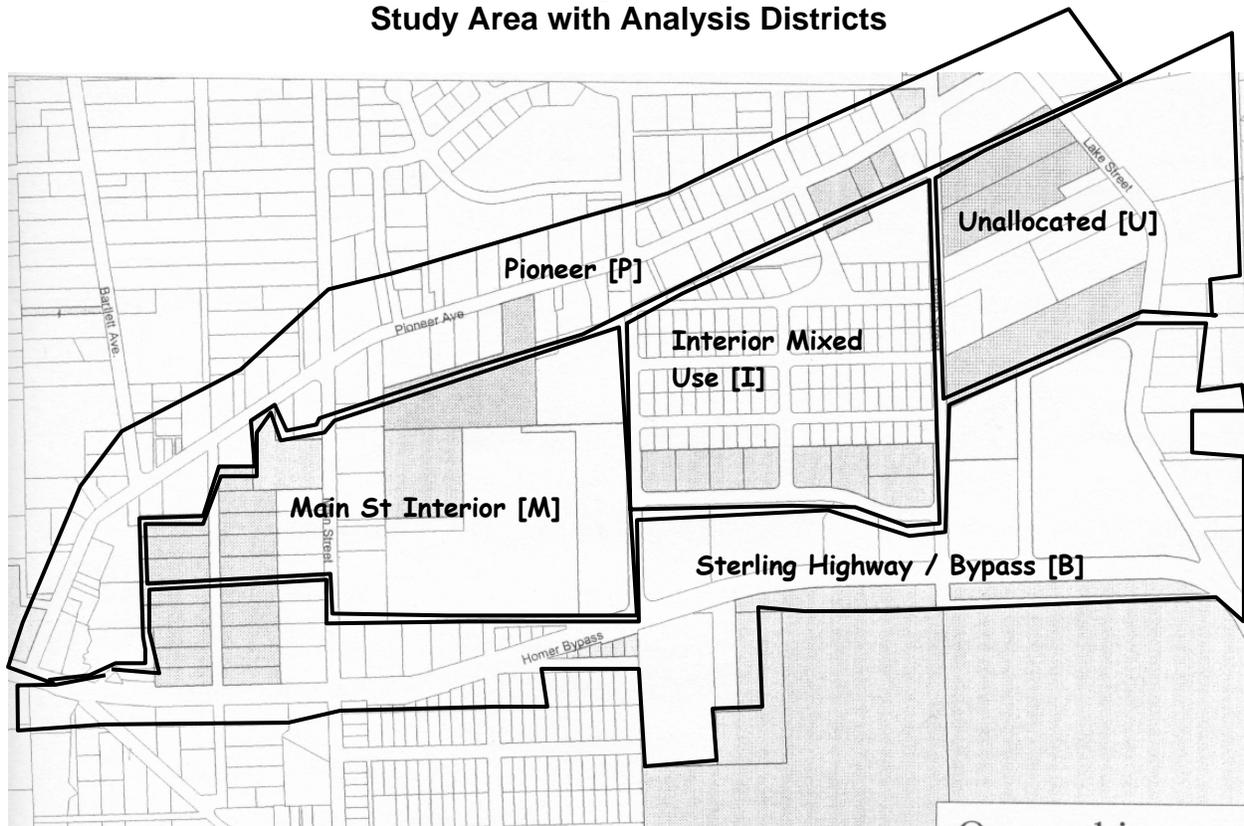
### ***The Study Area***

The *Town Square Area* is the area bounded by Pioneer Avenue, Lake Street, and the Sterling Highway (formerly known as the Homer Bypass Road). For the purposes of this economic analysis, we included all parcels outside but adjacent to this boundary. In other words, the study area for economic analysis extends “one parcel beyond” the defining streets. We further divided the study area into analysis districts which are likely to have similar economic characteristics. These districts are denoted as:

- P Pioneer
- I Interior mixed use
- M Main Street interior
- B Sterling Highway / bypass area
- U Unallocated (not included in the above)

Figure 1 shows the study area and the analysis districts.

**Figure 1**  
**Study Area with Analysis Districts**



## 2. Current land use and taxes in the Town Square area

### *Data Sources*

**Property Appraisal Data.** We analyzed property appraisal data provided during June 2002 by the Homer City Planner's office. The property appraisal data provide the following pertinent information for each parcel. The actual variable names from the database are in brackets and the units are in parentheses.

