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The following study was conducted at the request of the Town Council of Franklinton, Louisiana using generally accepted research methods, models and techniques.

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Sincerely,

A handwritten signature in black ink that reads 'William Joubert'. The signature is written in a cursive style with a long, sweeping underline.

William Joubert
Director
Business Research Center

Southeastern Louisiana University Business Research Center
*A Collaborative Effort of the Southeast Louisiana Business Center and
the Southeastern Louisiana University College of Business*

Estimated Fiscal
and Economic
Impacts of:

Allowing
On-Premises
Restaurant Alcohol
Sales and Sunday
Package Liquor
Sales in
Franklinton,
Louisiana

August 2009



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INTRODUCTION

Current regulations in the Town of Franklinton, Louisiana prohibit retail sales of package liquor on Sundays, and on-premise (by-the-drink) sales of alcohol at all times.

The Southeastern Business Research Center was requested by the Town Council of Franklinton to analyze the estimated fiscal and economic impacts of repealing these two alcohol sales restrictions.

It is important to note that there may be social and human impacts associated with changes to Franklinton's alcohol sales regulations which this study does not address. Some studies have shown negative societal consequences to relaxing alcohol sales restrictions (e.g. Ligon and Thyer, 1993, McMillan and Lapham, 2006), while others have reached differing conclusions (e.g. Gary, et al., 2003). Societal or human impacts are beyond the scope of this study, which seeks to estimate only the fiscal and economic impacts of the proposed changes to Franklinton's alcohol sales regulations.

BACKGROUND and METHODOLOGY

The proposed changes to Franklinton's ordinances will affect two groups of consumers (which may overlap) and two separate retail sectors:

- The proposed repeal of the ban on Sunday package liquor sales will affect Franklinton-area consumers of package liquor, and establishments that sell package liquor, such as grocery stores, convenience stores, and liquor stores.
- The proposed repeal of the ban on on-premises or "by-the-drink" alcohol sales at restaurants will impact consumers of on-premises alcoholic beverages, and the restaurants in Franklinton which would begin serving alcoholic beverages.

The impacts on each of the retail sectors must be analyzed separately, and then the results combined to estimate the total impacts of the proposed changes.

The approach to estimating the impacts on each sector will be to:

1. Delineate an estimate of Franklinton's **Trade Area** for the *Food and Beverage Stores* sector (representing package liquor sales) and the *Foodservice and Drinking Places* sector (as a proxy for restaurant sales of alcoholic beverages). The Reilly Model will be used to construct the trade areas, which is based on the distance from Franklinton to competing retail communities, and the volume of sales in each sector for Franklinton and the competing communities. (See Appendix A for a more detailed description of the Reilly Model.) Twelve competing communities were selected for use in developing the trade areas: Bogalusa, Kentwood, Amite, Hammond, Covington, Mandeville, and Slidell in Louisiana, and Picayune, Hattiesburg, Columbia, Tylertown, and McComb in Mississippi.

2. Estimate the total annual spending of households within the constructed trade areas for alcoholic beverages consumed at home and on-premise alcoholic beverages purchased at restaurants.
3. Since consumers make some of their purchases in Franklinton and some in neighboring communities, the portion of their total spending (step 2) spent at Franklinton businesses must be estimated.
4. Estimate the additional spending at Franklinton businesses which may be brought about by the proposed changes in regulations.
5. Calculate the estimated sales taxes which will accrue to the Town and the economic impact on the area from the additional retail sales.

An additional factor, which will be analyzed separately, are the additional impacts from future visitors to the new Bogue Chitto State Park, which is scheduled to open in November 2009. In order to provide a logical framework and progression for the analysis, the impacts will first be analyzed for the local customer base only, excluding state park visitors.

The estimated impacts from sales to projected state park visitors will then be analyzed, and, finally, the estimated impacts to local area consumers and state park visitors will be combined to gauge the total estimated impacts.

