

Rodino Associates

Economic Development & Real Estate Services

June 21, 2010

Council President Ben Hueso
City Council Members
City of San Diego
City Administration Building, 12th Floor
202 C Street
San Diego, California

Re: Review and Summary of Superstore Impact Studies since 2003

Dear City Council President and Members:

As requested by the Center On Policy Initiatives, a summary of the studies conducted on the impacts of superstores on urban communities is provided herein, updating the study conducted by Rodino Associates for the City of Los Angeles in 2003. We have reviewed studies relating to:

- Overall economic impacts
- Labor employment and compensation
- Impacts on neighborhood retailers and supermarkets
- Consumer choice and benefits
- Municipal revenues
- Property values
- Land use and urban design

Overall Issues and Conclusions

The nation's retail grocery sector is undergoing a major transformation, led by supercenters – big-box retail stores with full-scale grocery service. These supercenters are the latest development in the nationwide restructuring of the retail grocery industry. Based on efficient distribution systems, low prices, and shoppers increasingly seeking value, supercenters are intensifying competition within the sector. While they are a national phenomenon, supercenters also have important local impacts. However their appearance in California and most other regions of the nation raises a complex range of issues concerning their costs and benefits, fiscal implications for local communities, governments, and land use policy. The claims made by the advocates of supercenters regarding their economic development benefits are often invalid, and in fact numerous studies have found their impacts can be economically harmful.

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The overall conclusions of our current review of studies are similar to the conclusions of our 2003 report, and are based on the following:

- In a mature urban retail market, such as San Diego, a superstore of 100,000 to 200,000 square feet of floor area, averaging \$50 million to \$100 million in annual sales, must take most of those sales from the surrounding retailers selling similar products within the trade area. There is not enough population growth within the mature trade areas in the City of San Diego to generate retail sales from increased demand. In other words there are little or “no net new sales” within a superstore’s trade area.
- While a portion of sales can be made up from consumers coming into a trade area, i.e. into the City of San Diego from outside the city, this process is rarely sufficient to satisfy the annual sales volume associated with superstores. Regionally, there would still be little or no net new retail sales growth, since those retailers outside the trade area would correspondingly lose sales volumes.
- Focusing on the source of retail expenditures, namely consumers, is key to understanding the economic processes at work. Since consumers do not consume more simply because a new superstore has arrived, their retail expenditures are primarily redistributed to the superstore from the existing grocery and general merchandisers in the trade area.
- With no “net new expenditures” there are no “net new jobs” created. In fact a decrease in retail employment may occur since superstores can generate more sales with fewer employees. Those jobs at the superstore often pay less with lower benefits than the jobs at competitive retailers, particularly compared to jobs at unionized supermarkets or retailers paying similar wage and benefit packages.
- Since prices are often lower at superstores than at local competitors (although this is not universally true) sales tax revenues may actually decrease as a result of the superstore, since sales taxes are based on the dollar volume of sales, which may decrease if there are no net new retail expenditures.
- In some communities competing grocery stores have closed due to their reduction in sales. When this occurs consumer choice is reduced as well as employment, municipal revenues and property values.
- Superstores have sometimes relocated out of their stores within a given trade area, to what is believed to be a better location, often leaving their former stores dark, holding on to their lease, and thus preventing other retailers from occupying their former store. When this occurs, and particularly if combined with closed grocery stores within the trade area, property values impacted decrease and surrounding businesses that had depended on their proximity to the superstore or supermarket lose business. The cascading impact can mean not only a loss of property values to property owners, but of a loss of property taxes and sales taxes to the local municipality.
- Since superstores require about 7 to 15 acres of land for the store and parking, this large expanse of black-topped parking can create problems for communities seeking to create pedestrian-oriented retail areas.

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Overall Economic Impacts: No “Net New Sales”

The trade area of a supercenter in a mature urban market is generally about 10 miles in radius. Retail sales within a given trade area are the result of the consumption patterns of consumers in that trade area. If retail consumption is not increased there can be no net new retail sales within the trade area, only a redistribution of sales from one retailer to another. An apparent modification of this conclusion occurs when consumers from the trade area enter another municipality to make purchases. The retail sales of the host municipality will increase, but it will usually be at the expense of the retailers in other parts of the trade area. Thus the economic development benefits of a superstore must be carefully examined to ascertain its legitimate impact. In a study conducted by **East-West Gateway Council of Governments; (St. Louis, Missouri region) January 2009, entitled “An Assessment of the Effectiveness and Fiscal Impacts of the Use of Local Development Incentives in the St. Louis Region, [PDF]”** it was found that despite spending more than \$2 billion in tax breaks for new shopping centers and big-box stores, the St. Louis metro region has seen no growth in either retail sales or jobs. Between 1993 and 2007, the study estimates that tax increment financing (TIF) and special tax districts alone cost taxpayers \$2.5 billion. About 80 percent of this was directed to retail development, including many large shopping centers filled with chain stores and located in affluent suburbs. The study concludes that the subsidies did not increase taxable retail sales, nor did they boost revenue for local governments. Furthermore, the subsidies did not produce significant job gains.