- Analysis area [DISTRICT] (coded by author based on parcel location as P,I,M,B, or U)
- land area [ACRES] (acres)
- Use type [USE\_TYPE] (residential, commercial, institutional, or vacant)
- Total area of improvements [AREA] (square feet)
- Area of taxable improvements [TAXABLEAREA] (square feet)
- Improvement type [IMP\_TYPE] (two-letter codes such as S1 for retail store)
- Assessed value [ASSESSEDAV] (dollars)
- Taxable value [TAXABLEAV] (dollars)

The property appraisal database is being provided as an Excel spreadsheet accompanying this report.<sup>1</sup>

**Sales tax data.** We also used publicly available sales tax data obtained from the Kenai Peninsula Borough. The publicly available data is not available for individual parcels. Instead, it is available for 3 broad categories (retail trade, services, and “other”) for the City of Homer.

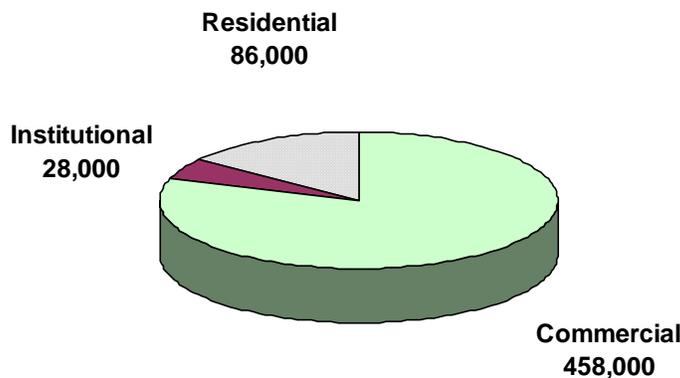
**Other data.** Finally, we used U.S. census data for 2000 and 1990 to determine trends in population growth, and other recent economic studies to support our estimates of future tourism activity and statewide economic growth.

***Current land use and property taxes***

There are a total of 327 parcels in the study area. Of these, 133 are vacant, 77 are classified as residential, 103 as commercial, 4 as institutional, and 10 as having “accessory buildings” with no listed square footage.

Figure 2 shows that there are about 574,000 square feet of building space in the study area, of which about 80% is commercial, 15% residential, and 5% institutional. Ownership is 87% private and 13% public.

**Figure 2:**  
**Current Use of Town Square Area Buildings**  
**(Total = 573,614 square feet)**



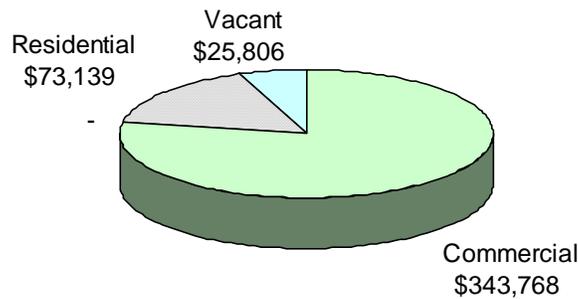
source: City of Homer property appraisal data

Due to exemptions, there are only about 472,000 square feet of taxable buildings. The parcels with these buildings generate about \$420,000 in property tax revenue per year.

<sup>1</sup> Additional copies may be obtained from the author.

The vacant parcels generate about \$26,000 per year. Thus, total property taxes from the study area are currently \$446,000 per year based on a total of about 472,000 taxable square feet and a total assessed property value (land plus buildings) of about \$33.4 million.

**Figure 3:**  
**Property Taxes from Town Square Area Parcels**  
 (Total \$446,000 per yr from 472,000 taxable square feet)



