

The Economic Impact of Buying Local

How Local Sales Impact San Diego County's Economy



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Introduction

Economists believe in open markets and free trade—where buyers are allowed to seek out the best quality product or service at the best price. Yet open markets do not mean that buyers shouldn't have a local bias. Indeed as the following report shows, buyers should consider the many benefits of keeping their purchase decisions close to home if the offer is close enough. The reason? Spending locally can stimulate the economy in the region—bringing the benefit of extra business to the buyer.

Furthermore, buying local means that local governments retain the sales tax generated by their residents' spending, which then supports local infrastructure projects and community police and fire departments, rather than seeing it leak out to other neighboring cities. Yet by no means do we support preventing competition and protecting local inefficient businesses. The goal in this report is simply to provide a heightened understanding of the economic process, where a "Think Local First" approach to making purchases can be mutually beneficial to consumers, government entities, and businesses.

In the following sections, we will measure the benefits to local economies associated with local taxable sales in three cities throughout San Diego County —the cities of San Diego, Escondido, and Poway. The benefits we will measure are:

- the tax revenues collected by local governments, and
- the economic impact of these purchases to San Diego County.

We will determine how much local purchases contribute to each City's general fund and how much they contribute to the County's transportation fund. Supporting these funds is important as they support a higher quality of life throughout San Diego County. The economic impacts derived from local purchases will be measured by the number of jobs supported, the annual wages supported, and further tax revenues generated to local and state governments. An important concept for consumers to consider is that a purchase of a good or service not only benefits the specific industry related to the purchase; the ripple effects created by such purchase extend to various industries, in many cases the same industry in which the consumer is employed.

Buying Local Creates Local Benefits

The benefits to buying local instead of outside of one's home region as considered in this report can be divided into three parts. First to consider is the tax revenues received by local governments. While opinions may vary on tax policy, the fact is that taxes are collected by local governments and used to provide local services. When goods or services are purchased within San Diego County, local governments reap the rewards. To estimate the amount of tax revenues collected by local governments, applying the local sales tax rates captures these fiscal benefits. In the cities of San Diego, Escondido, and Poway, 0.75% of taxable sales are designated to the respective city's general fund and 0.25% of taxable sales are designated to the San Diego County transportation fund.

The revenues generated by sales taxes within cities are a major portion of each city's operational budget. For example sales and use tax revenues totaled \$174.4 million, \$18.7 million, and \$7.8 million in the Cities of San Diego, Escondido,

and Poway, respectively, during the 2010-2011 fiscal year]¹. In the City of San Diego, the revenues generated by sales and use taxes could support the net expenditures of:

- 100% of the Fire Department,
- 100% of streets, highways, storm drains maintenance, and all other transportation related expenses,
- or 50% of the Police Department. Sales and Use tax revenues could also support these expenditures in the City of Escondido (100%, 100%, or 60%) and the City of Poway (100%, 86%, or 87%).

Tax Revenues for Cities in San Diego County 2010-2011 Fiscal Year

City	Sales and Use	General	Total	Sales and Use as Share of General	Sales and Use as Share of Total
\$ Millions			%		
San Diego	174.4	807.5	2326.9	21.6	7.5
Escondido	18.7	58.6	194.3	31.8	9.6
Poway	7.8	28.4	125.5	27.5	6.2
Carlsbad	19.3	117.7	212.8	16.4	9.1
Chula Vista	20.0	94.8	232.5	21.1	8.6
Coronado	1.9	33.8	55.5	5.5	3.3
Del Mar	1.2	13.9	26.2	8.4	4.5
El Cajon	22.3	53.6	88.5	41.6	25.2
Encinitas	7.7	48.6	97.6	15.8	7.9
Imperial Beach	0.6	22.4	35.6	2.7	1.7
La Mesa	15.1	31.6	56.1	47.9	27.0
Lemon Grove	2.7	8.8	12.0	31.1	22.8
National City	16.9	31.9	50.1	53.0	33.8
Oceanside	17.2	94.0	240.1	18.2	7.1
San Marcos	9.6	39.5	71.0	24.2	13.5
Santee	5.9	23.8	37.2	24.6	15.7
Solana Beach	2.1	11.8	20.8	17.9	10.1
Vista	15.5	44.3	101.3	35.0	15.3

Source: California State Controller's Office

A second benefit to buying local is the economic impact created when consumers buy from local businesses. The effect that local purchases have on an economy is multiplied as consumption stimulates the supply-chain of production. Here’s why: When a dollar is spent locally, the consumer received his or her dollar’s worth of satisfaction and the producer receives a dollar of revenue. This is referred to as the direct impact. But then the business uses that dollar of revenue to purchase intermediate goods and pay laborers, which is known as the indirect impact. Lastly the labor costs create an induced impact as laborers are also consumers and thus spend their earnings back into the local econ-

¹California State Controller Cities Annual Report

omy to the extent that they are also residents of the same region or city. Throughout the remainder of this report, the combined indirect effects and induced effects will be referred to simply as secondary effects.

