



POTENTIAL ECONOMIC BENEFITS OF THE VISION PLAN

73

Strategies and Recommendations
Economic and Tax Impacts
Potential Benefits of the Plan
Benchmarking the Heart of the City Plan



POTENTIAL ECONOMIC BENEFITS OF HEART OF THE CITY CATALYST PROJECTS:

III. Strategies and Recommendations

This section of the report addresses the redevelopment options available for McAllen's Heart of the City. A primary task of the planning effort was to establish an economic baseline of Downtown which would serve as the starting point for future analysis. It quickly became apparent that Downtown McAllen has been losing its position as a primary center within the McAllen region. A review of population growth trends, retail spending patterns, and property tax valuations indicate that Downtown has been undergoing an economic transformation. A number of factors ranging from new residential and office developments on the city's periphery to growing competition from larger suburban shopping centers place great pressure on local businesses. A number of interviews with community leaders confirmed the statistical findings. The study team believes that the absence of additional public sector initiatives that would change the structural composition of the area will result in Downtown McAllen continuing to lag other parts of the city.

While Downtown McAllen faces a number of challenges if it wishes to regain its position as regional center, clear opportunities do exist. Mexican shoppers are still drawn to the area to buy goods and services. At the same time, tourists from the United States will continue to travel to the Rio Grande Valley in search of unique cultural attractions. A growing local economy also creates strong demand for specialty retailers and entertainment venues. There is no reason Downtown McAllen cannot capture some of these opportunities.

Given the amount of existing commercial, residential, and office uses in the immediate Downtown area as well as on-going regional developments, the three most likely development scenarios for Downtown have been identified. Each of the scenarios assumes varying levels of a mix of retail, restaurant, office, and residential activity, which is consistent with current patterns of land use in the area.

- **Scenario 1: Status Quo** – Even without public sector involvement, downtown McAllen will experience some growth over the next five years. Current trends will prevail – continued decline in the area's total percent of regional retail sales, small scale infill growth, and limited population growth. Demand from Mexican shoppers and Downtown residents and employees, however, will still create enough demand to support an additional 200,000 square feet (sf) of traditional retail space.
- **Scenario 2: Mixed Use** – Under this scenario, public-private sector involvement in Downtown McAllen takes hold. Over 350,000 sf of traditional and specialty retail space will be built. Five restaurants and a movie theatre will provide new entertainment options. Employers will be drawn to 500,000 sf of new office space within downtown. The Mixed Use scenario also includes 250 multi-family units.
- **Scenario 3: Enhanced Retail** – Downtown recaptures its position as a regional retail center. New restaurants and 300,000 sf of traditional retail space will be built. In addition, existing merchants upgrade 150,000 sf of existing retail space.

The study team has also estimated the direct tax revenues and economic impacts generated from each development scenario. It was beyond the scope of this study to identify the timeframe over which development would occur. The tax revenue and economic impacts are based on 100 percent build out of each scenario. This information will enable McAllen's leaders to evaluate each scenario. Benchmarks were established to allow community leaders and stakeholders to evaluate Downtown's development progress.

Downtown Development Scenarios

Scenario 1: Status Quo - Slow Gradual Development Activity

Land Use	Gross Building Area	Estimated Building Value/sq. ft	Average Annual Sales/sq. ft
Traditional Retail	200,000	\$100	\$218
TOTAL	200,000	-	-

Scenario 2: Agressive Mixed Use Development

Land Use	Gross Building Area	Estimated Building Value/sq. ft	Average Annual Sales/sq. ft
Traditional Retail	250,000	\$100	\$218
Specialty Retail	100,000	\$125	\$250
Upgrade of Existing Retail Stores	100,000	\$25	\$32
Restaurant Pads (5)	48,000	\$130	\$350
Office / Mid Rise	500,000	\$150	-
Multi-Family (250 Units)	212,500	\$75	-
Movie Theatre (5 Screens)	20,000	\$200	-
TOTAL	980,500	-	-

Scenario 3: Focus on Enhanced Retail

Land Use	Land Area Square Ft.	Estimated Building Value/sq. ft	Average Annual Sales/sq. ft
Traditional Retail	300,000	\$125	\$218
Upgrade of Existing Retail Stores	150,000	\$25	\$32
Restaurant Pads (5)	48,000	\$130	\$350
TOTAL	498,000	-	-



POTENTIAL ECONOMIC BENEFITS OF HEART OF THE CITY CATALYST PROJECTS:

Economic & Tax Impacts of Downtown Development

The value of increasing development activity in Downtown McAllen is clear. Once a scenario is fully developed, city tax revenues will increase from \$1 to \$3.5 million annually while supporting hundreds of local jobs. Assuming a three percent annual increase in both sales and property tax revenues, total local taxes collected over the next ten years will range from \$11-30 million depending on the mix of land uses. Using a discount rate of 5 percent, this revenue stream has a present value of \$8-23 million. In other words, the value of Downtown McAllen developing under one of these three scenarios is worth approximately \$8-23 million today to the City of McAllen. In addition to increased tax revenues, the direct and indirect economic impacts are significant. Depending on the development scenario, full-time employment is projected to increase by 300 to 2,300 jobs in the McAllen region. The following tables outline the estimated amount of tax revenue generated by each of the development scenarios.