As similar study was conducted by the **Federal Bank of Minneapolis Jan 2008**, as reported in the **Fedgazette**, found a slightly more positive impact but one that is not supported by other studies reviewed, as reported herein (see below). It stated “Wal-Mart (has not) been a boon for local communities. Poverty rates, for example, declined in most counties during the period studied, but they declined by less (poverty rates didn't improve as much) in Wal-Mart counties. By other measures, Wal-Mart had no noticeable effect. Overall, counties with and without Wal-Mart had similar growth in population and income per person. In sum, **Fedgazette** findings suggest that Wal-Mart has a slightly positive effect on counties where the retailer decides to set up shop. But the effects are small; one could call the results mostly a wash. As a result, maybe the most concrete conclusion of the study is that Wal-Mart's presence (or lack thereof) has little or no predictive power regarding the economic success or failure of a county.

Studies have found a negative impact on poverty rates to be a characteristic of counties that have Walmart stores. In a study published in **Social Science Quarterly, June 2006 “Wal-Mart and County-Wide Poverty” - by Stephan Goetz and Hema Swaminathan**, counties that have gained Wal-Mart stores have fared worse in terms of family poverty rates. The presence of a Wal-Mart store hinders a community's ability to move families out of poverty, according to this study. After controlling for other factors that influence poverty rates, the study found that U.S. counties that had more Wal-Mart stores in 1987 had a higher poverty rate in 1999 than did counties that

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started the period with fewer or no Wal-Mart stores. The study also found that counties that added Wal-Mart stores between 1987 and 1998 experienced higher poverty rates and greater usage of food stamps than counties where Wal-Mart did not build, all other things being equal.

Labor Employment and Compensation

A major study conducted by the **Center for Labor Research and Education at the University of California at Berkely in December 2007** found an overall depression of wages and employment as a result of Walmart store openings. The study is quoted as follows:

“Empirical evidence suggests that employees at Wal-Mart earn lower average wages and receive less generous benefits than workers employed by many other large retailers. But controversy has persisted on the question of Wal-Mart’s effect on local pay scales. Our research finds that Wal-Mart store openings lead to the replacement of better paying jobs with jobs that pay less. Wal-Mart’s entry alsodrives wages down for workers in competing industry segments such as grocery stores..

“With an average of 50 Wal-Mart stores per state, the average wages for retail workers were 10 percent lower, and their job-based health coverage rate was 5 percentage points less than they would have been without Wal-Mart’s presence. Nationally, the retail wage bill in 2000 was estimated to be \$4.5 billion less in nominal terms due to Wal-Mart’s presence. When Wal-Mart’s timing of expansion is taken into account, we find strong evidence that each new Wal-Mart lowered retail wages.

“Opening a single Wal-Mart store lowers the average retail wage in the surrounding county between 0.5 and 0.9 percent. In the category of general merchandise, wages fell about 1 percent for each new store, while workers in grocery stores saw average wages decline about 1.5 percent. As we would expect, there was no noticeable effect on wages in other low-paying economic sectors that did not compete with Wal-Mart. Restaurant workers, for example, saw no change in their take-home pay as a result of big box entry into their county.

“Some research suggests that Wal-Mart may be responsible for a small net increase in jobs. Our study demonstrates that the opening of new Wal-Mart stores produces a decline not just in average wages but in the total wage bill of a county. Every new Wal-Mart in a county reduced the combined or aggregate earnings of retail workers by around 1.5 percent. Given that the fall in total wages was greater than the decline in average wages, it is highly unlikely that there is compensating positive employment growth associated with a Wal-Mart store opening.

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“Wal-Mart’s effect on county wages appeared only in metropolitan statistical areas. The strong decline in earnings that was evident in metropolitan counties did not show up in rural counties. This result is consistent with other research that shows that rural areas are more likely to have low-wage firms. Where wages are low to begin with, the arrival of the retail chain is less significant. This is especially true because the minimum wage becomes binding at low wage levels, which is more likely in rural areas. In metro areas with better-paying jobs and a higher rate of unionization, Wal-Mart’s entry was more likely to have an impact on the labor market.

