**PLUGGING THE LEAKS**

**Prepared for:**

**THE ECONOMIC DEVELOPMENT REVIEW COMMITTEE**

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**PLUGGING THE LEAKS**

"Money is to the social fabric as water is to landscape. It is the agent of transport, the shaper and mover of trade. Like water, it is not the total amount of money entering a community that counts, it is the number of uses or duties to which we can divert money, and the number of cycles of use, that measures the availability of that money. Leakage from the community must therefore be prevented (as from pond or landscape) and recycling made the rule.

"Bill Mollison, in this month's Permaculture Credit Union Bulletin

In November of 2003, in a study by Angelou Economics, commissioned by the Alliance, it was stated that, **“Santa Fe’s future economic health will largely be determined by the success of the local independent business sector.“**  The study also showed that, **“The share of the Santa Fe economy that is locally owned showed significant decline over the last 5 years, with retail falling well below the national average.”**

As such, the Alliance is recommending that a studybe performed, and a baseline arrived at, that would provide a clear picture of where the community is losing tax revenue due to dollars leaking out of Santa Fe, and determine steps to take that would assure future tax revenues without rate increases.

This study would also provide the basis for supporting the Entrepreneurship Roundtable, the Buy Local Campaign and the strengthening of the Small Business Ombudsman position, described in the Community Economic Development Strategy Action Plan.

**PROPOSAL**

1. Contract with an economist, familiar with the local multiplier concept, that would:

A. determine the most important economic sectors in the city

B. the local multiplier of each economic sector

C. where leakage can be most improved

D. forecast tax revenue

E. determine success of projects within the economic development plan

2. Contract with a local organization that would establish collaboration among groups such as the Chamber, SFEDI, the Alliance and others in order to:

A. develop and conduct a survey among the various sectors of the Santa Fe community that discovers each sector’s interests and needs so that an educational/marketing plan can be developed that is meaningful to them

B. convene community forums, based on the survey results described above, for the purpose of educating residents, business sectors and government leaders as to the importance of “Plugging The Leaks”

C. installation of the “10% Challenge” --making a 10% shift from dollars leaving the area to dollars remaining for another cycle in the area

**This initiative has the potential to:**

**A. Pay for the Economic Development Plan’s costs through increased tax revenue. (See attachment A--The Effects of National Chain Businesses on Gross Receipts Tax in Santa Fe)**

**B. Establish a commitment to supporting locally owned businesses and future entrepreneurs.**

**C. Create the core numbers that will be used by present and future EDRC members to make funding decisions.**

**D. Create better working relationships among organizations that are working on the Economic Development Plan.**

**LOCAL MULTIPLIER**

**The “local multiplier” is an economic measurement tool that calculates the overall impact of how money is spent in a particular area.**

With the use of this tool a community can:

1. determine where money is leaking out of the area and take steps to plug these leaks.

2. show where the community has strength, and thus, work at strengthening existing positive situations.

3. help consumers, businesses, and government make spending choices that will benefit themselves as well as the community as a whole.

4. increase local tax revenues without increasing tax rates.

**Attachment A**

**#The Effects of National Chain Businesses on**

**Gross Receipts Tax in Santa Fe**

The following uses a three month average of City of Santa Fe gross receipts tax using the reporting months of November and December of 2003 and January of 2004

**The purpose of this paper is to shed light on what possible trends there are in the amounts of tax revenue in the retail and food /accommodations sectors the city could expect to receive over the next few years.**

At the present time, using the three month average mentioned above, a total of $109,147,000 exchanges hands per month in the retail and food/accommodations sectors with tax revenue to the city of approximately $3.3 million, which is a bit more than half of the total receipts the city receives, which are $6,344,000

We do not know how many of these dollars flow out of the city due to spending with businesses that are owned elsewhere, nor do we know how many of these dollars are spent with businesses owned here in Santa Fe.

We do, however, have studies that repeatedly show that approximately 13% of dollars spent in businesses owned elsewhere will recycle again in Santa Fe. This compares to more than 45% that will recycle if those dollars are spent with locally-owned companies. (See attachments or go on-line to the following studies, Andersonville, Illinois and Austin Texas at [www.civiceconomics.org](http://www.civiceconomics.org/) )

We also know that “national chains in Santa Fe are growing faster than independents - 2.5 times faster - and bring new competition and pressure to the small business community.” (From the Santa Fe Independent Business Report of November 2003 prepared by Angelou Economics)

Therefore, we can determine that we are losing our tax base as more and more large chain businesses move into Santa Fe.

So, let’s go back to the figure of $3.6 million per day that is spent in the retail, food/accommodation sectors. If all of this was spent with businesses from out of town only 13% or $468,000 would be recycled into Santa Fe. On the other hand, if all of this was spent with locally-owned businesses, 45% or $1,620,000 would recycle into the local economy, a difference of $1,152,000.

Right now, today, we are somewhere between these two extremes, but headed towards the smaller number. While the tax revenue on $468,000 is $14,040, the tax revenue on $1,152,000 is $34,560, a difference of $20,520 a day or $615,600 a month. This should alarm all residents, locally-owned business owners, employees, and city government leaders because we are headed for lower tax revenue that will lead to ever higher tax rates.

**Alliance Accomplishments**

\* 1100 business and resident members

\* November 2003 The Alliance, with funding from McCune Charitable Foundation, hired Angelou Economics to do an independent study specific to Santa Fe which examined the impact that shopping at locally-owned businesses has on the Santa Fe community.

**The study showed that we are losing our independent businesses at a rate much higher than the national average and that “Santa Fe’s future economic health will largely be determined by the success of the local independent business sector.”**

\* July 2004 As part of a national awareness campaign, the Alliance sponsored the “Independents’ Week Challenge” during which Santa Fe City Council members were challenged to spend their money at locally-owned businesses.

\* July 2004 The Alliance received funding from the City of Santa Fe to create a “Buy-Locally Owned” campaign as suggested in the city’s Economic Development Plan.

\* November 2004 The Most Important Gift Catalogue in Santa Fe," an online gift catalogue featuring locally-produced gift items from locally-owned businesses, was available on our website just in time for holiday shopping!

\* The 4th edition of "The Link: Your Guide to Locally-Owned Independent Businesses" was released with 560 locally-owned businesses listed - our largest directory ever!

\* Our newly designed website is up and running and features our new logo.

\* Alliance bookmarks are available at all locally-owned member bookstores. The bookmarks feature a guide to independent member bookstores and explain "5 Reasons to Shop Locally-Owned!"

\* Southwest Planning and Marketing presented findings of their study, commissioned by the Alliance, evaluating community awareness and attitudes about the "Buy Locally-Owned" campaign being promoted by the Alliance at the request of the City of Santa Fe. This study provides a basis of comparison with future data to evaluate the success of the "Buy Locally-Owned" campaign.