



Downtown Business Communities and Marcellus Shale Development in Pennsylvania

Introduction

Downtown business communities are an important part of local economies, local identity, and quality of life in many Pennsylvania communities. These traditional downtown business districts, located in boroughs or cities, were the historical center of retail activity and cultural life of the surrounding municipalities, where residents went to shop, dine, or attend concerts, movies, or other events.

Long-term land use and economic trends have been challenging these roles. Suburban sprawl has shifted populations into surrounding townships and taken much economic activity with it. The rise of “big box” retail stores and shopping malls has attracted customers who formerly shopped at downtown businesses, making it more difficult for downtown retailers to survive. Many downtown businesses have responded by working together through downtown business associations, local chambers of commerce, or the Commonwealth’s Main Street program to keep their downtowns vibrant and competitive.

The recent rise of Marcellus shale development has the potential to affect Pennsylvania downtown communities in the regions with active drilling. Leasing and

royalty dollars flowing to mineral right owners and higher employment are increasing the amount of money circulating in local economies. Natural-gas-related companies are buying services and goods from local businesses and looking for office space. Workers moving in from other parts of Pennsylvania and from out of state are looking for places to live.

This fact sheet provides insights from a survey of how the Commonwealth’s downtown business communities are responding to the opportunities and challenges arising from the development of Marcellus shale. The survey included Main Street program managers, other downtown business association affiliates, and chamber of commerce personnel in the Pennsylvania counties most affected by drilling activity. These individuals play very active leadership roles in main street revitalization and economic development, so they are intimately familiar with what is occurring in their business communities. The study focused on the impacts they are seeing on retail space and storefronts, employee retention, sales, and other business activity and their wider concerns, such as strategies in adapting to the Marcellus development and training or grants that may help these associations better respond to ongoing changes.

Methods

The survey was conducted in spring 2011 and focused on Pennsylvania municipalities with populations of over 1,000 and located in counties with extensive Marcellus shale activity (more than 90 wells by the end of 2010). Whether the municipality had a Main Street program, business development district, or chamber of commerce was determined through publicly available information in online directories and informal conversations with Penn State Extension educators; the managers or directors of each were identified through these same means. We found a total of 72 municipalities that fit these criteria across the Marcellus region, but only 38 had an identified Main Street program, business development district, or chamber of commerce.

The survey was e-mailed to these individuals in March and April 2011. In the remaining municipalities where we could not identify a program or group focused on the downtown business district, we sent the survey to the municipal secretary or council president and asked them to forward it to the appropriate person if they had such a downtown program. Responses were received from 11 development district or Main Street managers or chamber leaders, for a response rate of about 29 percent of identified programs (15 percent of all the municipalities, regardless of whether they have such a downtown business program). The responses included a variety of counties, such as Bradford, Fayette, Greene, Lycoming, Susquehanna, Washington, and Westmoreland. More than half of the responding municipalities were the county seat, which is typically the major business community in each county.

Community Profiles

These respondents represented eight chambers of commerce, five main street programs, and two other business associations/business district authorities in their municipalities. Most of these were confined to one downtown area, but two served several municipalities,

and three served their entire county. Similarly, membership (0–1,000 members) and the ages of the associations (3–100 years, with an average of 35) varied widely.

Most of these municipalities were relatively large, ranging in population from about 1,700 to more than 30,000, with an average of 8,639. All of the municipalities except one had a police force. The large size of the responding communities is not surprising since typically only relatively large municipalities have business development or Main Street programs.

Impacts of the Marcellus Shale Development

Seven of the respondents indicated that their communities were directly experiencing Marcellus-shale-related activity, and they rated the level of such activity in their communities at an average of 8.9 (on a scale of 1 to 10, with 1 being “very weak” and 10 being “very strong”). Over two-thirds of these respondents (71 percent) indicated that there was at least one business in their downtown areas with activity directly related to the development of the Marcellus shale.

The majority of the seven respondents were positive about the development of Marcellus shale. “Marcellus shale is, without a doubt, the greatest opportunity to arrive in western Pennsylvania in the past fifty years,” said one respondent, and another thought that “this is a tremendous economic opportunity for our city and the region.” Some respondents were cautious or ambivalent, however. One stated, “We must be fully educated and wholly prepared to exploit the industry to the same degree it will deplete our natural resources,” and, “Gas is needed as an energy source for the country, but we are paying a very high environmental cost. . . . I see the community divided.”

