



# seeking RETAIL

## Sales taxes keep cities afloat.

## Here's how four area towns are luring shops big **or** small and restaurants.

By Kathy Warbelow

**S**an Marcos is a small city with a mega-retail mecca that attracts shoppers from across the state and Mexico. With 260 stores, the two outlet malls on Interstate 35 are a sales tax engine for the city, contributing more than 40 percent of the total, according to a city spokesperson.

In 2015, the city of 54,000 residents received \$25 million in total sales taxes, according to the Texas Comptroller of Public Accounts, up 6.5 percent from 2014. That's the largest municipal amount by far in the Bluebonnet region, and on par with College Station, which has nearly twice the population.



**SERIES: How growth is shaping Central Texas' future**

Sales taxes are a crucial source of revenue for all Texas cities, accounting, on average, for 27 percent of their budgets, according to the Texas Municipal League, which represents about 1,300 cities in the state.

San Marcos is rare among small cities to have such major retail attractions. But cities of all sizes are hungry to expand their retail base and bring in more sales taxes to pay for services and economic development.

"Property taxes are not enough" to cover those costs, said Joe Newman, who runs the Elgin Economic Development Corp.

Competing for retailers is challenging for rural areas. Aaron Farmer, vice president in the Austin office of The Retail Coach consulting firm, said large retail and restaurant chains have tough requirements

for new locations. La Madeleine restaurants, for example, require an area average household income of \$85,000 — too steep for most rural cities.

"You've got to be aggressive, reaching out to retailers, restaurants and developers," he said, and be realistic about what type of retail a community can support.

"Lots of communities want a Target," he said, "but at the end of the day, it's the retailer's decision. They'll come if they know they can make a profit."

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Sarah Beal photos

Above: The 260 stores in San Marcos' outlet malls not only are a tourist attraction — they generate more than 40 percent of the city's sales tax revenue. Below: A photo illustration shows customers coming and going from the new Hobby Lobby in Bastrop over the course of a half hour during the store's opening weekend in September.



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#### MONTHLY MEETING

Bluebonnet's Board of Directors will meet at 9 a.m. Feb. 23, at Bluebonnet's Headquarters, 155 Electric Ave., (formerly 650 Texas Hwy. 21 East), Bastrop. Find the agenda and last-minute updates Feb. 19 at [bluebonnet.coop](http://bluebonnet.coop). Hover your cursor over 'next board meeting' on our home page.

#### OFFICE CLOSING

Bluebonnet's offices will be closed Monday, **Feb. 15**, for Presidents' Day. Go to [bluebonnet.coop](http://bluebonnet.coop) 24/7 to pay bills, request service and more.

#### CONTACT US

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#### ABOUT THIS ISSUE

Bluebonnet Electric Cooperative produced the blue-bordered pages 18-25 in this issue of the magazine with content that is of specific interest or relevance to Bluebonnet members. The rest of the magazine's content is distributed statewide to any member of an electric cooperative in Texas. For information about the magazine, contact Janet Wilson at **512-750-5483** or email [magazine@bluebonnet.coop](mailto:magazine@bluebonnet.coop).

# Where's our Target?

## The criteria retailers consider before opening a store or restaurant

Before retailers or restaurants choose where their next store will be, they analyze numerous factors to answer one key question: Could a store here be profitable and sustainable? Here are some factors:



**SIZE MATTERS:** The retail trade area — how many people live in the area from which a store will attract customers — is a primary concern. It varies depending on the store type. Grocery stores typically draw from within just a few miles; big-box stores and destination retailers, such as Cabela's, pull from much larger areas.

**AVERAGE HOUSEHOLD INCOMES:** Retailers have varying criteria for income ranges in the retail trade area. A more upscale restaurant will require higher average incomes than a discount store.



**NEW-HOME PIPELINE:** The number of homes planned for an area is a key indicator of growth and the desirability of a community.

