

The Economic and Fiscal Impacts of Armed Forces Exchange Service Realignment on Dallas County and the City of Dallas

Prepared for:

**The City of Dallas, The Greater Dallas Chamber, and the Best
Southwest Communities**

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Introduction

The military exchange services are the logistics operations providing purchasing and distribution services for commissaries and PX facilities at bases and installations around the globe. There are three exchange services in operation: the Marine Corps Exchange headquartered in Quantico, Virginia; the Navy Exchange Service based in Hampton Roads, Virginia; and, the Army-Air Force Exchange Service located in Dallas. Based on a Congressional Budget Office (CBO) report estimating that merging the Navy, Marine Corps, and the Army and Air Force Exchange Services would save between \$200 and 300 million annually¹, the Department of Defense (DOD) has created a task force to examine the feasibility of consolidating the exchange services. The DOD task force is currently drafting a plan for the potential mergers and preparing a recommendation for the location of the unified headquarters, which is likely to be one of the cities where the three exchange services are currently located.

This report examines the likely economic and fiscal impacts of the proposed merger under three scenarios: 1) the administration of the unified service is located outside of Dallas, but the exchange service facility remains in southern Dallas, 2) the administration and service operations are relocated outside of Dallas, or 3) the unified headquarters are located in Dallas.

AAFES Operations in Dallas

In serving the shopping needs of armed forces personnel, AAFES buys goods and supplies from some 13,000 firms, of which 94% are small businesses². In the Dallas

¹ Congressional Budget Office, The Congress of the United States; "The Costs and Benefits of Retail Activities at Military Bases"; October 1997.

² Army and Air Force Exchange Service (AAFES) home page: www.aafes.com.

area, about \$134 million worth of goods and services **are** procured by AAFES. In 2003, AAFES spent almost \$63 million for equipment and services to support their logistics operations. AAFES is one of the largest employers in the region with 2,544 personnel at their 900,000 square-foot facility. Only 35 of these employees are military, while the rest are civilian DOD employees. As a part of its operations, AAFES provides training to its personnel. Over 2,300 visitors come to the region each year for up to 80 days of training.

Economic and Fiscal Impacts of Exchange Service Realignment

In estimating the economic and fiscal impacts under the three realignment scenarios described above, we have utilized an IMPLAN input-output model developed by the Minnesota IMPLAN Group. The model estimates how spending flows through an economy. For this analysis we are estimating the impacts on Dallas County and the City of Dallas. Our estimates include direct, indirect, and induced impacts. Direct impacts are the result of a firm or agency procuring goods and services in the local community. For example, in addition to purchasing the goods that wind up on commissary shelves, AAFES purchases office supplies, transportation services, computer services, warehouse equipment, and a wide range of other goods and services in the local economy. These vendors and suppliers, in turn, purchase goods and services to support their local operations. For example, the local firm providing transportation services to AAFES hires employees, purchases office supplies, fuel, and truck parts, and hires professional service providers such as accountants. The induced impacts track the economic and fiscal effects of AAFES employees spending a portion of their earnings in the local economy for goods and services.

Each of the impacts described above is adjusted to account only for local purchases. For example, when AAFES purchases office supplies from a local vendor, some of those supplies may be manufactured in Dallas County. However, it is likely that many of the actual goods are made elsewhere and the dollars for those goods flow out of the local economy. When added together, the sum of all of the activity from direct, indirect, and induced impacts is greater than the local proportion of AAFES's spending, which is the "multiplier effect." This multiplier effect occurs not only when a new company comes to Dallas County, but also when an ongoing business leaves the local economy. Therefore, if AAFES closes its operations in Dallas, the total loss of jobs and activity in the local economy will be greater than those occurring at AAFES alone.

Scenario 1: Location of the Consolidated Exchange Headquarters in Dallas

We will begin with the potential good news. If the headquarters of a consolidated exchange service were located in Dallas, about 500 new jobs would come to the region. These additional responsibilities and functions at AAFES would boost current economic activity in Dallas County by \$101 million (see Table 1). More than 900 direct, indirect, and induced jobs would be added to local payrolls generating almost \$34.5 million in salaries, wages, and benefits. About \$7.6 million would be added in other income from rents, royalties, dividend payments and other similar sources. Even though AAFES does not pay sales or property taxes as a government entity, indirect and induced activities would support about \$2.4 million in state and local taxes in Dallas County. The majority of this new economic activity would occur in the City of Dallas with total economic output increasing by \$82 million supporting over 700 jobs paying \$27 million in salaries and wages.

