ATTACHMENT 4

Fiscal and Economic Impacts Of Large Retail Establishments

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Introduction

The purpose of this study is to provide policymakers in San Diego with information about the fiscal and economic impacts of large retail establishments on the local economy and City treasury. Retailers have, over the years, constantly increased the physical size of their stores in order to achieve efficiency and better compete against each other. Like many cities throughout California, the City of San Diego is considering exercising its land use powers to limit the size and location of large retail establishments in order to preserve the character of individual communities within the City, and to ensure that the size and location of such stores does not negatively impact the City as a whole. This study is not intended to promote or disparage the retail sector generally, or to promote or disparage any particular retailers specifically. The names of certain retailers have been used throughout this report only as examples and to clarify the basis for assumptions used in this analysis, as is the case in all of the other studies on the subject which were consulted.

Due to severely constrained resources and timeframes, this study borrowed heavily from a number of other much more comprehensive studies prepared by private firms for other agencies and other jurisdictions. As such, we recognize its essential limitations as an academic work. Nevertheless, we have attempted to provide a fair, balanced, and objective evaluation of the impacts of large retail establishments, and have consulted a wide variety of sources. Accordingly, this study is more a survey of the available literature, and not a rigorous quantitative analysis designed to answer every "what if" scenario. We believe that the assumptions are reasonable and the analytical models used at least provide more information than was previously available, and certainly provide the basis for more meaningful discussions on this important subject.

Economic Fundamentals

In order for any community to become more economically prosperous some members of the community must engage in economic activities which bring wealth ("capital") into the geographical area which the community occupies. Even a "self-sufficient" agrarian society must import some tools or resources from areas and people outside that community. So generally speaking, the members of the community must produce some product or commodity such as food, energy resources, minerals and metals, manufactured products, etc. which is then either consumed locally, or sold or traded to others outside the community in order to import other goods. If members of a community don't produce enough goods locally to trade for goods produced by others, then they must provide services to those others which are equivalent in value. These services could range from hosting tourists to developing and licensing technologies and intellectual properties.

People in communities all over the world produce goods and provide services to each other which are "traded" primarily using some form of currency or cash equivalents as the medium of exchange. The economic sectors and industries (mining, manufacturing, agriculture, and tourism) which "earn" money (capital) by producing goods or providing

services to outside visitors make up what economists call the "economic base" of the local economy. These industries are the economic core or foundation for the local economy because they make it possible for the community to import those goods and services which cannot be produced or provided internally, or at least which cannot be produced or provided at a "comparative advantage" to those produced externally. The other economic sectors and industries are "layered" on top of this economic base in direct proportion to the size of the population and the size and relative strength of the economic base. These other sectors, the public sector, the service sector, the retail sector, and some part of the wholesale sector essentially "feed" off of the economic base which creates the wealth or import capacity. While these sectors provide essential and desirable services to the community members, they cannot grow or provide a level or service beyond the capacity of the economic base on which they are dependent.

Wholesale Trade

Wholesale trade typically occurs when large amounts of goods are imported into a community in bulk shipments. Wholesale trade is the economic activity which links the producers of goods, mainly manufacturers, with the ultimate sellers of goods, usually retailers. The wholesaler for the most part provides shipping and storage services to the manufacturers and retailers using trucks, fork-lifts, and warehouses. Wholesalers can be located anywhere between the manufacturers and the retailers. As such they could be more or less part of the economic base of the community which manufactures the goods or part of the community which consumes the goods (by providing a "service") to the manufacturer. In many instances the distinction is blurred because these "middle men" are cut out of the economic process as manufacturers and retailers perform the functions of a wholesaler when they can do so cost effectively.