source: City of Homer property appraisal data

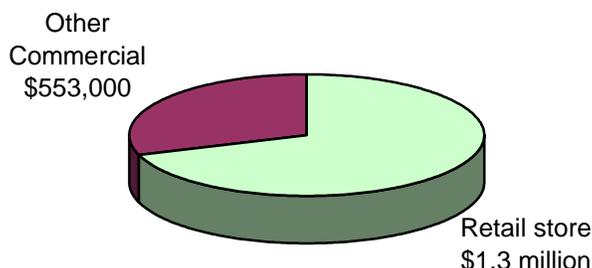
**Current sales taxes**

We estimated current sales taxes in two steps. First, we used the aggregate data for the City of Homer to compute average taxable sales per square foot for retail floorspace (\$161 per square foot) and for other commercial floorspace (\$68 per square foot). Second, we applied these values to the study area square footages. We estimate that the study area generates about \$1.8 million in sales taxes. About 70% of this revenue comes from retail sales and about 30% comes from all other commercial activity. This pattern of taxable sales is different from the overall pattern for Homer. The City of Homer as a whole generates only about half of its taxable sales from retail stores.

**Table 1:**  
**Estimated Sales Taxes from Study Area Parcels**

	square feet	taxable sales \$ per square ft	taxable sales	sales tax per year
Retail store	224,822	161	\$36,266,431	<b>\$1,269,325</b>
Other Commercial	233,584	68	\$15,802,615	<b>\$553,092</b>
Total	458,406	114	\$52,069,046	<b>\$1,822,417</b>

### Estimated Sales Tax Revenue from Town Square Area



## 3. Estimated changes under alternative development scenarios

In this section we compute estimated future fiscal effects of two alternative development scenarios. The “existing trends” scenario attempts to account for trends and events that are likely occur in the absence of specific new development initiatives in the study area. The “town square” scenario accounts for changes that will happen with the focused development of a town square development initiative. The difference between the two scenarios in a variable of interest – such as property taxes -- is the effect that we can reasonably attribute to the town square development itself.

### *The “existing trends” scenario*

Under the existing trends scenario the following key variables drive overall growth in commercial activity in the study area:

- Visitors to Homer from outside Alaska increase at 2.0% per year (consistent with past rates of tourism growth).
- Visitors to Homer from within Alaska increase at 1.3% per year (consistent with projected Alaska population growth).
- Overall visitors to Homer increase at 1.6% per year, consistent with a blend of the Alaska resident and nonresident growth rates.
- The number of Homer residents increases at 0.8% per year, consistent with growth between 1990 and 2000.

In addition, we project that there will be some qualitative change under existing trends in the following three variables which basically capture the “intensity” of commercial activity:

- sales taxes per square foot of commercial space
- property assessed value per square foot of assessed space
- percent of total sales from tourists (people not from Homer)

The first two of these changes are measured as index values ranging from 1 (very low) to 5 (large). Table 2 summarizes these projected changes, which vary by analysis area. Basically, under the existing trends scenario the large majority of tourist spending continues to occur on the Homer spit. The new U.S. Fish and Wildlife visitor center attracts visitors but does little to increase retail activity in the study area. Commercial activity continues to grow (due to underlying population and tourism growth), but this growth is concentrated in the Sterling Highway / Bypass area (area B).

**Table 2**  
**Qualitative Changes under Existing Trends Scenario**

Qualitative Changes by Area	(1= very low ... 5 = large)				Percent of Sales from Tourists	
	Sales Tax per Ft2		Property Values			
	2003	2008	2003	2008	2003	2008
P Pioneer	3.0	3.0	3.0	3.0	50%	50%
M Main Street	1.0	2.0	1.0	2.0	0%	0%
I Interior	1.0	2.0	2.0	3.0	0%	0%
B Bypass	3.5	4.5	3.5	4.5	40%	40%
U Unallocated	1.0	1.0	1.0	1.0	20%	20%

***The “town square” scenario***

The alternative development scenario, which we shall call the “town square” scenario, was developed by Christopher Beck and Associates. It is based on a physical development plan and includes a set of assumptions about resulting business growth. We worked with Beck to ensure that the scenario was plausible given what we know about how other areas have responded to similar development and what we know about the likely prospects for the tourism industry and the Alaska economy in the next decade. For this analysis, the scenario takes effect beginning in 2003. However, it should be recognized that this timing pattern is probably no longer realistic. The results subsequent to 2003 should therefore be interpreted as projected changes subsequent to project implementation.

The underlying key variables driving growth are the same as under the existing trends scenario. For completeness, we repeat them:

- Visitors to Homer from outside Alaska increase at 2.0% per year (consistent with past rates of tourism growth).
- Visitors to Homer from within Alaska increase at 1.3% per year (consistent with projected Alaska population growth).