**DEMOGRAPHICS AND LIFESTYLES:** Retailers analyze a lot of socioeconomic data to develop profiles of the types of people who live in the area and how they spend their money, and compare that to the types of shoppers their stores attract. Factors may include blue-collar or white-collar earners, young families or active seniors, buyers or renters, home values, education levels, even what kinds of cars people drive.



**EMPLOYMENT LEVELS AND WAGES:** The percentage of people in the area with jobs and the average wage are indicators of purchasing power.

**SITE CHARACTERISTICS:** Big-box stores prefer high-visibility locations on main roads with high traffic counts. Because people tend to grocery-shop on their way home from work, grocers prefer sites on the "going-home side" of major roads. Small shops may prefer downtown locations, where there's a lot of foot traffic. Parking, including for employees, is always an issue.



**WORKFORCE:** Stores look for areas where there's a good supply of potential employees, including people who will work the part-time schedules that are common in retailing.

**LOCAL SUPPORT:** Local promotion and advertising, as well as community events that draw people to the new shopping locations are important. When Walmart was considering Elgin, the Economic Development Corp. agreed to help with the cost of moving a power line that cut across the site. The money wasn't the issue for the world's largest retailer; it was an expression of community support. "Retailers go where they're wanted and stay where they're appreciated," said Joe Newman, who runs the economic development office.



Sarah Beal photos

## Elgin: Thinking big and small

**WHEN MOLLY ALEXANDER** moved from Dallas to Central Texas 25 years ago, she traded big-city life for small-town character. In 1998, Alexander bought and renovated a building on North Main Street in downtown Elgin. She and her partner, Gary Luedecke, live upstairs and run the G&M Dry Goods gift and coffee shop on the first floor. At The Owl Wine Bar & Home Goods a few blocks away, the couple sells vintage and contemporary furniture, jewelry and other unique items. The store hosts open mike nights on Fridays and live music on Saturdays to draw customers, some who come from as far away as Houston.

"If you're in a community, you need to help move it along," said Alexander, who works weekdays as associate director of the Downtown Austin Alliance. "This is our living room."

Elgin doesn't have the same prime locations as Bastrop and draws from a much smaller retail trade area — the zone from which stores draw customers. But the city of about 8,500 has some pluses, including a healthy new-home pipeline. The Austin Community College campus, which opened in 2013, is expanding with plans to increase enrollment to 1,500 students, adding jobs and bringing young people into town.

Newman said the city charges a 1 percent sales tax and his organization gets another half-cent, which supports programs such as job recruitment.

In 2014, Walmart opened a 152,000-square-foot store on U.S. 290 near Texas 95, and that same year, H-E-B expanded its nearby, longtime store, adding amenities such as a sushi bar. While groceries are not taxed in Texas, both stores sell other merchandise, and help reduce what retail experts call "leakage" — money that residents spend elsewhere because they can't get what they want in their own towns.

Having market leaders such as Walmart and H-E-B helps attract other retailers, Newman said, including recent additions Mattress Firm and the Great Clips hair-cutting chain.

Newman said the city is trying to balance recruiting large retailers with supporting local stores that are part of the community. "They've been paying taxes all these years," he said. The city received \$1.8 million in sales tax revenue in 2015.

In the 1990s, Elgin was among the first in Texas to join the Main Street program, a national initiative that

supports preservation and redevelopment of historic downtowns. For example, businesses can qualify for up to \$5,000 to spruce up their facades. The economic development corporation also provides \$25,000 for renovation projects that cost more than \$100,000, Newman said.

Alexander said she has a growing number of retail neighbors downtown, including Eva Mae's Kitchen, a soul food restaurant; the Tattered Shutter, which sells "shabby chic" furniture and accessories; and Gypsy Blue, a women's boutique.

She and Luedecke have full-time jobs — he's the chief audio engineer for the city of Austin — but also work at their stores, which are open seven days a week. Alexander said they have about eight employees, mostly part-time. They recently added a gift-basket service and an online store.