ESTIMATED IMPACTS USING EXISTING CUSTOMER BASE AND TRADE AREAS (no State Park impacts)

Impacts from Sunday Package Liquor Sales (without State Park impacts)

Franklinton's estimated trade area for *Food and Beverage Stores* (see Appendix B) was drawn based on the break points between Franklinton and its twelve competing communities calculated using the Reilly Model. Estimated retail sales in the *Food and Beverage Stores* sector for each community were obtained from Claritas, Incorporated's Retail Market Power (RMP) Opportunity Gap reports for 2008.

Claritas estimates the retail sales by businesses in a community based on data from the Census of Retail Trade (U.S. Census Bureau).

The sales by *Food and Beverage Stores* in each community were used with the distance from Franklinton in the Reilly Model equation to calculate the break point from Franklinton, and these break points were then connected to form the polygon shown in Appendix B.

Next, spending by households in the trade area on "Alcoholic Beverages at Home" was estimated using national data from Household Spending: Who Spends How Much on What (Editors of New Strategist Publications, 2006), which is based on data from the U.S. Bureau of Labor Statistics (BLS) 2004 Consumer Expenditures Survey. The U.S. estimates from this publication were adjusted for inflation to 2008 levels

using the change in the Consumer Price Index: All Cities published by the Bureau of Labor Statistics, then adjusted to Franklinton income levels and spending habits using demographic and expenditure data from Claritas and ESRI. After adjustments, the average household in Franklinton's *Food and Beverage Stores* trade area was estimated to have spent \$154.03 on alcoholic beverages for at-home consumption during 2008.

Using estimates from Claritas, Inc. and ESRI, there were approximately 7,000 households in the *Food and Beverage Stores* trade area, which would equal total 2008 spending of \$1,078,210 on alcoholic beverages for at-home consumption by households in the trade area. Since this estimate was restricted to the constructed trade area, and no data were available to determine either a) how much of this spending was in Franklinton versus other communities, or b) what the total sales of package liquor in Franklinton were in 2008, we will use the \$1,078,210 figure as the estimated total package liquor sales in Franklinton in 2008. (Note: Claritas' RMP report for Franklinton estimated that "Beer, Wine, and Liquor Stores" had sales of \$267,333 in 2008, but there was no way to estimate package liquor sales by grocery and convenience stores.)

Research has shown that *states* that lift bans on Sunday alcohol sales have experienced annual sales increases of 5% - 8%. Conceptually, this would be made up of both re-directed purchases that may have been made in neighboring states without blue laws (if they exist), as well as some increase in consumption due to the increased availability of alcohol on Sundays. The first factor would primarily impact counties that border other states, while the second factor would impact the entire state to some degree, but would be the dominant factor for interior counties.

Since both of these factors would be at work in the Franklinton trade area, we will use the upper end of this range (8%) in estimating the potential increase in Franklinton's package liquor sales which may occur if the Sunday ban is repealed. Using the estimated existing sales of \$1,078,210, an 8% increase would result in increased package liquor sales in the Town Of Franklinton of **\$86,257**.

Based on Franklinton's local sales tax rate of 2.72%, the increased sales of package liquor would generate approximately **\$2,346 of additional sales taxes** for the town.

IMPLAN Professional 2.0 software (© Minnesota IMPLAN Group, Inc.) was utilized to calculate the estimated total economic impact of the potential increase in package liquor sales. IMPLAN utilizes input-output methodology and the associated "multiplier effects" to estimate the economic effects of any increase in spending in a particular study area.

The estimated earnings impacts are the crucial measures of the effects on residents of Franklinton, but the total economic impacts are also provided for comparison to other reports and studies.

Because an IMPLAN model for the Town of Franklinton was not available, the authors used the Washington Parish model to generate impact estimates. Only the retail margin of the increased package liquor sales would actually benefit Washington Parish, since the production (brewing, distilling, etc.) and distribution costs would immediately go to companies outside of the parish. The IMPLAN model for

Washington Parish included an estimated retail margin of 29.4% for the Food and Beverage Store Sector, and this margin was used to generate the impact estimates in Table 1:

Increased Retail Sales	\$86,257
Total Economic Impact	\$35,142
Earnings Impact	\$14,974
Number of Annual Jobs Supported	0.6
Franklinton Sales Tax Collections	\$2,346

Impacts from On-Premises Alcohol Sales at Restaurants (without State Park impacts)

Franklinton's estimated trade area for *Foodservice and Drinking Places* (see Appendix B) was drawn using the same method as discussed in the previous section, based on the break points between Franklinton and its twelve competing communities calculated using the Reilly Model. Estimated retail sales in the *Foodservice and Drinking Places* sector for each community were again obtained from Claritas, Incorporated's Retail Market Power (RMP) Opportunity Gap reports for 2008.