A third benefit worth considering is the additional tax revenues created by the secondary effects. These tax revenues are collected by local and state governments and include:

- employee compensation which generates income taxes;
- indirect business taxes including such items as business licenses;
- household expenditures induced by increased earnings;
- and corporate tax revenues.

Combined, these represent additional benefits that the local economy can harness by the increased economic activity associated with the local purchase of goods or services. In other words, in addition to the tax revenues generated by the local sales themselves, the additional economic activity that these purchases engender throughout the rest of the economy translate into even more revenues for state and local governments above and beyond the direct tax effects noted herein.

To estimate the economic impact and additional tax revenues, we used Version 3 of the IMPLAN modeling system. The IMPLAN modeling system is an input-output model that can be used to estimate the short-run impact of changes in the economy through the use of multipliers. Essentially, every transaction in San Diego County has a multiplier effect that creates an additional economic impact for the County above and beyond the direct spending itself.

Impact studies operate under the basic assumption that any increase in spending has three effects: First, there is a direct effect on that industry itself. For example, shopping at a local convenience store in San Diego will require the convenience store to stock additional items using its own labor and resources. Second, there is a chain of indirect effects on all the industries whose outputs are used by the industry under observation. For the convenience store, the indirect effects would include the demand and employment that is stimulated at firms that provide goods and services to the convenience store, such as lending institutions, security companies, truck drivers and wholesalers who provide the goods sold. Third, there are induced effects that arise when employment increases and household spending patterns are expanded. These induced effects arise because both the convenience store and its suppliers will pay out wages to their employees associated with local purchases, and those wages will then be spent back into the local economy on household items such as food, gas, cars, and housing.

In the section below, we will show how buying local, as measured through taxable sales, in the cities of San Diego, Escondido, and Poway impact the local economy. Our main focus will be on tax revenues and employment, which is represented by the number of full-time equivalent jobs across industries that are supported in connection to the economic activity, local spending, and wages.

Economic Impact of Local Purchases

City of San Diego

In 2011, taxable sales in the City of San Diego totaled to \$19.5 billion, or about \$14,825 per capita. As measured by the California Board of Equalization, the top five categories were Food Services and Drinking Places (14.8% of taxable

sales), Motor Vehicle and Parts Dealers (9.7%), Gasoline Stations (9.5%), Clothing and Clothing Accessories Stores (8.2%), and General Merchandise Stores (8.1%). While all types of local spending contribute to the local economy, we'll focus on the economic and fiscal benefits generated by spending in these top categories more thoroughly.

Taxable sales from Food Services and Drinking Places (the City's bars, nightclubs, and restaurants), which totaled \$2.889 billion in 2011, generated \$231.1 million in sales tax revenues for the State, County, and City. Of these tax revenues, \$21.7 million were allocated directly to the city's general fund revenues while another \$7.2 million were allocated to the county's transportation fund revenues.

Spending by businesses and consumers in this category directly supported 40,093 jobs and \$988.0 million in wages. The secondary effects (effects on restaurant and bar suppliers and spending by related workers) supported an additional 11,082 jobs and \$576.6 million in wages. The jobs supported by secondary effects extend beyond the Food Services and Drinking Places sector. For example, spending at Food Services and Drinking Places supported 1,205 jobs in the real estate services sector. As businesses rent and lease more commercial real estate and employees use their wages to purchase real estate or rent, the demand for employees in the real estate services sector increases. The secondary effects also create an additional \$377.6 million in state and local tax revenues.