Retail Trade

Retail trade is essentially a "service" function between the manufacturer or wholesaler and the ultimate consumer of goods. Retailers earn their profits by providing services to members of the community when they consume goods. As such, retailers are dependent for their livelihoods on the buying power of the consumers in the community which includes all members of that community. The buying power of the consumers is a function of their connection to the economic base of the importing community. Using just one example, the producers (factory workers) in the community earn money for their company by producing goods which are sold to another community. The "value-added" by the factory workers, minus profits retained by the factory owners, is converted to cash and distributed through the payroll to the workers. These workers in turn use this cash to purchase goods from the retailers. Obviously their purchasing power is limited not only by the prices charged by the retailers, but by the wages paid by the manufacturers. Any retailer larger than a "mom and pop shop" has workers (salesmen and salesladies) who provide the bulk of the retailer's services to the consumers. They get paid also, and in turn spend some portion of their wages at the establishments of other retailers, and so on. Accordingly the retailers are all directly or indirectly feeding off of the wealth of the economic base industries and are able to

prosper and grow only as fast as the economic base can grow. The retailers are thus competing among one another to obtain larger slices of the same economic "pie."

Therefore, while it is true that retailers contribute to the total measure of a community's economic size such as Gross Regional Product (GRP), it is also true that a community will have a retail sector or only as large as the income derived from the economic base. Sales revenues and jobs added by one retailer will, almost without exception, result in a commensurate loss of sales revenue and jobs at one or more other, competing retailers. There are some limited exceptions to this general rule, such as when retailers are able to increase, for instance the consumption of goods in lieu of services (selling a DVD to a consumer who would have otherwise gone to a theater, or selling a new flat screen TV to a consumer who would have otherwise gone on vacation), but for the most part competition between retailers within a community is a zero-sum gain for the community as a whole.

<u>Retail Site Selection</u>

Retail uses are established in a community based almost entirely on demographics – the specific characteristics of a region's population regarding income, age, density, etc. and the presence of existing competitors in the targeted "trade area." Since the retail outlet is the last stage of the economic process before consumption occurs, it is extremely difficult for the retailer to move out of (or not locate in) the trade area, much less the region as a whole. Despite the rise of internet sales where goods are purchased on-line and delivered to the consumer's doorstep, most retail sales still occur in retail stores. In fact the recent trends suggest that "large format" or "big box" retailers are able to effectively compete with smaller and non-traditional retailers based on price, selection, and overall value. These type retailers are increasingly constructing ever-larger "super-markets" and "super-centers" precisely into order to compete with smaller less value-oriented retailers. For the most part, San Diego retailers do not compete with retailers outside the City, and almost never compete with retailers outside the region.

<u>Economic Development</u>

All communities throughout history have engaged in some form of economic competition which is similar to the competition between private sector businesses. Certainly countries or "nations" compete with each other not only for land and resources but also for investment capital. Within large "free market" countries, states, districts, and provinces compete among themselves to get desirable investments which enable the community to increase the size of its economic base, and by extension, its import capacity. Even within states or provinces, communities represented by smaller jurisdictions such as cities, counties, towns, and townships (or groups of such jurisdictions called "regions") compete for investments that will result in new found wealth distributed through the creation of job opportunities and the associated payrolls. In most instances the investments are fixed capital investments such as mines, factories, research laboratories, tourist attractions, major corporate administrative

offices, government or military establishments, even prisons. This practice of competition for job-creating investments is the major focus of economic development.

At some level, residents or members of a community expect their government to, in some way, encourage economic development and the creation of jobs. Individually or collectively, community members will want economic opportunities and they will expect policymakers (i.e. elected officials) to at minimum, create a "business friendly environment" and in some cases actively "recruit" business establishments to come to their community or expand in their community rather than in some other community.

Fiscal and Economic Impact of Retail Establishments

It is a common misperception that economic development agencies seek to attract retail establishments to their community. Since retail establishments are not part of the economic base of the local economy there is little to be gained from attracting a new retail establishment knowing that a success here would come at the expense of existing retail establishments. Since there is no realistic expectation of a net increase in job opportunities (there could be a net decrease if the new retailer is highly mechanized and efficient) the attraction effort would be pointless unless some other benefit can be derived for the community. With some exceptions, the economic impact of a new retailer coming into the community is likely to be economically neutral.