“This is particularly important since the large majority of new Wal-Mart stores are located in metro areas. This also explains the greater resistance to Wal-Mart store locations in metropolitan compared to rural areas, since workers and unions have more to lose in urban settings. The new research strongly suggests that Wal-Mart entry lowers wages for employees in competing businesses, and the effect can be seen at both the county and state levels.

“Controlling for demographic or skill mix of the workforce cannot explain the results. Wal-Mart openings depress average and aggregate wages and reduce the proportion of the workforce that is covered by employer-sponsored health insurance.

“Of course, Wal-Mart’s presence is also likely to bring lower prices. Existing research shows big-box stores like Wal-Mart can use their distribution systems and leverage with suppliers to produce substantial savings to consumers. However, to the extent that competing on cost produces negative effects on low-wage workers, this is an important consideration when deciding the “rules of the game” that big-box retailers need to abide by. And since wage and benefit savings are not the main part of the cost advantage for a company like Wal-Mart, it could continue to pass on most of these savings while paying higher wages and benefits. These factors should be taken into account by policy makers in their decision-making on economic development.”

Other studies have found similar results. A study conducted in the **Bay Area Economic Forum in January of 2004** entitled “**Supercenters and the Transformation of the Bay Area Grocery Industry: Issues, Trends, and Impacts**”, found the average grocery job in the large Bay Area of California supermarket chains paid wages and benefits worth about \$42,552 per year, of which about a third is the value of the benefit package (including health care coverage, vacation, holiday and sick leave). Supercenters offered a total compensation (wages and benefits) estimated at about \$21,000 less yearly per average grocery employee. The study found that these direct losses had indirect consequences. Lower regional incomes meant less spending on other goods and services. Through multiplier effects, the net economic impact of this reduction of wages and benefits to the regional economy could be more than double the direct loss, though such multipliers are difficult to quantify. The study authors were **R. Sean**

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Randolph, Bay Area Economic Forum, Dr. Marlon Boarnet and Dr. Randall Crane, and Daniel Chatman and Michael Manville, Public Economics Group.

Another study entitled “**Impact of Wal-Mart Growth on Earnings throughout the Retail Sector in Urban and Rural Counties**” conducted by **Arindrajit Dube, Barry Eidlin, and Bill Lester, Institute of Industrial Relations Working Paper Series, 2005**, analyzed the impact of Wal-Mart's expansion during the 1990s on the earnings of retail workers. This study found that, in counties that were part of Metropolitan Statistical Areas (MSAs), every additional Wal-Mart store reduced average earnings in that county by between 0.5% and 0.8% for workers at general merchandise stores and between 0.8% and 0.9% for grocery store employees. This drop in average earnings, combined with a reduction in the overall number of jobs in these sectors caused by Wal-Mart's arrival, produces a total loss in earnings for grocery and general merchandise workers of 1.3% for each Wal-Mart store that opens.

Impacts on Neighborhood Retailers and Supermarkets

Numerous studies examine how the arrival of a big-box retailer displaces sales at existing businesses, which must then downsize or close, resulting in job losses and declining tax revenue. For example, supermarkets often anchor neighborhood shopping districts. A loss of a supermarket to big box competition could threaten the economic health of other stores that rely on foot traffic generated by the grocery store. In some cases, supercenters—much as the big-box retail format more generally—could impact the economic vitality of existing downtowns or neighborhood shopping centers (**Bay Area Economic Forum in January of 2004, op . cit.**)

The opening of a Wal-Mart on the West Side of Chicago in 2006 led to the closure of about one-quarter of the businesses within a four-mile radius, according to this study by researchers at Loyola University. They tracked 306 businesses, checking their status before Wal-Mart opened and one and two years after it opened. More than half were also surveyed by phone about employees, work hours, and wages. By the second year, 82 of the businesses had closed. Businesses within close proximity of Wal-Mart had a 40 percent chance of closing. The probability of going out of business fell 6 percent with each mile away from Wal-Mart. These closures eliminated the equivalent of 300 full-time jobs, about as many Wal-Mart added to the area. Sales tax and employment data provided by the State of Illinois for Wal-Mart's zip code and surrounding zip codes confirmed that overall sales and employment in the neighborhood did not increase, but actually dipped from the trend line. Although Wal-Mart claims its urban stores recapture dollars leaking to the suburbs, the findings of this study suggest that urban Wal-Mart stores primarily displace sales from other city stores. "There is no evidence that Wal-Mart sparked any significant net

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growth in economic activity or employment in the area," the researchers conclude. (**The Impact of an Urban Wal-Mart Store on Area Businesses** - by Julie Davis, David Merriman, Lucia Samayoa, Brian Flanagan, Ron Baiman, and Joe Persky, published by the Center for Urban Research and Learning, Loyola University Chicago, December 2009).