Economic Impact of Taxable Sales in the City of San Diego for Major Categories

	Food Serv. and Drinking Places	Motor Vehicle and Parts Dealers	Gasoline Stations	Clothing & Accessories Stores	General Merch. Stores
Total Spending (\$ M)	2,889.0	1,884.1	1,850.6	1,608.4	1,571.1
Sales Tax Revenues (\$ M)	231.1	150.7	148.0	128.7	125.7
Local General Fund Rev. (\$ M)	21.7	14.1	13.9	12.1	11.8
County Transp. Fund Rev. (\$ M)	7.2	4.7	4.6	4.0	3.9
Direct Jobs Supported	40,092	19,870	9,870	17,700	23,018
Indirect Jobs Supported	4,658	2,417	2,896	2,836	2,745
Induced Jobs Supported	6,423	6,283	3,761	3,429	4,289
Addit. State & Local Tax Rev. (\$ M)	337.6	405.0	353.3	312.1	324.4

Source: IMPLAN; Calculations by Beacon Economics

The next largest category of taxable sales was Motor Vehicle and Parts Dealers, which totaled \$1.884 billion in 2011. Consumption from this category generated \$150.7 million in sales tax revenues —of which \$14.1 million were allocated directly to the city's general fund revenues. Another \$4.7 million was allocated to the county's transportation fund revenues.

The direct effects from spending in this category directly support 19,870 jobs and \$1.1 million in wages. However, these local purchases stimulated an even larger impact after accounting for the secondary effects, which supported an additional 8,700 jobs and \$436.5 million in wages. Many of these jobs, much like the previous example, were in the Real Estate (889 jobs) and the Food Services and Drinking Places (822 jobs) sectors, as will be a common theme as these two sectors are heavily impacted by taxable sales. The secondary effects also generated an additional \$405.0 million in state and local tax revenues.

Taxable sales from the next three largest categories — Gasoline Stations, Clothing and Clothing Accessories Stores, and General Merchandise Stores — totaled \$3.179 billion in 2011. Sales at these businesses generated \$402.4 million in sales tax revenues, of which \$37.7 million went directly towards the city’s general fund revenues and \$12.6 million went towards the county’s transportation fund revenues.

The direct effects from spending in this category directly support 50,587 jobs and \$1.755 billion in wages, with most jobs directly within the three sectors. Meanwhile, the secondary effects supported an additional 19,956 jobs and \$1.032 billion in wages. Jobs supported through the secondary effects were again largely in the real estate sector (2,425 jobs), with the food services and drinking places sector (1,685 jobs) close behind. The secondary effects generated an additional \$989.9 million in state and local tax revenues.

City of Escondido

The City of Escondido had \$2.4 billion in taxable sales in 2011, or approximately \$16,531 per capita. The top five categories were Motor Vehicle and Parts Dealers (26.8% of taxable sales), Gasoline Stations (12.7%), Clothing and Clothing Accessories Stores (7.6%), Food Services and Drinking Places (7.5%), and Building Material and Garden Equipment and Supplies Stores (7.0%).

Home to the Escondido Auto Park, taxable sales from the Motor Vehicle and Parts Dealers totaled \$643.5 million in 2011. Automobile and parts purchases generated \$51.5 million in sales tax revenues for the State, County, and City. Of these tax revenues, \$4.8 million were directly allocated to the city’s general fund revenues while another \$1.6 million were allocated to the county’s transportation fund revenues.

Economic Impact of Taxable Sales in the City of Escondido for Major Categories

	Motor Vehicle and Parts Dealers	Gasoline Stations	Clothing & Accessories Stores	Food Serv. and Drinking Places	Bldg. Matrl. and Garden Equip. and Supplies
Total Spending (\$ M)	643.5	306.3	183.7	179.4	168.7
Sales Tax Revenues (\$ M)	51.5	24.5	14.7	14.4	13.5
Local General Fund Rev. (\$ M)	4.8	2.3	1.4	1.3	1.3
County Transp. Fund Rev. (\$ M)	1.6	0.8	0.5	0.4	0.4
Direct Jobs Supported	6,787	1,617	2,021	2,490	1,472
Indirect Jobs Supported	826	475	324	289	287
Induced Jobs Supported	2,146	616	392	399	432
Addit. State & Local Tax Rev. (\$ M)	138.3	57.9	35.6	21.0	34.7