Table 1

**Economic and Fiscal Impacts of Adding 500 New Jobs at AFFES
(annual recurring impacts)**

Description	Dallas County Impacts	City of Dallas Impacts
Total Economic Activity	\$ 100,897,000	\$ 82,203,000
Total Wages, Salaries, Benefits	\$ 34,470,000	\$ 27,013,000
Total Employment	902	721
Total Property Income*	\$ 7,652,000	\$ 4,591,000
State and Local Taxes ⁺	\$ 2,394,000	N/A [#]

* Includes royalties, rents, dividends, and corporate profits. + Includes sales, excise, property taxes, fees, and licenses. # The model does not support estimates of tax gains below the county level. However, we estimate that the City of Dallas would gain between \$500,000 and \$700,000 in annual revenue in this scenario.

Scenario 2: The Closure of All AFFES Operations in Dallas

If the exchange realignment calls for all administrative and operating functions at AFFES – Dallas to relocate, over 2,500 direct jobs will be lost in the Dallas economy. Unfortunately, the multiplier effect also works on the negative side of the ledger. Withdrawing AAFES’s operations and administrative functions would reduce total annual economic activity in Dallas County by more than \$500 million (see Table 2). Total job losses would extend to 4,511 with an attendant loss of \$172 million in wages, salaries, and benefits. Income from other sources as described above would decrease by \$38 million. Almost \$12 million in state and local tax revenues would disappear. The City of Dallas would bear the brunt of these losses with total economic activity dropping by \$411 million, local income from all sources declining by \$158 million (sum of labor income and other income). Though tracking lost tax revenue at the city level is problematic, we believe that the City of Dallas could lose as much as \$2 million in annual revenues if AFFES is completely closed.

Table 2

**Economic and Fiscal Impacts of AFFES Closing the Dallas Location
(annual recurring impacts)**

Description	Dallas County Impacts	City of Dallas Impacts
Total Economic Activity	\$ -504,485,000	\$ -411,014,000
Total Wages, Salaries, Benefits	\$ -172,348,000	\$ -135,063,000
Total Employment	-4,511	-3,607
Total Property Income*	\$ -38,259,000	\$ -22,956,000
State and Local Taxes ⁺	\$ -11,971,000	N/A [#]

* Includes royalties, rents, dividends, and corporate profits. + Includes sales, excise, property taxes, fees, and licenses. # The model does not support estimates of tax losses below the county level. However, we estimate that the City of Dallas would lose as much as \$2 million in annual revenue in this scenario.

Scenario 3: Administrative Functions are Transferred but Operations Remain

If the new administrative functions of a consolidated exchange service were located to one of the other current headquarters locations, but operations would continue at the existing AFFES facility in Dallas, then the local job losses would be much lower. We have been informed that this scenario would result in about 500 existing jobs being lost in the local economy. The impacts are the same as in Scenario 1, but with a negative sign in front of each number. Total job losses in Dallas County would be about 900 and labor income would decline \$34.5 million as a result of about \$101 million in total economic activity decreases (see Table 3). Similarly, the City of Dallas would lose more than \$82 million in annual economic activity and over 700 jobs.

Table 3

**Economic and Fiscal Impacts of Losing 500 Jobs at AFFES
(annual recurring impacts)**

Description	Dallas County Impacts	City of Dallas Impacts
Total Economic Activity	\$ -100,897,000	\$ -82,203,000
Total Wages, Salaries, Benefits	\$ -34,470,000	\$ -27,013,000
Total Employment	-902	-721
Total Property Income*	\$ -7,652,000	\$ -4,591,000
State and Local Taxes ⁺	\$ -2,394,000	N/A [#]

* Includes royalties, rents, dividends, and corporate profits. + Includes sales, excise, property taxes, fees, and licenses. # The model does not support estimates of tax gains below the county level. However, we estimate that the City of Dallas would lose between \$500,000 and \$700,000 in annual revenue in this scenario.

Conclusions

Clearly, AAFES is a major employer in the City of Dallas and one of the largest in the city south of the Trinity River. The loss of AFFES would be a crippling blow to economic revitalization efforts currently underway in the southern portions of the City of Dallas. AAFES provides good paying jobs and provides a stable source of income for more than 150 small and minority-owned firms. It is not a client or employer that would be easy to replace.

Though beyond the scope of this analysis, it is equally clear that Dallas presents several logistics- and cost-based advantages compared to the headquarters of the other two exchange services – except for their proximity to Washington, DC. Consolidating exchange service operations, even if just headquarters functions, would add over 900 direct, indirect, and induced jobs to the economy of Dallas County with the City of Dallas gaining a large share of these increases.