In California, where a portion of the sales taxes collected by retailers is allocated "by situs" to the jurisdiction where the sale tax place, it is possible for one jurisdiction to gain additional tax revenue at the expense of a neighboring jurisdiction (city or county). This ability to increase tax revenue through economic development efforts does in fact result in a situation where some cities actively recruit retailers to their city, even though it is understood that there are few if any new job opportunities created, and no significant economic impact will result. Most of the competition for retailers occurs between small cities or between small cities and big cities. This occurs because a large retailer attracted to a small city may frequently have a "trade area" which overlaps the territory of one or more other cities, thus enabling it to capture the sales revenue from consumers in those other cities. Since the sales are frequently taxable, the city where the sales transactions take place gets 1% of the value of those sales in the form of new tax revenue. Large cities like San Diego however, can only play this game if they can get the retailer to locate near the edge of the city limits, so that more than half of the total value of the retailer's taxable sales transactions comes from consumers in a neighboring city. Since retail site selection is based almost entirely on demographics, cities have very little ability (even with zoning and other land use policies) to "site" a retailer in a place which is most fiscally advantageous. The larger the city, the less influence it has over retail site selection. (see Fiscal Impacts of Large retail Establishments below)

A Short History of Retail Strategies

Large format or “Big Box” retailers without question impose economic changes on a community. Those changes must be measured against the underlying assumption of a free market economy – that is, that competition is fundamentally good for the consumer. Competition presumably drives prices down and stimulates efficiencies and other improvements in product design, performance, and availability. Competition within the retail sector has led to ever increasing store sizes or “formats” as retailers seek to lower prices and increase product availability through greater efficiency. The evolution of larger and larger retail stores has clearly been a successful strategy as evidenced by Wal-Mart Stores, Inc. becoming the number one Fortune 500 company, supplanting industrial firms like GM and Exxon for the first time.

Consumers often support land use decisions allowing the construction of large retail establishments, despite their visual impact, traffic impacts, and other concerns, simply because the retailers using these formats have been able to drive down prices to historic lows (as measured in constant dollars) , and consumers like low prices. The question which arises then, is whether the economic benefit of such retail establishments (lower prices for consumers) plus the convenience of having a “one-stop-shop” is outweighed by the economic costs imposed on the community.

Big Box retail stores are not a new phenomenon. Economies of scale were the primary feature in the growth of department stores in the early 20th Century. Free-standing Sears Roebuck &Co. stores and their early competitors like Woolworth Co. aggressively sought market share from traditional main-street “mom-and-pop” retailers, eventually eliminating many of them from the market permanently. Name brand hardware stores like Ace Hardware and later Home Depot, Home Base, and Lowe’s have largely eliminated the small independent hardware stores. Most of the “corner” grocery stores have been eliminated by ever larger versions of Safeway, Vons, Lucky’s, Albertsons, Ralphs and other “supermarkets.” Other large format retailers have achieved greater efficiency and higher margins by specializing in a fairly narrow product line. These specialized retailers have gained at the expense of not only small independents, but also medium-sized chain stores, and even the large discount retailers like K-Mart, Wal-Mart, and Target. These so-called “Category Killers” like Toys R Us, Best Buy, and Fry’s Electronics found a way to obtain efficiency by offering a limited range of related but discounted merchandise in large free-standing stores. Membership department stores like Gem-Co, Price Club (now Costco) and Sam’s Club, again using large warehouse-sized free-standing buildings, offered substantial savings to consumers by offering a limited selection of food products and discount merchandise in bulk quantities.

In San Diego retailers can be sorted into three basic categories: (1) the remaining independent “mom-and-pop” retailers who still occupy the “main street” type commercial corridors and survive by catering to niche markets such as used merchandise, ethnic specialty merchandise, organic foods etc. (2) small and medium format chain stores, department stores, and supermarkets operating out of strip centers and regional shopping malls, and (3) large format retailers co-mingled in so-called “power centers”.