The trade area for *Foodservice and Drinking Places* is smaller than the one for *Food and Beverage Stores*, revealing that Franklinton is less competitive with neighboring communities as far as restaurants and bars are concerned than it was for grocery, convenience, and liquor stores.

As in the previous section, spending by households in the trade area on "Alcoholic Beverages away from Home" was estimated using national data from Household Spending: Who Spends How Much on What (New Strategist Publications, 2006), adjusted to 2008 levels using the CPI and for Franklinton income levels and spending habits using demographic and expenditure data from Claritas and ESRI. After adjustments, the average household in Franklinton's *Foodservice and Drinking Places* trade area was estimated to have spent \$98.69 on alcoholic beverages consumed away from home during 2008. Of this, \$22.69 was estimated to have been spent during trips, and the remaining \$76.55 away from home while not on trips.

Using estimates from Claritas, Inc. and ESRI, there were approximately 4,500 households in the *Food and Beverage Stores* trade area, which would equal total 2008 spending of **\$344,475** on alcoholic beverages for away from home consumption while not on trips.

Several caveats and assumptions, with offsetting effects, must be mentioned regarding the use of this spending estimate. First, there is no feasible way to estimate how much of this spending is at bars versus restaurants, so we are assuming it is all at restaurants. Since this is obviously not the case, this

would tend to make this estimate too high for measuring potential alcohol sales at Franklinton restaurants.

Also, we know that some of this spending will be outside of Franklinton, even if alcohol becomes available at Franklinton restaurants. Some consumers will prefer a particular restaurant (or chain of restaurants) that is not available in Franklinton, and some consumers will simply prefer to drive out of town as part of their “dining out” experience. These factors would also lead to the \$344,475 figure being an overestimation.

However, the availability of alcohol at Franklinton restaurants may attract consumers who previously drove to other communities when dining out. Since alcohol purchases only make up 10%-15% of average guest checks, the remaining 85%-90% of their meal cost will be additional food sales for Franklinton restaurants that aren’t being accounted for in this analysis. Also, the availability of alcoholic beverages at Franklinton restaurants may increase the total spending by area residents on away from home alcoholic beverages, since those who already dine in Franklinton and would have preferred to have alcohol with their meals in the past would now have the opportunity to do so. Both of these unknown factors would tend to make our estimated spending of \$344,475 be an underestimate.

Since these factors would tend to be offsetting, and cannot be accurately estimated in any case, the estimated spending amount of \$344,475 will be used to calculate the total economic impacts of allowing on-premises alcohol consumption at restaurants in Franklinton.

Based on Franklinton’s local sales tax rate of 2.72%, the estimated sales of alcoholic beverages for consumption at local restaurants would generate approximately **\$9,370 of additional sales taxes** for the town.

IMPLAN was used to estimate the economic impacts on Washington Parish of \$344,475 of increased spending at Franklinton restaurants, with the results shown in Table 2.

Increased Restaurant Sales	\$344,475
Total Economic Impact	\$457,995
Earnings Impact	\$134,910
Number of Annual Jobs Supported	8.4
Franklinton Sales Tax Collections	\$9,370

Combined Impacts from Sunday Package Liquor Sales and Restaurant Alcohol Sales

When the estimated impacts of allowing Sunday package liquor sales and on-premises alcohol sales at Franklinton restaurants are combined (without any impacts from the new state park), the total estimated fiscal and economic impacts are illustrated in Table 3.