The respondents said that since Marcellus shale development began, the economic health of their communities has increased, going from 4.3 to 6.4 on a ten-point scale. Six respondents (86 percent) indicated that overall business activity in the downtown area had changed since

the beginning of the Marcellus shale development, and of these six, four wrote that the positive impacts have outweighed any negative ones; two others were not sure.

The changes that the respondents identified varied. All but one respondent (who said he/she was “uncertain” about the impacts) said food service providers, such as restaurants, one-stop gas stations, and bars, were seeing more business. One respondent noted, however, that restaurants are struggling with “crowded dining rooms and long waits.” Five said retail businesses, such as bookstores, office supplies, and durable goods, were experiencing more business—for example, one mentioned a local jewelry store that has tripled its sales in one year due to Marcellus activity. Increases in demand for hotels, attorney offices, dry cleaners or Laundromats, title searchers, and errand/delivery services were also mentioned.

The most commonly mentioned challenge for downtown businesses was traffic, which was mentioned by six of the respondents. The large amount of vehicles using the roads created problems for local business deliveries, patrons finding parking, and “nonstop truck traffic” through the downtown area, with the result that they thought people were avoiding the downtown areas.

A second challenge was the low level of hotel vacancies, which means hotels must turn away tourists, who previously were a major source of local business. Those rooms instead are occupied by gas employees on long-term stays, which have other effects on the business community.

Four of the respondents said retail space in downtown areas has changed, with previously empty storefronts being rented to gas-related businesses. “Small offices . . . are being filled with industry workers,” one noted. The result has been a rise in commercial rents, also noted by four of the respondents. One noted that property managers without a set standard are “adjusting” rates to reflect the greater demand, and another said commercial rents have increased by three or four times in his/her community. Landlords have

evicted current renters at the end of their leases in favor of renting to gas-related businesses at a higher price. The respondents noted that the real estate pressure was even greater outside their municipal boundaries, where larger square footage able to accommodate both office and storage needs was available.

Opportunities, Challenges, and Strategies

For Individual Businesses

Respondents were split evenly over whether the development was good for virtually all types of business or just those that have services that “the Marcellus shale industry is looking for.” One respondent expressed concern that businesses expecting a huge “influx of people to the area and a huge increase in wealth . . . are buying into what the gas companies are telling them,” while another stated that many businesses are rejecting “opportunities for growth, viewing it as a ‘flash in the pan.’”

Several respondents said gas development was a “cash cow” for restaurants, as well as for caterers able to deliver at gas well sites and other Marcellus shale work locations. They viewed Marcellus shale as increasing the customer base, bringing in workers and their families. Yet one said that existing businesses must respond quickly to needs before the workers find other sources of the product or services, or they would miss out on the opportunities.

The downtown managers identified some major challenges, including cash flow problems from extending credit to customers due to the “slower payment timeline the oil and gas industry commonly uses.” There also was some fear that businesses would not be paid; local experience in one community was that the lower-level workers were more likely to pack up and move in the middle of the night, leaving behind unpaid rent and utility bills. The respondents also expressed concern about continuing to satisfy the current customer base while appealing to the expanded

needs of their new customer base, and about loss of employees to the industry. In addition, where workers live was considered important. One respondent said that if workers and their families live in neighboring counties, they will be shopping where they live and “not in our downtown.” Even though much of the manual labor was being done in their county, the manager thought that the majority of the workers’ lodging and eating was being done in a neighboring county.

For Business and Downtown Associations

The respondents saw opportunities for their associations to increase membership, which would help increase the organizations’ financial stability. Several suggested that there are greater possibilities for grants or gas industry-related gifts. One respondent expressed hope to tap gas companies for contributions to help complete a streetscape project, which would help preserve the history and integrity of the community. Another respondent said that the volunteer base would increase, enhancing the community. In addition, a respondent thought his/her association could play an important role helping local investors and property owners plan for the long-term and gave the example of how rehabilitation of downtown apartments can be done in a way to respond to the short-run housing needs of the gas industry and still have alternative long-term uses for when the gas development boom passes.