Economic Impacts of Large Retail Establishments in San Diego

Given the aforementioned discussion, it can be argued that retailers of any size do not have a significant positive economic impact because they are dependent on consumer demand generated at the base level of the economy. The next step is to analyze the potential negative economic impacts which might result from the entrance of new retailers, especially those operating large format stores. Evaluating such impacts will necessitate taking a closer look at competition between the retailers operating within San Diego, the effect on older communities from changing land uses, and discerning future retail trends.

Urban planners have long decried the proliferation of large format retailers because of their presumed contribution to the decline of the City's downtown and the pedestrian-friendly "main street" corridors of University Avenue, El Cajon Boulevard, and many other older areas and smaller neighborhood-serving strip malls. Much of the shift away from main street retailers towards larger format retailers resulted from the mobility consumers gained from the widespread and increased availability of automobiles. As consumers gained the ability to haul home larger quantities of goods in any one shopping trip, the relative attractiveness of larger format retailers increased gradually over the last several decades.

At this point the small format independent retailers have established niche markets and compete among themselves. The real cutthroat competition now exists among and between the large corporate retailers who operate from fairly large malls, shopping centers, and power centers. These retailers are focused on efficiency and are constantly refining business practices to save money on labor costs, inventory costs, and other operating costs in order to be the low price leader. Some, like the supermarket chains, are unionized, most however are not.

Exporting Money through Profits

It is quite obvious that retailers have the power to reverse the flow of money coming into a community. If the owners of a retail store live in the local community some significant portion of the store's profits remain in the community as the owner spend these profit dollars consuming goods and services procured at other nearby business establishments. Profit dollars are thus "recycled" through the local economy several times before accumulating into a large financial institution. Some estimates indicate that such profit dollars would be recycled 4-7 times before leaving the community, resulting in consumptive economic benefits for quite a number of other local residents.

By contrast, if the retail store's owners live outside the community (e.g. outside San Diego) then the profits are almost immediately removed from the community and invested (mostly or entirely) somewhere else. Using the example of a large corporation, the profits are distributed as dividends to hundreds of thousands of shareholders almost all of whom live outside the City. So it follows logically that if a retailer has operations in San Diego which are highly profitable, and that retailer's owners (usually shareholders)

are located outside San Diego, then that retailer is exporting wealth out of the City. This is the exact opposite of the base sector manufacturer whose local payroll expenditures vastly exceed the amount of profit which is pulled out and distributed to the owners.

The Issue of Jobs and Benefits

Since job opportunities are the mechanism by which a significant part of a community's wealth or earning are obtained, the quality of the jobs, measured in terms of total compensation is a major factor in determining the economic impact of a particular project, business, or industry to the local community. Economic impact analyses are typically performed using an input-output model. These economic models are essentially sophisticated mathematical formulas combined with a community's particular economic profile (demographics, size and type of all industries etc.) The most common are the IMPLAN and REMI models used by government agencies throughout the U.S. Regardless of the input – output model used, the most important variables entered are the number of jobs in question and the amount of compensation associated with each.

Accordingly, if a low-wage retailer gains market share within a given community at the expense of a retailer which pays higher wages and/or offer better fringe benefits such as medical insurance, then a negative economic impact would result. The total amount of the economic impact would be calculated from the input variables such as shift in market share and wage/benefit differential. This economic impact is similar and related to the one described above because, if any business, including a retailer, is able to reduce labor costs without losing market share, then to some degree, profits will increase. So if a retailer is able to lower its labor costs and profits are distributed to owners outside the community, then less money is left behind to "recycle" through the local economy. Obviously this means less jobs at other businesses, less purchasing power, less importation and consumption of goods and services, less prosperity generally. However, if some portion of the labor cost savings is "left behind" in the hands of local consumers via lower prices for retail goods, then those savings would have to be accounted for (netted out) in the analysis. If the reduced labor costs are entirely returned (shifted) from workers to consumers then the result could be a zero-sum gain – i.e. no additional negative economic impact. Such a scenario is unlikely, since the goal of any private-sector business is to increase profits first and foremost, and reduced prices (consumer savings) is simply a means towards that end.