- Overall visitors to Homer increase at 1.6% per year, consistent with a blend of the Alaska resident and nonresident growth rates.
- The number of Homer residents increases at 0.8% per year, consistent with growth between 1990 and 2000.

The qualitative variables that capture “intensity” differ substantially from those in the existing trends scenario. Basically, under the town square scenario the integration of visitor attractions, lodging, and new shopping areas causes visitors to spend more time and money in the study area. Residents, in turn, are motivated by a richer mix of goods and services to spend more of their dollars within Homer rather than traveling to Soldotna or Anchorage. These differences are translated into numerical indicators as follows:

**Table 3**  
**Qualitative Changes under Town Square Scenario**

Qualitative Changes by Area	(1= very low ... 5 = large)				Percent of Sales from Tourists	
	Sales Tax per Ft <sup>2</sup>		Property Values			
	2003	2008	2003	2008	2003	2008
P Pioneer	3.0	4.5	3.0	4.5	50%	70%
M Main Street	1.0	4.5	1.0	4.5	0%	60%
I Interior	1.0	3.0	2.0	4.0	0%	20%
B Bypass	3.5	4.5	3.5	4.5	40%	55%
U Unallocated	1.0	1.0	1.0	1.0	20%	20%

### ***Economic model methodology***

We developed a simple economic base model that projects fiscal and economic effects using the following key relationships. While the equations are a very simple representation of economic growth, a key feature of our model is that it tracks growth separately in each of the 5 analysis areas (P, M, I, B, and U). Therefore, it is sensitive to the differential changes in these areas that are projected under the two scenarios.

- *Commercial square footage* grows as a function of the number of people shopping in each analysis area.
- The *number of people shopping* in each area grows using a weighted sum of the growth rate of Homer residents and the growth rate of tourist visitors. The weights are the percent of sales to residents and tourists, respectively.
- The *number of Homer residents* grows at the trend rate of 0.8% per year.
- The *number of tourist visitors* grows at the underlying rate tourism growth rate of 1.6% per year.
- In addition to growth in square footage computed above, the amount of *taxable sales per square foot* increases from 2003 to 2008 in proportion to the qualitative indicators for sales tax per square foot. For example, if the indicator increases from 3 (moderate) to 4.5 (close to large), this translates into a 50% increase in sales tax per square foot in the model.

- Also in addition to growth in square footage, the amount of *assessed property value per square foot* grows in proportion to the qualitative indicators for property values. Presumably, assessed property values per square foot increase with market value per square foot, which in turn is a function of current sales per square foot and/or expected future sales per square foot. Furthermore, this increase in assessed value per square foot is also applied to residential property and to vacant land.
- *Direct employment* is computed assuming that the current ratio of taxable sales to employment remains constant. Those ratios are about \$78,000 of taxable retail sales per employee in the “trade” sector and about \$38,000 of taxable services sales per employee in the “services” and/or the “finance/insurance/real estate” sector.

Because of the way the employment data are reported, it is likely that these ratios of sales per employee account for some, but not all, of the indirect and induced employment that is commonly referred to as “economic multiplier effects.” Therefore, the final step in the model is:

- *Additional Indirect and induced employment* is computed as 50% of the direct employment due to tourist spending from outside Homer. The 50% figure comes from existing econometric and input-output models of the Alaska economy. The direct employment to which this 50% multiplier is applied is a conservatively low amount, since it is possible that sales to Homer residents, as well as tourists, do represent “new money” if they keep residents’ shopping dollars from leaking to Anchorage. However it is also possible that some additional sales to tourists within the study area may simply be a diversion of purchases from the Homer spit area. On balance, we believe that *additional* economic multiplier effects (in addition to those already captured by the sales to employment ratios) should be based on sales to tourists only.