Table 3. Estimated Combined Impacts on Washington Parish, Louisiana of Allowing Sunday Package Liquor Sales and On-Premises Restaurant Alcohol Sales in Franklinton (WITHOUT State Park impacts)	
Increased Sales	\$430,732
Total Economic Impact	\$493,137
Earnings Impact	\$149,884
Number of Annual Jobs Supported	9.0
Franklinton Sales Tax Collections	\$11,716

ESTIMATED IMPACTS of STATE PARK VISITORS

Bogue Chitto State Park, off of Highway 25 south of Franklinton, is currently under construction, and is projected to open in November 2009. As the nearest town to the new state park, Franklinton can be expected to draw at least some park visitors to its retail businesses and restaurants.

The projected number of visitors to the new park was not available, so visitor counts at similar state parks were used for comparison.

Tickfaw State Park near Springfield, Louisiana is in the same region of the state, has similar amenities and facilities, but is nearer to major population centers and interstate highways than the new park. Tickfaw State Park's visitor count in 2004-05 was 52,151 overnight visitors and 46,141 day-use visitors, for a total of 98,292 (The Louisiana Research Team, 2006a).

Chemin-a-Haut State Park near Bastrop, Louisiana has similar amenities and facilities, and offers similar geography to Bogue Chitto State Park, but is located much farther from major population centers. Chemin-a-Haut's visitorship in 2004-05 was 19,764 overnight visitors and 29,771 day-use visitors, for a total of 49,535 (The Louisiana Research Team, 2006b).

To obtain an estimate of projected visitors to the new Bogue Chitto State Park, the authors decided to use a weighted average of the visitor counts from Tickfaw and Chemin-a-Haut. Since Tickfaw is in the same general region of the state, and like Bogue Chitto, is fairly close to the major metropolitan areas of

New Orleans and Baton Rouge, a 2x weighting was given to Tickfaw's visitor counts. Using a weighted average computation of based on Tickfaw (2x) and Chemin-a-Haut (1x) results in visitor estimates for the new Bogue Chitto State Park of 41,355 overnight and 40,684 day-use visitors, for a total of 82,039.

Detailed data regarding visitor counts by day of the week were not available, but anecdotal evidence from other state parks around the country indicated that visitation on weekend days was approximately three times that of weekdays. Using this ratio to allocate the projected visitor counts yields annual estimates of 37,290 weekday visitors, 22,374 Saturday visitors, and 22,374 on Sundays. This equals approximately 143 people per day on weekdays and 430 per day on weekends.

A 2005 Texas A & M study (Walker, et al., 2005) estimated that out-of-county, non-casual visitors spent approximately \$3.02 per person per day on groceries and \$2.93 per person per day for food and beverages at restaurants and drinking places in the county of location of Texas state parks in FY2004. (Equivalent data for Louisiana state parks was not available.) Adjusting for inflation to 2008, these spending amounts would equate to \$3.44 for groceries and \$3.34 for food and beverages. Since the new state park falls in (or near) the Franklinton trade areas, all of this spending will be projected to occur in Franklinton for this analysis.

If we assume that 15% of the grocery spending is for alcoholic beverages, this would equal \$0.52 per person per day for package liquor.

In estimating the portion of the food and beverage spending to allocate to alcoholic beverages, the spending first must be separated between fast-food restaurants (which typically don't serve alcohol) and full-service restaurants (which typically do serve alcohol, if allowed). Based on Claritas' 2008 RMP Opportunity Gap Report, Louisiana residents spent approximately 52% of their away-from-home dining expenditures at full-service restaurants, and 48% at "limited-service" (i.e., fast-food) restaurants. If we apply these percentages to the \$3.34 of daily "food & beverage" spending derived from the Texas A&M study, this would equal \$1.74 per person per day at full-service restaurants and \$1.60 per person per day at fast-food establishments.

Assuming 15% of the charges at full-service restaurants would be for alcoholic beverages, we arrive at an estimate of \$0.26 per person per day for on-premises alcohol consumption at restaurants.

Impacts from Sunday Package Liquor Sales to State Park Visitors

Multiplying the estimated 22,374 Sunday visitors to Bogue Chitto State Park by \$0.52 per person per day for package liquor, yields an estimated **\$11,634** in additional revenue for Franklinton businesses if Sunday package liquor sales were allowed. These sales would generate \$316 in additional sales taxes for the Town of Franklinton.