Since most non-union retailers pay roughly the same wages and offer the same fringe benefits (if any) it is difficult to generalize about the potential economic impact of one retailer versus another, at least insofar as labor compensation is concerned. The available evidence indicates that most retail employees are paid a wage between the California minimum wage rate of $6.75/hour and about $12/hour. The average wage for cashiers is approximately $9.50/hour. Union-scale wages for cashiers are substantially higher, approximately $15.30/hour and include a substantial fringe benefit package.

Supercenters – The Newest, Largest ,and Most Efficient Retail Format

The newest phenomenon in retail development is the "supercenter." This ultra-large format retail establishment is a combination discount general merchandise store and grocery supermarket. These large stores are highly efficient and are designed to compete effectively with smaller stores carrying the same merchandise. Supercenters always exceed 100,000 square feet in size, most are well over 150,000 square feet, and some have been constructed as large as 250,000 square feet. Supercenters are operated primarily by five major retailers: Fred Meyer, Kmart, Meijer, Target Corp. and Wal-Mart Stores, Inc. Wal-Mart is by far the largest operator of supercenters having constructed 1,258 throughout the country by 2002 (over 70% of the nation's approximately 1,750 supercenters). Table 1 below indicates the relative size and market strength of supercenter operators

Table 1

Company	Number of supercenters	Percentage of supercenters
Wal-Mart Stores, Inc.	1.258	72%
Meijer	160	9%
Fred Meyer	133	8%
Kmart	114	6%
Target	94	5%
Total	1,759	100%

Source: Marlon Boarnet, Ph.D., Randall Crane, Ph.D. Daniel Chatman, and Michael Manville, "Supercenters and the Transformation of the Bay Area Grocery Industry: Issues, Trends, and Impacts, (San Francisco: Public Economics Group, 2004) Commissioned by the Bay Area Economic Forum

As Table 1 indicates, Wal-Mart Stores, Inc. is by far the dominant player in the supercenter retail marketplace. K-mart has actually closed a number of its supercenters ("Super Kmarts") and does not appear to be willing or able to re-open these or construct new ones. Meijer and Fred Meyer do not operate in California and retail industry analysts do not believe they intend to penetrate the state in any significant way. Target, by contrast, is rapidly increasing the number "Super Targets" throughout the country. The average Super Target is 174,000 square feet. In addition, this year Target has just introduced a smaller type supercenter called P2004 (for prototype 2004) which ranges from 110,000 square feet to 125,000 square feet. P2004 supercenters will sell discount general merchandise and groceries, but unlike Super Targets will not have a deli, meat, or produce section. Sears has also indicated an interest in operating their own version of a supercenter which would combine a regular Sears store with a grocery component.

Some retail analysts believe that Target and Wal-Mart are not actually attempting to compete with the large grocery chains, but rather to compete with each other by using groceries as a "loss leader." By selling groceries at a loss, these retailers believe they can get more people into their stores where the grocery losses will be more than made up for by selling general merchandise at higher profit margins. Not surprisingly, the major grocery chain stores such as (in California) Safeway/Vons, Albertsons,

Kroger/Ralphs and their unionized employees recognize the ultra-efficient cheap labor supercenters as a major threat. The recent labor dispute (strike/lock-out) between the chain grocery stores and the United Food & Commercial Workers Union (UFCW) confirms analysts' expectations that the potential penetration of the California retail market by supercenters would result in downward pressure on wages and benefits in the grocery industry.

This study will attempt to quantify the potential benefits and costs which might result from the introduction of a supercenter into the City of San Diego. In recent years a number of studies have attempted to quantify the economic impact of supercenters (operated by either Wal-Mart or Target) in a number of California cities. Most have emphasized the negative impacts associated with the expected downward pressure on wages and benefits in the grocery industry and the public costs associated with mitigating urban blight (due to closed up smaller stores) and public health costs (due to increasing numbers of uninsured workers and their families). One study, funded by Wal-Mart Stores, Inc. and conducted by the Los Angeles Economic Development Corp. (LAEDC) focused not surprisingly, on the consumer benefits and theoretically derivative economic benefits to LA as a whole. This study will use the same methodology and assumptions as Gregory Freeman (LAEDC) to quantify potential benefits to San Diego, and the same methodology and assumptions used by Professors Boarnet and Crane to identify potential costs to San Diego. Since Wal-Mart is the dominant (and most controversial) supercenter operator, Professors Boarnet and Crane used Wal-Mart labor and commodity prices as inputs in their analytical model. We would assume that Target (or any other supercenter operator) would have nearly identical prices and labor compensation. Otherwise, adjustments were made for San Diego using sources deemed reliable by the City of San Diego, Community & Economic Development Department.