"What a community really needs is personality and a character," she said, "and that's what local businesses give you."

## Bastrop: From small town to retail hub

**DRIVING INTO BASTROP** on Texas 71, you might think you were in a much larger city. There are acres of big-box stores and other retailers along the highway — unusual for a city of 8,500 residents. But Bastrop has advantages most small cities lack, including a prime location only about a half-hour east of Austin, along a major state highway with several intersections that see 45,000 or more cars daily. More than 160,000 people live in the city's retail trade area — the region from which it attracts shoppers — with an average household income of over \$69,000, according to a 2015 report from The Retail Coach. It's one of the fastest-growing communities in Bluebonnet's service area.

The city has had a Walmart, a McCoy's and an H-E-B. The big boom started in 2008, with the opening of Burleson's Crossing, a 60-acre retail center at Texas 71 and County Road 304. The development now includes tenants such as Lowe's, Academy Sporting Goods, Best Buy, TJ Maxx, Petco and Staples. Hobby Lobby and Ulta opened last September. In 2013, H-E-B expanded its store into an H-E-B Plus, which carries electronics, cookware and

other taxable merchandise.

Joe Newman, who ran Bastrop's economic development office during that growth period, said Bastrop wasn't always an easy sell, because retailers scrutinize potential locations to ensure that their investment will pay off.

"It took me five years to get Academy," he said.

Bastrop is now a major regional retail hub, and the city's sales tax revenue shows it. From 2008 to 2014, the city's annual sales tax collection — primarily from retail sales — grew by 50 percent, to \$5.3 million, according to the Texas Comptroller of Public Accounts, which distributes that money to local governments.

In 2015, Bastrop received \$5.9 million in sales taxes, up more than 12 percent from the previous year.

Shawn Kirkpatrick, who oversees the Bastrop Economic Development Corp., said retail recruitment efforts will continue. But he wants to focus on creating high-income primary jobs — such as technology and financial services — to build Bastrop's wealth.

With continuing improvements to Texas 71 to the west, he said Bastrop could become attractive to employers looking for affordable sites to grow. It also could be an affordable

place to live for people who work in downtown Austin. Housing developments near Texas 130 also will generate more customers for Bastrop stores.

"When you create primary jobs, all of a sudden you have that disposable income that can be spent locally and generate those secondary jobs in retailing," Kirkpatrick said. "We're an anomaly in the Austin area," he added. "We have gone out and been successful in retail ahead of growth in jobs and housing. We now have to create primary jobs to continue this."

There is competition for retailers and shoppers on the horizon, he said. Airport Gateway, a 60-acre retail/mixed use project, is planned for a site on Ben White Boulevard/Texas 71 near Austin-Bergstrom International Airport, for example.

In retail recruitment, Kirkpatrick said communities need a long-term strategy. "Good data is critical," he said. "You need to understand your trade area and your shoppers, your primary market of people who are here every day and your weekend secondary market."

"You've got to be thinking a decade or two out."

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Left: Jennifer Hermann of Hermann Furniture in Brenham, is the fifth generation of her family to run the store. She participates in downtown-wide events and strives to make the store "unique and different" to attract customers from as far as Houston and Austin.



Sarah Beal photos

To accommodate a restaurant's desire for outdoor seating, Brenham officials turned two parking spaces into a nicely landscaped area called a "parklet" where the public relaxes during the day and patrons sit and dine at night.

## Brenham: Balancing retail & 'quality of place'

**BRENHAM HAS THE BEST** of both worlds: National retailers such as Walmart and Home Depot near the intersection of U.S. 290 and Texas 36, and a historic downtown with new restaurants and longtime local businesses.

The city has a vibrant tourism base, attracting day-trippers from Houston and the Austin area to tour local wineries and visit historic sites and the Blue Bell Creamery's ice cream parlor and store.