Running these additional sales through the IMPLAN model for Washington Parish generates the impact estimates shown in Table 4. As before, only the retail margin actually benefits Washington Parish.

Increased Retail Sales	\$11,634
Total Economic Impact	\$4,740
Earnings Impact	\$2,020
Number of Annual Jobs Supported	0.1
Franklinton Sales Tax Collections	\$316

Impacts from Restaurant Alcohol Sales to State Park Visitors

Multiplying the estimated annual visitor count of 82,039 for the new Bogue Chitto State Park by the estimated spending of \$0.26 per person per day for alcohol consumed at restaurants results in estimated annual sales of **\$21,330** for alcoholic beverages sold to state park visitors at Franklinton restaurants. Franklinton sales tax collections on these sales would equal **\$580**.

Processing these estimated restaurant alcohol sales through the IMPLAN model for Washington Parish results in the estimated impacts shown in Table 5.

Increased Restaurant Sales	\$21,330
Total Economic Impact	\$28,359
Earnings Impact	\$8,354
Number of Annual Jobs Supported	0.5
Franklinton Sales Tax Collections	\$580

Combined Impacts from Sunday Package Liquor Sales and Restaurant Alcohol Sales to State Park Visitors

The combined impacts of Sunday package liquor sales and restaurant alcohol sales to state park visitors are illustrated in Table 6.

Table 6. Estimated Combined Impacts on Washington Parish, Louisiana of Sunday Package Liquor Sales and Restaurant Alcohol Sales in Franklinton to State Park Visitors	
Increased Sales	\$32,964
Total Economic Impact	\$33,099
Earnings Impact	\$10,374
Number of Annual Jobs Supported	0.6
Franklinton Sales Tax Collections	\$896

COMBINED IMPACTS of SUNDAY PACKAGE LIQUOR SALES and ON-PREMISES RESTAURANT SALES TO EXISTING TRADE AREA CUSTOMERS and STATE PARK VISITORS

Impacts of Sunday Package Liquor Sales to Existing Trade Area Residents and State Park Visitors

Combining the impacts of proposed Sunday package liquor sales to both existing trade area customers and projected state park visitors, the total impacts of repealing the ban on Sunday sales is illustrated in Table 7.

Table 7. Estimated Potential Impacts on Washington Parish, Louisiana of Sunday Package Liquor Sales to both Existing Trade Area Consumers and State Park Visitors	
Increased Retail Sales	\$97,891
Total Economic Impact	\$39,882
Earnings Impact	\$16,994
Number of Annual Jobs Supported	0.7
Franklinton Sales Tax Collections	\$2,662

Impacts of On-Premises Restaurant Liquor Sales to Existing Trade Area Residents and State Park Visitors

The total estimated impacts of allowing Franklinton restaurants to serve alcoholic beverages are shown in Table 8.

Table 8. Estimated Potential Impacts on Washington Parish, Louisiana of Restaurant Liquor Sales to both Existing Trade Area Consumers and State Park Visitors	
Increased Restaurant Sales	\$365,805
Total Economic Impact	\$486,354
Earnings Impact	\$143,264
Number of Annual Jobs Supported	8.9
Franklinton Sales Tax Collections	\$9,950

Total Economic and Fiscal Impacts of Proposed Changes to Franklinton's Alcohol Sales Regulations

Combining all of the estimated impacts discussed above, the total estimated impacts of repealing Franklinton's prohibitions on Sunday package liquor sales and restaurant sales of alcohol for on-premises consumption are tabulated in Table 9.

Table 9. Total Estimated Impacts on Washington Parish, Louisiana of Allowing Sunday Package Liquor Sales and Restaurant Sales of Alcohol for On-Premises Consumption	
Increased Sales	\$463,696
Total Economic Impact	\$526,236
Earnings Impact	\$160,258
Number of Annual Jobs Supported	9.6
Franklinton Sales Tax Collections	\$12,612

SUMMARY

There are many unknown factors and unavailable data which impact this estimate of the economic and fiscal impacts of the proposed changes to Franklinton's regulations regarding the sale of alcoholic beverages, therefore this study and its results should be viewed as a general estimate and description of the potential impacts rather than a definitive prediction of the effects to be expected.