Potential Benefits of Large Retail Establishments ("Supercenters") to consumers in the County of San Diego

Table 2
Average Annual Expenditures on Food and Taxable Items at Food Stores
In the County of San Diego, 2000-2001

(1) Households in the County of San Diego	994,677
(2) Average Annual Expenditure on Food Eaten at Home (per household)	$2,524
(3) Total Spent on Food Eaten at Home	$2.5 billion
(4) Taxable Sales at Food Stores in the City of San Diego	$390 million
(5) Total Spending	**$2.9 billion**

Sources:

Gregory Freeman, "Wal-Mart Supercenters: What's in Store for Southern California" (Los Angeles: Loa Angeles: County Economic Development Corporation, 2004) Commissioned by Wal-Mart Stores, Inc.

State of California Board of Equalization/MBIA Muniservices Company, 2003 tax records

Table 2 above sets out the basic demographics for the County of San Diego and consumption patterns for County residents based on the assumption that residents of San Diego consume food products per capita identical to residents of Los Angeles. Line 1 x Line 2 = Line 3. Line 4 is from City sales tax records. The City of San Diego does not have access to sales tax data for the other smaller cities within San Diego County. Accordingly the actual figure would be somewhat higher. Line 3 + Line 4 = Line 5 (rounded)

Table 3 below assumes that supercenters would be able to capture 20% of market share from chain grocery stores. This estimate is accepted by virtually all retail analysts and the authors of supercenter (aka "big Box") studies done for California cities including Gregory Freeman at LAEDC. The 15% consumer savings figure is from the Freeman study and we presume supercenter price savings would be the same in San Diego. The other percentages are also from Freeman, and we again assume San Diego retail consumption and savings patterns would be similar to those assumed for Los Angeles. Freeman assumes that the introduction of supercenters will not only provide savings for supercenter customers, but also a proportionately smaller savings rate for the customers of the major grocery chain stores. This latter assumption regarding downward pressure on prices at the chain grocery stores is highly speculative in our view, but nevertheless illustrates a second potential benefit from supercenters.

The aggregate potential savings shown in the right hand column in Table 3 below are simply the result of multiplying total spending ($2.9 billion from Line 5 in Table 2 above) times both the captured market share percentages and the corresponding savings percentages for each store type. $2.9 billion (Line 5 above) x (a) x (b) = savings for each store type. Freeman (correctly in our view) states that the introduction of supercenters would not result in savings for consumers at the non-unionized independent grocers, convenience stores, and organic and "whole" food stores,

because these stores operate in niche markets which are essentially immune to downward price pressures. If Freeman's assumptions are valid, and the same analytical model is used, but with San Diego data substituted for Los Angeles data, then San Diego consumers could expect a savings of approximately $87 million to $275.5 million annually.

Table 3
Potential Aggregate Savings for Consumers Shopping at Food Stores in the County of San Diego Based on 2000-2001 (Food Sales) and Taxable Sales at Grocery Stores (2003) totaling $2.9 billion

	Market Share	Savings Offered	Aggregate Potential Savings
Supercenters	(a) 20%	(b) 15%	$87 million
Major Grocery Supermarket Chains	(a) 65%	(b) 10%	$188.5 million
Non-Unionized Grocers	(a) 15%	(b) 0%	0
Total			**$275.5 million**

Source: Table 1

Potential Costs of Large Retail Establishments ("Supercenters") to Residents in the County of San Diego