## 4. Results of Fiscal and Economic Analysis

### ***Sales taxes and property taxes***

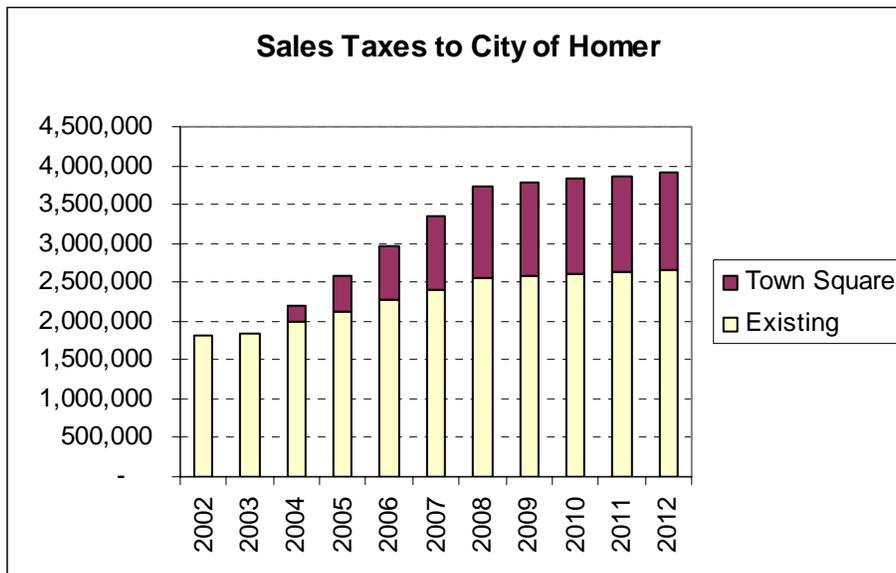
Commercial taxable sales within the study area increase over 5 years to become about 50% higher in 2008 under the town square scenario, yielding about \$1.2 million in additional sales tax revenue to Homer and an additional \$680,000 of additional sales tax revenue to the Kenai Peninsula Borough.

Property taxes from the study area increase by 2008 to a level 35% higher than under existing trends, yielding an additional \$79,000 in property tax revenue to the city and an additional \$133,000 in property tax revenues to the borough, college, and hospital.

Table 4 summarizes these results.

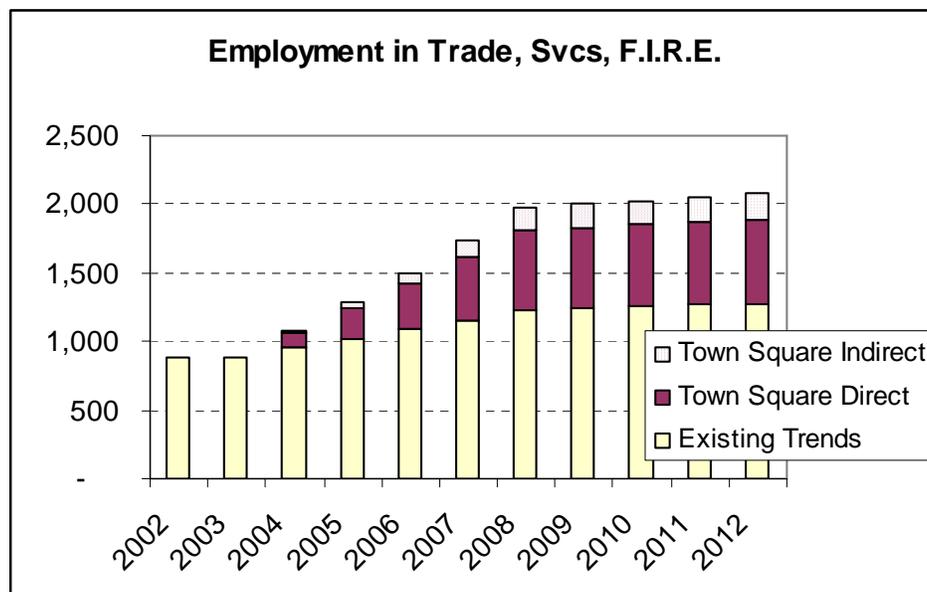
**Table 4  
Summary of Effects of Town Square Alternative**