Source: IMPLAN; Calculations by Beacon Economics

Spending at Motor Vehicle and Parts Dealers in the City of Escondido directly supports 6,787 jobs and \$373.0 million in wages. These jobs are hardly limited to salespersons, as one might initially think. The directly supported jobs include auto mechanics, service advisors, finance and accounting positions, managers, and more. On top of that, the secondary effects supported 2,972 jobs and \$150.1 in wages, mostly through the induced effects (effects from spending by related workers). Jobs supported by the induced effects (2,146 jobs) are much greater than those supported by

the indirect effects (826 jobs) because auto dealerships provide above-average wages, which further stimulates the local economy when they consume other goods and services. For example, the secondary effects from spending at Motor Vehicle and Parts Dealers supported jobs at Food Services and Drinking Places (57 jobs) and Offices of Physicians, Dentists, and other Health Practitioners (26 jobs). On the other hand, the indirect effects from spending at auto dealerships are relatively smaller because auto and auto parts manufacturers are mostly located outside of the state. Nevertheless, the secondary effects generated an additional \$138.3 million in state and local tax revenues.

Gasoline Stations obtained the next highest amount of taxable sales, which totaled \$306.3 million in 2011. Consumption from this category generated \$24.5 million in sales tax revenues. Of these tax revenues, \$2.3 million were directly allocated to the city's general fund revenues while another \$0.8 million were allocated to the county's transportation fund revenues.

The direct effects from spending in this category directly support 1,617 jobs and \$92.2 million in wages, while the secondary effects supported an additional 1,091 jobs and \$56.6 million in wages. While spending in this sector doesn't create a high-number of jobs as a proportion to spending —1-job is supported in this sector for every \$112,000 spent in a year, compared to 1-job supported at Motor Vehicle and Parts Stores for every \$65,945 spent in a year —the secondary effects do create an additional \$57.9 million in state and local tax revenues.

Taxable sales from the next three largest categories —Clothing and Clothing Accessories Stores, Food Services and Drinking Places, and Building Material and Garden Equipment and Supplies Stores —totaled \$531.8 billion in 2011. Sales at these businesses generated \$42.5 million in sales tax revenues, of which \$4.0 million went directly towards the city's general fund revenues and \$1.3 million went towards the county's transportation fund revenues.

The direct effects from spending in this category directly support 5,983 jobs and \$187.5 million in wages, mostly within the three sectors. The secondary effects supported an additional 2,122 jobs and \$110.1 million in wages. While some of the jobs supported through secondary effects remained within these sectors (91 jobs in total), the largest shares of jobs supported were in the Real Estate (250 jobs) sector, as businesses in these sectors would prefer to establish themselves in a permanent location to retain customers, and thus have higher interest in purchasing a property or agreeing to a long-term lease, which can be more lucrative to Real Estate firms, relative to industrial properties or offices. The next highest supported sectors from these secondary effects include Employment Services (86 jobs) and Wholesale Trade (83 jobs), yet there are plenty of other sectors that are mildly supported by spending in these categories. So in other words, the secondary benefits are spread to scores of sectors within the local economy. Furthermore, these secondary effects generated an additional \$91.3 million in state and local tax revenues.

City of Poway

In 2011, taxable sales in the City of Poway totaled to \$971.1 million, or about \$20,175 per capita. By category, the bulk of taxable sales were at General Merchandise Stores (27.6% of taxable sales), Motor Vehicle and Parts Dealers (13.4%), Gasoline Stations (7.7%), Food Services and Drinking Places (6.0%), Building Material and Garden Equipment and Supplies Stores (4.6%).

Taxable sales from General Merchandise Stores totaled \$268.1 million in 2011 and generated \$21.4 million in sales tax revenues for the State, County, and City. The City's general fund received \$2.0 million and the county's transportation fund received \$670,000.

Spending by businesses and consumers in this category directly support 3,928 jobs and \$116.7 million in wages. The secondary effects supported an additional 1,200 jobs and \$61.7 in wages. The jobs supported by secondary effects extend beyond the General Merchandise Stores and include sectors like:

- Real Estate Establishments (141 jobs);
- Food Services and Drinking Places (105 jobs);
- Employment Services (51 jobs);
- Offices of Physicians, Dentists, and Other Health Practitioners (43 jobs);
- Wholesale Trade Businesses (40 jobs);
- and Services to Buildings and Dwellings (31 jobs).

Jobs supported by the secondary effects from buying at local at General Merchandise Stores in Employment Services, Wholesale Trade Businesses, and Services to Buildings and Dwellings are mostly a result of the indirect effects. More precisely, these indirect effects are created when General Merchandise Stores need more workers and seek help from local Employment Services agencies, receive help finding goods in bulk from wholesale trade operations, or hire a third-party for building maintenance.