Consumer choice and benefits

For most consumers, the clearest advantage of supercenters is the mix of goods offered at lower than average prices. As supercenters achieve sizeable market share, these savings are often considered to be significant. A study conducted by Global Insights, commissioned by Walmart, found the multiplier effects from lower prices could be up to two times the amount of direct expenditure savings. However a study of the Global Insight study found errors and inconsistencies in the analysis. In "**Wrestling with Wal-Mart: Tradeoffs Between Profits, Prices, and Wages**" - By Jared Bernstein, Josh Bivens, and Arindrajit Dube, Economic Policy Institute, June 15, 2006, the study noted that the economic multiplier affect can be offset by a similar negative multiplier due to lower wages and benefits. This analysis refutes the findings of a 2005 study by Global Insights (GI) that found that Wal-Mart saves U.S. consumers \$263 billion annually, or \$2,329 for the average household. The Economic Policy Institute concludes that the GI study is "fraught with problems." It identifies major internal inconsistencies in GI's figures and finds that the firm's statistical analysis "fails the most rudimentary sensitivity checks." The authors state, "Once we addressed these weaknesses the statistical and practical significance of Wal-Mart's price effects effectively vanished."

Municipal Revenues

Municipalities and their consultants commonly believe that big box discount general retail stores have a positive influence on net sales tax receipts. This has been disputed by some researchers, who point out that large retail stores, and general merchandise discounters in particular, might cannibalize sales of existing retail stores within the city limits, depending on the particular size and geography of the municipality. (**Bay Area Economic Forum, op.cit.**)

However, the bottom-line calculation of supercenter tax revenues is more nuanced than often appreciated. First, an expansion into non-taxable grocery sales will not generate the sales tax revenue per square foot of a conventional discount store. Second, net sales tax revenue will be reduced to the extent that supercenter sales simply displace

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sales at other stores in the same municipality. At a regional scale, supercenters bring the potential for shifting sales tax revenues across municipalities, creating a regional pattern of winners and losers. Third, any revenue impact must also be weighed against local public sector costs, such as the traffic, possible vacancies at other retail sites, and the public services required by a supercenter. Local government must consider both the positive and negative externalities of the supercenter format to arrive at the true impact of on public revenues. (*Ibid.*)

Further, evidence exists that Walmart is using tax loop holes to avoid or minimize tax payments. Wal-Mart Watch has prepared a memorandum to illustrate how Wal-Mart, using tax avoidance schemes provided to it by the accounting firm Ernst & Young, has short-changed many states out of millions of dollars of state tax money. As revealed in a February 2007 *Wall Street Journal* story, Wal-Mart pays billions of dollars in rent per year, yet in many states the retail giant has been paying rent to itself and then deducting those amounts from its state taxes. As is commonly known, corporate tax loopholes are having a profound effect on state revenue collections, and mounting evidence demonstrates that Wal-Mart has aggressively pursued them for many years in order to avoid paying state taxes. The tax schemes vary in complexity as well as legality from state to state, but the underlying results are the same: these strategies have saved Wal-Mart from paying hundreds of millions of dollars in state taxes. **Walmart Watch 2008 “Understanding the Fiscal Impacts of Land Use in Ohio” - by Randall Gross, Development Economics, August 2004** compares the municipal tax benefits of big-box development with the cost of providing these stores with city services, such as road maintenance, police and fire—finding that cities do not always come out ahead. This report reviews and summarizes the findings of fiscal impact studies conducted in eight central Ohio communities between 1997 and 2003. In seven of the eight communities, retail development created a drain on municipal budgets (i.e., it required more in public services, such as road maintenance and police, than it generated in tax revenue). On average, retail buildings produced a net annual loss of \$0.44 per square foot. "The concept that growth is always good for a community does not seem to correlate with the findings from various fiscal analyses conducted throughout central Ohio," the report concludes. It cautions cities not to be taken in by the promise of high tax revenue from a new development without also considering the additional costs of providing services. Unlike retail, office and industrial development, as well as some types of residential, produced a net tax benefit.