	2002	2004	2008	2012
<b>Commercial Square Footage</b>				
Existing Trends	459,432	468,999	488,754	509,367
Additional from Town Square	-	134	2,094	5,111
<i>Additional (percent)</i>	0%	0%	0%	1%
<b>Taxable Sales per Square Foot</b>				
Existing Trends	\$113	\$121	\$149	\$149
Additional from Town Square	\$0	\$14	\$69	\$69
<i>Additional (percent)</i>	0%	11%	46%	46%
<b>Taxable Sales within Study Area</b>				
Existing Trends	52,138,458	56,616,480	72,982,652	75,890,377
Additional from Town Square	-	6,453,797	33,961,891	36,025,235
<i>Additional (percent)</i>	0%	11%	47%	47%
<b>City of Homer Sales Tax Revenue @ 3.5%</b>				
Existing Trends	\$1,824,846	\$1,981,577	\$2,554,393	\$2,656,163
Additional from Town Square	\$0	\$225,883	\$1,188,666	\$1,260,883
<i>Additional (percent)</i>	0%	11%	47%	47%
<b>City of Homer Property taxes @ 5 mills</b>				
Existing Trends	\$167,144	\$177,697	\$215,345	\$222,992
Additional from Town Square	\$0	\$14,412	\$75,309	\$79,363
<i>Additional (percent)</i>	0%	8%	35%	36%
<b>Employment in Trade, Svcs, F.I.R.E.</b>				
Existing Trends	654	711	916	952
Town Square -- Direct	-	57	298	316
Town Square -- Indirect	-	9	95	102
<i>Total Additional (percent)</i>	0%	9%	43%	44%
<b>Additional Tax Revenue to Kenai Borough and Hospital</b>				
Sales tax @ 2% of taxable sales	\$0	\$129,076	\$679,238	\$720,505
Property tax @ 8.35 mills	\$0	\$24,068	\$125,766	\$132,537



## Employment

Direct employment within the study area would increase by about 33% or about 316 jobs in year 2008 over and above the existing trends level. Almost all of these jobs would be in trade, services, and the “finance/insurance/real estate” category. Using the estimation method described above, about two thirds of the additional direct jobs are projected to come from increases in tourist spending within the study area. Because tourist dollars represent new money coming into the area, this tourist spending also generates economic multiplier effects and indirect jobs. There would be about 102 indirect jobs generated by these tourist dollars. It is impossible to say exactly where these indirect jobs would be located, but most would be within the borough.



## Spillovers and the location of economic effects

The projected increased property taxes and sales taxes to the City of Homer obviously accrue to the city as a whole. The further effects of these revenues depends on how and where they are spent. For example, these revenues might be used as part of a tax increment financing (TIF) plan to pay for the cost of the town square improvements. Perhaps, however, the cost of the improvements could be funded from other federal or state sources; in which case the additional tax revenues identified in this analysis could be used to reduce existing taxes or to pay for additional services. Rather than attempt to forecast how these revenues would be used, we suggest that the tax revenue numbers developed above can be used as a rough measure of the fiscal benefits to Homer that might reasonably accrue from a town square development. This measure of fiscal benefits could then be compared to the costs of making the investments in the improvements.

Additional sales and property taxes would also accrue to the Kenai Peninsula Borough. Again, the same uncertainty about the further effects of these revenues applies. For example, the KPB might agree to return or transfer some of these revenues to an entity charged with developing and maintaining a town square area. This retention of tax revenue for the benefit of the specific development project is the essence of the tax increment financing (TIF) concept.

The increased direct employment is likely to cause an increased demand for residential housing, government services, and other goods and services. The additional *employment* resulting from these demands is accounted for as the indirect employment discussed and presented above. The additional financial demands placed on the City of Homer and the KPB are difficult if not impossible to determine. They depend, in large part, on whether the State of Alaska maintains its current formulas for education funding and debt reimbursement. It is well known that new jobs impose a net fiscal drain on the state treasury under current tax policy. But since Homer is very small compared to the rest of the state, if current state policies remain in place an increased demand for education will lead to more state dollars flowing to the KPB School District.

## 5. Case study results from the Main Street program

In this section we report the actual results achieved by communities throughout the U.S. that have participated in the “Main Street” program of the National Trust for Historic Preservation.<sup>2</sup> In order to avoid any bias that might result from the selective reporting of individual successful projects, the following results are based on the largest possible samples available from the data.