Lifting the ban on Sunday package liquor sales is estimated to provide approximately \$17,000 of additional earnings to Franklinton business owners and employees, supporting 0.7 jobs annually, and providing an estimated \$2,662 in additional Franklinton sales taxes.

Allowing Franklinton restaurants to serve alcohol "by the glass" is estimated to provide approximately \$143,000 of earnings for Franklinton business owners and employees, supporting 8.9 jobs annually, and providing an additional \$9,950 of sales taxes to the Town of Franklinton.

The impacts of the restaurant sales are much larger because a) that would be a totally new "market" for Franklinton, drawing consumers who have been traveling elsewhere, and b) it impacts every day of the week, rather than just Sunday as for the package liquor changes, and c) more of the money spent at restaurants stays in the local economy, as wages to staff, etc.

Typical restaurant food costs, which predominantly would be paid to firms outside of Franklinton, average about 30% of revenues at most restaurants. This leaves about 70% of revenues for labor, utilities, building rent, owner profit, etc., which are more likely to stay in the local area.

Conversely, average retail markup at food and beverage stores, which represents the portion of revenues that is spent locally for labor, utilities, rent, etc., is estimated at approximately 29% for Franklinton businesses, meaning that the other 71%, representing the wholesale costs of their products, immediately leaves the area.

Combined, the two proposed changes to Franklinton's regulations are estimated to increase sales revenues of Franklinton businesses by \$463,696 and provide earnings of \$160,258, which would support approximately 9.6 jobs. The increased sales revenue would lead to an increase in Franklinton's sales tax collections of an estimated \$12,612. (Note: Induced and indirect effects may also lead to additional sales tax collections not disclosed in this report. Because the model used for this analysis was for all of Washington Parish, it is not known how many of these indirect and induced sales taxes would accrue to the Town of Franklinton.)

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APPENDIX A: Trade Area Analysis using the Reilly Model

The concept of retail trade areas has long been used by analysts, developers, and site selectors in their evaluation of retail sites and associated market studies. Retail trade area analysis attempts to locate, delineate, and describe the target market area, which is critical for marketing, merchandising, and site selection decisions.

The growth and development of geographic information systems (GIS) has made retail trade area analysis and the presentation of results much easier and more efficient.

While typically used to analyze the target (or existing) market area for a particular store or business, retail trade area analysis can also be utilized to measure and describe the estimated trade area for the entire retail industry of a community, or any individual retail sector in that community.

Various methods are utilized in trade area analysis, each with advantages and disadvantages.

The simplest methods are based solely on distance or drive time. Some of these methods include concentric rings (e.g. 1, 3, and 5-mile circles), drive time/distance polygons, or Thiessen polygons (which assume that a consumer will always shop at the closest store).

These methods are easy to visualize and understand, but they all assume that the store or community has a "spatial monopoly", exempt from the impacts of any competing stores on consumers' choices.

More complex techniques, sometimes known collectively as "market penetration" models, attempt to factor in the availability and "attractiveness" of competing stores as alternatives in consumers' shopping decisions.

One of the oldest and most widely used market penetration models is based on *Reilly's Law of Retail Gravitation*, developed by William J. Reilly in 1931. Reilly's law states that larger cities (as measured by such factors as population, retail sales, or retail square footage) have larger spheres of influence than smaller cities, meaning that consumers will be willing to travel longer distances to larger cities. The model assumes that people desire to shop in larger cities, due to greater variety and choice of products, until the distance from the larger city outweighs the appeal of shopping there.

The mathematical formula developed by Reilly is used to calculate the "break point", the distance at which consumers living between competing cities are expected to switch their shopping decision from the city being analyzed to the alternate city. These break points between cities can then be used to draw a polygon around the city of interest, representing the estimated retail trade area for that town.

APPENDIX B: Estimated Franklinton Trade Areas for *Food and Beverage Stores* and *Foodservice and Drinking Places*