However, such savings for San Diego consumers could easily be offset by losses imposed on existing and potential future San Diego grocery workers, among others. Most of the studies conducted by university professors on behalf of California cities, business groups, and taxpayer associations have focused almost exclusively on the expected downward pressure on retail wages and benefits which would almost certainly result from the introduction of supercenters. Professors Marlon Boarnet and Randall Crane performed exhaustive studies for both the Orange County Business Council and the [San Francisco] Bay Area Economic Forum. They were able to obtain fairly accurate information on wages and benefits in the retail sector for the San Francisco Bay Area. San Diego wage rates and benefits should be roughly the same or slightly less given the slightly lower cost of living in San Diego. The wage rates and benefit values in Table 4 below are taken directly form Boarnet and Crane's Bay Area supercenter study.

Table 4
Wage and Benefit Gap Analysis
UFCW Workers vs. Typical Supercenter (Wal-Mart) Associates

Type of Compensation	UFCW	Wal-Mart
Average Hourly Wage, all workers	$15.30	$9.60
Health Benefits – per hour equivalent	$4.57	$0.81
Pension Benefits – per hour equivalent	$1.35	$0.22
Premium Pay – per hour equivalent	$0.77	$0.48
Vacation – per hour equivalent	$0.92	$0.38
Sick Leave – per hour equivalent	$0.73	$0.46
Total Wages + Benefits – per hour equivalent	23.64	$11.95
Difference	**+$11.68**	

Source: Marlon Boarnet, Ph.D., Randall Crane, Ph.D. Daniel Chatman, and Michael Manville, "Supercenters and the Transformation of the Bay Area Grocery Industry: Issues, Trends, and Impacts, (San Francisco: Public Economics Group, 2004) Commissioned by the Bay Area Economic Forum

Boarnet and Crane et.al. assume gradually increasing wage gap closure and benefit reductions for UFCW workers based on the competitive strength of the low-wage supercenters and their ability to gradually force wages down as their market share increases. There is some disagreement among analysts about the speed of supercenter market penetration and the resultant speed and magnitude of wage gap closure, but virtual agreement that it will occur sooner or later. The settlement of the recent southern California labor dispute between the chain grocery stores and UFCW indicates that the potential competition from supercenters has already lead to a system for wage gap closure. The new UFCW contract, as predicted by Boarnet and Crane, provides for a two-tier system of compensation where existing workers are grouped in "Tier 1" and new hires into "Tier 2." Wages and benefits are substantially lower for Tier 2 workers, and promotions slower. As older Tier 1 workers retire or change jobs they will be replaced by Tier 2 employees who will get paid less and wait longer to qualify themselves and their dependents for health insurance.

The aggregate wage/benefit reductions shown in Table 5 below result from simply multiplying (UFCW workers) x (hours worked) x (weeks worked) x (wage/benefit gap) x (applicable percentage closure assumption) = reduced wages and benefits. Based on these assumptions, and the use of San Diego data, it becomes clear that most if not all of the savings (through lower prices) which might be realized by San Diego consumers would be offset by lost wages and reduced benefits to San Diego workers.

Table 5
Potential Economic Impact of Wage and Benefit Reductions
Due to Increased Market Share of Grocery Sales Captured by Supercenters

Supercenter Market Share, 2010	Wage Gap Closure	Reduced Wages and Benefits UFCW
10%	40%	**$110 million**
	60%	**$165 million**
20%	80%	**$221 million**
	100%	**$276 million**

Assumptions:
UFCW workers in San Diego: 13,000
Average work week: 35 hours
Weeks worked 52 weeks
Wage + Benefit Gap: $11.68/hour

Sources:
Marlon Boarnet, Ph.D. and Randall Crane, Ph.D., "The Impact of Big Box Grocers on Southern California: Jobs, Wages, and Municipal Finances" (Irvine: Orange County Business Council, 1999) Commissioned by OCBC

Boarnet, Crane, Chatman, and Manville, 2004
Freeman, 2004

Additional Potential Costs of Large Retail Establishments ("Supercenters") to Residents in the City of San Diego