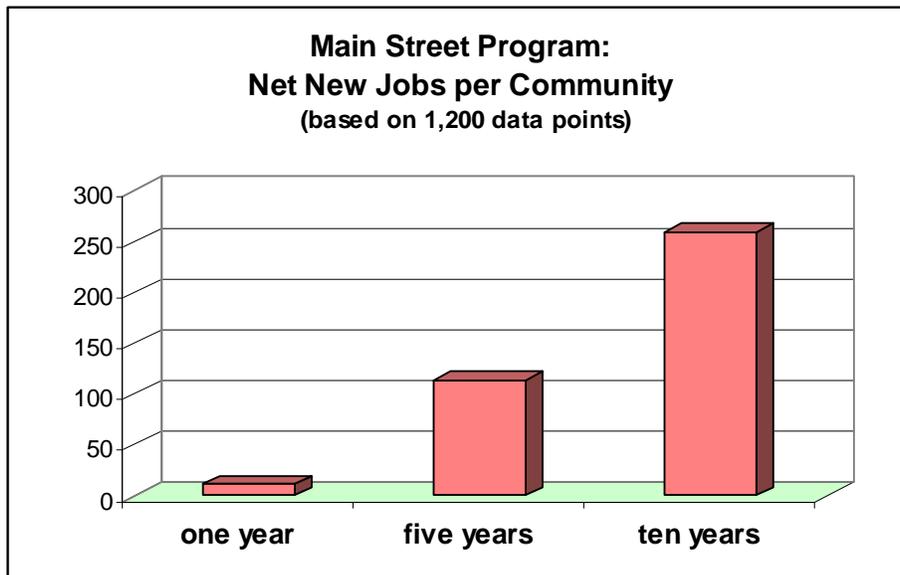
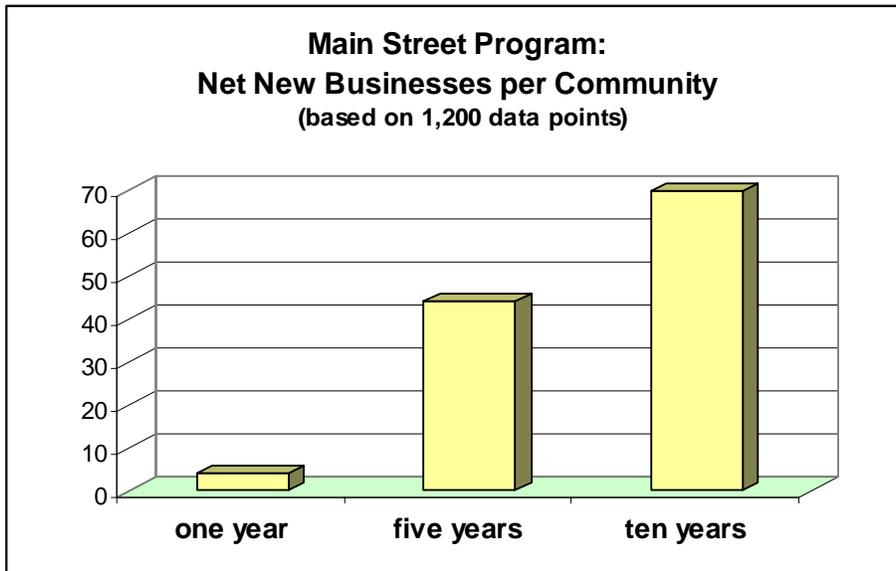
The Main Street program was started in the late 1970s. As of 1997, there had been 1,200 cumulative participating communities. On average, each community experienced \$5 million in new private investment at the rate of \$30 in private investment for every dollar spent on downtown revitalization projects. Each community has gained about 115 net new jobs after 5 years of effort, while those communities that began their efforts more than 10 years ago have gained an average more than 250 net new jobs.

The Main Street program report also provides more limited data on the change in rental rates for a selected sample of participating communities. For a sample of 44 communities, local commercial rents per square foot increased by 93% on average. Other data from this sample suggest that it represents the “more successful” part of the full sample. Nonetheless, these results suggest that the assumptions we have made about increased sales due to tourism are not unreasonable. For example, as Table 4 shows, the projected increase in sales per square foot due to the town square scenario

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<sup>2</sup> Dane, Suzanne, 1997. Main Street Success Stories. Washington D.C.: National Trust for Historic Preservation.

is 46%. This is about half of the 93% increase in rents per square foot reported for the Main Street program small sample.



Source: Dane, Suzanne, 1997. Main Street Success Stories. Washington D.C.: National Trust for Historic Preservation.