Property Values

Superstores have often relocated out of their stores within a given trade area, to what is believed to be a better location, leaving their former stores dark, holding on to their lease, and thus preventing other retailers from occupying their former store. **Wake-Up Wal-Mart Blog.com** reported on **April 23, 2010** the problems of dark big-box stores in Ohio, in an article entitled “**Wal-Mart Now Has 12 Dead Stores in Ohio**”. The article stated: “The city of Elyria, Ohio has become the site of the 12th ‘dark store’ owned by Wal-Mart. A 120,036 s.f. Wal-Mart in Elyria is

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now on the list of stores being marketed by Wal-Mart Realty---but its also another empty box whose property taxes will plummet, and sales taxes disappear. The Elyria store has closed because Wal-Mart built a new superstore in Lorain, Ohio, just five miles away. Ohio now has 1.2 million square feet of dead Wal-Marts. The 13.785 acre site in Elyria is already listed for sale by Wal-Mart Realty. The store is only 18 years old--but at 120,036 s.f. (the size of 2 football fields) it is not likely to move any time soon according to local realty sources. Making matters more difficult--there is an empty Dillard's department store (which was killed by competitors like Wal-Mart) in the same mall, an empty Michael's craft store nearby, as well as a nearby dead Circuit City. "We'll have another big-box building that's empty," Elyria City Council President Forrest Bullocks, told the Chronicle-Telegram. Clearly Elyria and Lorain should be doing some regional land use planning, because currently these big chain stores are playing one city off the other---and squandering land in the process. Dead malls are not just a waste product of the free market system--they represent mindless sprawl and poor use of a limited natural resource."

In a similar development the town of Derry, New Hampshire faces the same problem. In” **Wal-Mart in Derry, N.H. Will Leave a Dark Store**” the **Wake-Up Wal-Mart Blog.com** reported on **May 10, 2010**: “Two years ago, in March of 2008, Wal-Mart dropped plans to build a Derry superstore. But now the company says its plans are back on the drawing board---which means the company will leave behind a ‘dark store’ that could remain empty for years. The new store will measure 147,000 s.f. Wal-Mart says the 160 people it employs at its current Derry store will be transferred to the new site, and that 85 new jobs will be created. This, of course, is a gross figure, and does not indicate the net jobs left once you subtract out the similar jobs that will be lost at existing grocery stores in the Derry trade area. “

Land Use and Urban Design

Changes in retail patterns can also be associated with changes in traffic patterns. In some cases, the low-density, land-intensive nature of a supercenter might be at odds with municipal goals of building at higher densities. As reported by the **Bay Area Economic Forum in January of 2004**, on average nationwide, supercenters generate over 3,300 car trips per day. Furthermore, because supercenters are generally located on the urban fringe, they often result in more total vehicle miles traveled (VMT) for grocery shopping in comparison with conventional grocery stores.

In a study conducted by the **Center for Clean Air Policy**, “**A Study of Land Use, Transportation, Air Quality, and Health in King County, WA, Sept. 2005**”, it was found that big-box stores generate large volumes of traffic—much more than most other land uses. The amount of traffic is directly related to the size of these stores. “The

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larger the store, the larger the geographic area from which it pulls customers and thus the higher the traffic counts. A superstore typically generates more than 10,000 car trips on weekdays and more on Saturdays. The kinds of businesses that often spring up near big-box retailers—fast-food outlets, gas stations, and convenience stores—also produce large volumes of traffic.” The study went on to note that “Traffic and noise depress property values in nearby neighborhoods. More traffic increases the cost of local government services, such as road maintenance and police.” The solution it proposed involved land-use regulatory policies “By limiting the size of stores, prohibiting sprawling development on the outskirts of town, and supporting neighborhood and downtown retail, communities can shorten the distance from home to store, reduce vehicle traffic, and facilitate more walking, bicycling, and public transit use. The benefits of this approach are substantial. The 2005 study of 3,200 households in King County (greater Seattle), Washington, found that, compared to residents of low density subdivisions that lack neighborhood stores, people who live in traditional neighborhoods with a variety of small scale retail services, schools, parks, and other uses nearby:

- log 26 percent fewer vehicle miles per day;
- generate lower emissions of pollutants such as nitrous oxide, volatile organic compounds, and carbon dioxide, a leading cause of global warming;
- are more likely to achieve the U.S. Surgeon General's recommended 30 minutes of moderate activity per day; and
- are less likely to be overweight or obese.

The study controlled for age, gender, income, education, and other factors that also influence transportation choices.

Respectfully,

ROBERT J. RODINO, PH.D.

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