Some of the respondents did not see any major challenges arising for their business associations, while other respondents listed several. The challenges the respondents identified are similar to the challenges they noted for individual businesses. The lack of commercial space downtown makes it difficult for the associations to meet requests for rental space. Several respondents were concerned about how to keep current shoppers coming to the downtown, given the heavy truck traffic. This could exacerbate existing competitive challenges between downtown businesses and big box retailers in

nearby townships. One manager said that the men in the natural gas industry work so many hours that they “really don’t have any free time to shop or use services here,” and when they do, they seem to go to big box stores where they can do everything in one visit. In addition, many of the places where these new workers are employed are outside the traditional downtown business district. Another manager said, “The people who are coming into the area are only coming to work, not to live here. I don’t see the money staying here.” The downtown associations need to find ways to attract workers and new families to shop downtown. As one respondent summarized, “The greatest challenge will be moving business owners from a viewpoint of victimization to an attitude of victory.”

Action Strategies for Main Street Programs

Most of the respondents (71 percent) indicated that their association or Main Street program had taken steps to respond to the opportunities and challenges of Marcellus shale development. One respondent noted that their organization was not doing anything “special” but simply “working with the existing plan,” which fits perfectly to what we are experiencing.

The actions being pursued by the downtown groups ranged from better organizing the community to respond (such as forming a formal “merchants association,” tracking and publishing available commercial vacancies, and meeting with property owners to discuss reinvestment in the business district to accommodate industry needs) to specific improvement projects to make the downtown shopping experience more attractive to customers. The latter included implementing a road-widening project to better handle the increased traffic loads and an arts grant project with a local business using donations from the gas industry. Several respondents also said their associations are involved in public education about Marcellus shale and natural gas development, including attending outreach seminars to increase their

own knowledge and holding their own educational forums to educate the community. One association said they are actively reaching out to the new members of the community.

The respondents shared ideas about what types of business assistance may be helpful to themselves and their members. This included training on merchandising and on how to approach the industry for sponsorship opportunities, collaborative advertising and marketing, infrastructure grants and low-interest loans, and feasibility studies to explore options. In addition, several stressed the value of increasing interactions and communication among the association members and with industry. One respondent suggested targeted monthly meetings with speakers that address identified needs of the merchants association, and another suggested having industry representatives sit on local boards and become part of the community.

Discussion

The responses from the managers of downtown business districts, Main Street programs, and chambers of commerce show that natural gas development activity is affecting downtowns in regions with Marcellus shale, creating both opportunities and challenges. The responses varied across the communities, indicating a range of impacts from natural gas development and an equally varied range of opportunities. Most of the associations seem to be actively engaged with the issue and are using strategies to respond. This is good for the local businesses because groups of businesses working together often can act more effectively and proactively than can individual businesses on their own.

The most pressing challenges appear to be related to traffic and parking, which are vitally important because customers need to feel able to safely visit downtown shopping districts. Of similar importance to them is attracting new workers and their families toward downtown and away from big box stores. The new dollars from Mar-

cellus shale activity will do little good for downtown merchants if customers with those dollars are not able or interested in coming downtown.

The strategies the managers said they are using to address opportunities and challenges, particularly related to physically improving roads and the downtown, reflect that they are thinking proactively. Such strategies have long-run implications and are an example of using opportunities arising from Marcellus shale development to invest for the long-term improvement of the community. At the same time, it is important for downtowns to avoid too heavy a dependence on natural gas companies and related business, or they will become more susceptible to boom-bust cycles in the industry.

While planning and implementing this study, it became apparent that many municipalities do not have downtown business associations or chambers of commerce. This means it will be more difficult for businesses in those communities to develop coordinated responses to the opportunities and challenges of Marcellus shale development since few other groups or organizations within the community can typically play such an economic development and business improvement role. The difficulties the project team had in identifying a local business contacts may also be experienced by gas-related businesses wishing to move into a community or to develop broad connections with local businesses, creating missed local opportunities.

This study relies on a relatively small number of responses, but these are from most of the major business downtowns currently being affected by Marcellus shale activity. The responses do reflect current experience in those communities, which provides a relevant lesson for others.

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