Economic Impact of Taxable Sales in the City of Poway for Major Categories

	General Merch. Stores	Motor Vehicle and Parts Dealers	Gasoline Stations	Food Serv. and Drinking Places	Bldg. Matrl. and Garden Equip. and Supplies
Total Spending (\$ M)	268.1	129.8	74.8	58.5	44.5
Sales Tax Revenues (\$ M)	21.4	10.4	6.0	4.7	3.6
Local General Fund Rev. (\$ M)	2.0	1.0	0.6	0.4	0.3
County Transp. Fund Rev. (\$ M)	0.7	0.3	0.2	0.1	0.1
Direct Jobs Supported	3,928	1,368	399	812	388
Indirect Jobs Supported	468	166	117	94	76
Induced Jobs Supported	732	433	152	130	114
Addit. State & Local Tax Rev. (\$ M)	55.4	27.9	14.3	6.8	9.2

Source: IMPLAN; Calculations by Beacon Economics

Meanwhile, jobs supported by the secondary effects from buying local at General Merchandise Stores in Food Services and Drinking Places and Offices of Physicians, Dentists, and Other Health Practitioners are mostly a result of the induced effects. That is because the workers at General Merchandise stores will spend their hard earned income at these establishments. Furthermore, these secondary effects also generated an additional \$55.4 million in state and local tax revenues.

The second largest category of taxable sales was Motor Vehicle and Parts Dealers, which totaled \$129.8 million in 2011. Consumption from this category generated \$10.4 million in sales tax revenues. Of these tax revenues, \$973,000

were directly allocated to the city's general fund revenues while another \$324,000 were allocated to the county's transportation fund revenues.

The direct effects from spending in this category directly support 1,368 jobs and \$75.2 million in wages, while the secondary effects supported an additional 599 jobs and \$30.3 million in wages. The secondary effects also generated an additional \$14.3 million in state and local tax revenues.

Taxable sales from the next three largest categories —Food Services and Drinking Places, Building Material and Garden Equipment and Supplies Stores —totaled \$177.8 million in 2011. Sales at these businesses generated \$14.2 million in sales tax revenues, of which \$1.3 million directly went towards the city's general fund revenues and \$445,000 went towards the county's transportation fund revenues.

The direct effects from spending in this category directly support 1,599 jobs and \$60.7 million in wages. Meanwhile, the secondary effects supported an additional 683 jobs and \$35.4 million in wages and generated an additional \$30.3 million in state and local tax revenues.

Conclusion

Observing the economic impacts created from taxable sales within San Diego County, we find that there are true economic benefits from buying local. Admittedly, there will be cases where buying local may appear more costly as a reflection of the price tag for a particular good or service. Yet consumers, businesses, and especially government agencies should be aware that a local purchase comes with the added benefits of tax revenues. When considering buying outside of their home region, the buyer should consider that sales taxes paid for the purchase will leave the home region, whereas a comparable local purchase would be indirectly returned through government services. These services, as previously mentioned, includes local infrastructure projects and community police and fire departments, and public education. For example, a 10% increase in local purchases in the City of Poway, which translates to \$2,000 per person, would generate \$971,000 in direct tax revenues, which could support 17 new elementary or middle school teachers.² More so, local sales help cities like San Diego, Escondido, and Poway improve their budgets and minimize the need for other taxes and fees, which are usually absorbed by local residents.

Meanwhile, the secondary effects should also be considered as local spending supports local jobs and wages. While the secondary effects vary by the type of spending —as shown previously for the Cities of San Diego, Escondido, and Poway —local purchases nonetheless make a positive contribution by supporting local jobs and providing a source of income for these workers. The jobs supported are not only at the retail stores making the sales, but they are spread across multiple industries often including the industry in which the consumer is employed. Then there is the third benefit, the additional sales tax revenues to state and local governments that are created by the secondary effects. Put together, the three effects show that purchasing locally can often be the most efficient choice, even if prices locally are higher than those in other areas.

²Based on the Poway Unified School District salary of roughly \$44,000 for first year teachers plus an additional 30% cost of benefits provided, as estimated for public school teachers throughout the U.S. by the Bureau of Labor Statistics, Employer Cost for Employee Compensation Survey.

About Beacon Economics

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