Page Michel, who leads the local chamber and the city's economic development foundation, said Brenham is working on the next phase of its retail strategy. A September 2015 analysis by The Retail Coach identified electronics and appliance stores, sporting goods and hobby stores and sit-down casual restaurants as the biggest gaps in the city's retail mix. That means residents are going elsewhere to buy fishing rods and flat-screen televisions and to enjoy a meal in a restaurant a few steps up from fast-food. And Brenham is losing the sales taxes on those purchases.

The city can now focus on those categories in its recruitment efforts. But cities need to focus on the bigger goal of "building the quality of the community — jobs, education, affordable housing, parks," not just retail, Michel said.

"It all comes back to jobs," she said. When a city adds jobs, "the rooftops (housing) and retail will follow."

She is realistic about what types of retailers would consider a city with a retail trade area with a population of about 57,000.

"No elevator speech I can give will persuade Macy's to open a store here," she said. On the other hand, she said, it's important to stay prepared with economic and consumer spending data if a retailer is scouting for sites. "If Academy is going to open six more stores, you need to be on their radar screen."

Brenham leaders also work to preserve the historic downtown and attract more shoppers.

Jennifer Eckermann, who runs the city's Main Street program, said it organizes a series of events, including the annual Brenham Uptown Swirl in January. Visitors can buy a keepsake wine glass for \$35 to sample wines at local stores and hopefully spend some money. Eckermann said the event attracts 1,000 people during a typically slow period for retailers.

It takes public-private partnerships to keep a downtown vibrant, she said. For example, the 96 West restaurant on Baylor Street wanted outdoor tables for diners, but the sidewalks are too narrow, so the city turned two parking spaces into a "parklet," with seating, lighting and landscaping. During the day, it's a spot for people to relax. Starting in the late afternoon, it becomes an outdoor dining spot for the restaurant, which pays for maintenance and upkeep of the parcel.

Hermann Furniture on West Alamo Street participates in downtown-wide events and has its own calendar of "Hermann Happenings." Jennifer Hermann, the fifth generation of her family to run the store, said the store's free design seminars attract 30 to 50 people, who also get coupons to use in the store.

The store is open seven days a week to serve customers who come from Houston, Katy, College Station, Austin and other cities, she said.



Highly coveted national retailers such as Walmart and Home Depot bring jobs and boost sales tax revenue in small towns.

## Sales tax revenue

City	Sales tax revenue in millions			% change from 2014-2015
	2010	2014	2015	
<b>San Marcos</b>	<b>\$19.6M</b>	<b>\$24.4M</b>	<b>\$25.9M</b>	<b>+ 6.5%</b>
<b>Brenham</b>	<b>4.8</b>	<b>5.9</b>	<b>6.4</b>	<b>+ 7.7%</b>
<b>Bastrop</b>	<b>3.9</b>	<b>5.3</b>	<b>5.9</b>	<b>+ 12.4%</b>
La Grange	1.7	2.2	2.1	- 3.7%
<b>Lockhart</b>	<b>1.7</b>	<b>2.0</b>	<b>2.2</b>	<b>+ 6.8%</b>
Giddings	1.4	2.0	1.9	- 4.4%
Luling	1.2	1.8	1.5	- 17.0%
Caldwell	1.1	1.8	1.5	- 17.0%
<b>Elgin</b>	<b>1.3</b>	<b>1.6</b>	<b>1.8</b>	<b>+ 8.9%</b>
<b>Manor</b>	<b>0.6</b>	<b>0.7</b>	<b>0.8</b>	<b>+ 13.7%</b>

\*rounded, in millions of dollars

Source: Texas Comptroller of Public Accounts. The state collects all sales taxes and distributes the money to cities after a two-month delay. Money received in December, for instance, is from sales that occurred in October.

The merchandise includes a broad range of furniture to suit many tastes and lifestyles, and a complete line of gifts.

She's not worried about competition from national stores.

"You need the big boys, as well as the rest, to keep people from going outside" to do their shopping, she said. "But you need to maintain the Main Street quality of the place."

Local retailers, she said, "need to make themselves unique and different" to attract customers. ■