Table 7
Estimated Total Sales Tax Revenue

	Status Quo	Mixed Use	Enhanced Retail
Year 1	\$872,000	\$1,990,000	\$1,740,000
Year 2	\$898,160	\$2,049,700	\$1,792,200
Year 3	\$925,105	\$2,111,191	\$1,845,966
Year 4	\$952,858	\$2,174,527	\$1,901,345
Year 5	\$981,444	\$2,239,763	\$1,958,385
Year 6	\$1,010,887	\$2,306,955	\$2,017,137
Year 7	\$1,041,214	\$2,376,164	\$2,077,651
Year 8	\$1,072,450	\$2,447,449	\$2,139,981
Year 9	\$1,104,624	\$2,520,872	\$2,204,180
Year 10	\$1,137,762	\$2,596,499	\$2,270,305
Total	\$9,996,503	\$22,813,120	\$19,947,150

Table 8
Estimated Property Tax Revenue

	Status Quo	Mixed Use	Enhanced Retail
Year 1	\$84,260	\$594,781	\$200,075
Year 2	\$86,788	\$612,624	\$206,078
Year 3	\$89,391	\$631,003	\$212,260
Year 4	\$92,073	\$649,933	\$218,628
Year 5	\$94,835	\$669,431	\$225,187
Year 6	\$97,680	\$689,514	\$231,942
Year 7	\$100,611	\$710,199	\$238,900
Year 8	\$103,629	\$731,505	\$246,067
Year 9	\$106,738	\$753,451	\$253,449
Year 10	\$109,940	\$776,054	\$261,053
Total	\$965,946	\$6,818,495	\$2,293,640



POTENTIAL ECONOMIC BENEFITS OF HEART OF THE CITY CATALYST PROJECTS

The following tables outline the estimated economic impact generated by each of the development scenarios. The Construction Impact is short-term and applicable only during the construction of the developments. The annual impact estimates the amount of increased economic activity created each year by the normal operation of the businesses. The annual impact is based on 100 percent development of each scenario.

Table 9
Scenario 1: Status Quo

	Direct	Indirect	Induced	Total
Construction Impact				
Output Impact	\$20,000,000	\$4,401,734	\$3,212,889	\$27,614,623
Value-Added Impact	\$5,505,728	\$2,646,255	\$2,097,079	\$10,249,062
Employment Impact	194	71	55	321
Annual Impact				
Output Impact	\$43,600,000	\$4,855,983	\$11,111,884	\$59,567,866
Value-Added Impact	\$35,088,784	\$2,933,646	\$7,255,520	\$45,277,953
Employment Impact	1,420	68	191	1,679

Table 10
Scenario 2: Mixed Use

	Direct	Indirect	Induced	Total
Construction Impact				
Output Impact	\$141,177,500	\$32,499,005	\$22,166,330	\$195,842,835
Value-Added Impact	\$37,120,469	\$19,595,795	\$14,468,198	\$71,184,462
Employment Impact	1,350	526	381	2,258
Annual Impact				
Output Impact	\$100,126,903	\$12,476,850	\$24,831,392	\$137,435,143
Value-Added Impact	\$75,987,956	\$7,395,034	\$16,213,467	\$99,596,457
Employment Impact	3,219	177	427	3,822

Table 11
Scenario 3: Enhanced Retail

	Direct	Indirect	Induced	Total
Construction Impact				
Output Impact	\$47,490,000	\$10,451,917	\$7,629,005	\$65,570,922
Value-Added Impact	\$13,073,351	\$6,283,533	\$4,979,513	\$24,336,397
Employment Impact	461	170	131	762
Annual Impact				
Output Impact	\$87,000,000	\$10,982,095	\$21,501,401	\$119,483,491
Value-Added Impact	\$65,510,690	\$6,492,802	\$14,039,169	\$86,042,664
Employment Impact	2,788	155	370	3,314

Benchmarking Downtown McAllen's Development Progress

Two methods for benchmarking are as follows:

- 1) use a relative measure to the rest of the City, with growth in property tax base going forward. Downtown McAllen has not been growing as rapidly as the rest of the city. ; the benchmark should be at least keeping pace with the remainder of the city, and ideally begin to grow more rapidly.
- 2) survey-based analysis of both resident and visitor satisfaction. As changes begin to occur, an entity overseeing the redevelopment of the Heart of the City (the Chamber, the CVB, the Downtown association) should set up an ongoing survey process (or incorporate it into an existing effort). This would accomplish two goals: it would provide feedback from "customers" on the changes being implemented, and it would also provide potential data for reporting to both policymakers and the media.