- **Urban Blight Resulting from Grocery and Other Store Closures**
- **Loss of Community Stability Resulting from Small Business Failures**
- **Redevelopment Costs Resulting from Revitalization Efforts**
- **Wealth Removal from San Diego through Profits Distributed to Corporate Shareholders**
- **Greater Income Stratification Due to Loss of Middle Income Jobs**

Fiscal Impacts of Large Retail Establishments

Retail Site Selection

Retail uses are established in a community based almost entirely on demographics – the specific characteristics of a region's population regarding income, age, density, etc. and the presence of existing competitors in the targeted "trade area." Since the retail

outlet is the last stage of the economic process before consumption occurs, it is extremely difficult for the retailer to move out of (or not locate in) the trade area, much less the region as a whole. Despite the rise of internet sales where goods are purchased on-line and delivered to the consumer's doorstep, most retail sales still occur in retail stores. In fact the recent trends suggest that "large format" or "big box" retailers are able to effectively compete with smaller and non-traditional retailers based on price, selection, and overall value. These type retailers are increasingly constructing ever-larger "super-markets" and "super-centers" precisely in order to compete with smaller less value-oriented retailers. For the most part, San Diego retailers do not compete with retailers outside the City, and almost never compete with retailers outside the region.

The Relationship of Tax Revenue to the Size of the Retailer

Larger retail establishments are able to provide some savings to the consumer through lower prices resulting from increased efficiency. A significant portion of these savings is likely to be spent at the same or other retailers such that taxable sales remain the same or may even drop slightly. The disposable income of a City's population is the primary determining factor in the amount of sales tax a City will receive. Since retailers are not a part of the economic base from which this disposable income is derived, they have little impact on taxable sales or tax revenues allocated to local cities. There is one important exception to this rule. The actual positioning of a retailer near a City limit line, and the reach of that retailer into the trade area which extends into another jurisdiction can influence sales tax receipts. While cities might like to "import" tax revenue from a neighboring jurisdiction by "positioning" a large format (aka "big box") retailer, or a series of such retailers along the inside of its city limits, the reality is that the demographics and the existence of competing retailers will have a much greater impact on the location decisions of these retailers than accommodative land use policies. Retail locations are likely to be geographically dispersed throughout residential areas without regard to political boundaries. As such, cities can do very little if anything that will significantly affect sales tax revenues from retailers. Smaller cities will have relatively more leverage, and larger cities relatively less.

San Diego's Situation

City staff evaluated existing land uses on both sides of the City Limits and concluded that large retail establishments were more likely to be sited by retailers in surrounding cities than within the City of San Diego. Consideration was given to the following factors: (1) presence of vacant land, (2) presence of obsolete structures (3) land use zoning and planning designations, and (4) the existence of adopted Redevelopment Project Areas and the historical use of these by local jurisdictions to "assemble" land for large retailers. While it is difficult to predict the potential locations of future super-centers or even large retail establishments generally, it is clear that the City of San Diego has relatively less ability to positively influence sales tax revenues by encouraging such retail establishments in locations which would "shift" tax revenues to San Diego. In conclusion, it appears that the City of San Diego has nothing to gain financially form the establishment of supercenters in San Diego County, and potentially

could be exposed to negative fiscal impacts from supercenters being sited just over the City limit line in another jurisdiction.

Key Findings of Studies on Large Retail Establishments

City staff has reviewed five studies which quantitatively evaluated the fiscal impacts of large retail establishments and none predict a potential fiscal benefit from such retailers. Conclusions range from "the net impacts on local sales tax revenues are far from certain" (Boarnet and Crane 1999) to "Further, if the new store is a big box retailer, retail sales as measured in dollars, retail tax revenues and retail employment within the trade area may actually decrease due to the efficiency and pricing of large store formats." (Rodino and Lopez) One study examined and quantified projected service costs associated with super-centers and several others have estimated the costs of publicly subsidized health care programs on which many retail employees are dependent. All of the studies noted, but were unable to quantify, costs associated with infrastructure and redevelopment expenditures undertaken by local governments to either attract new large retailers to vacant stores or mitigate the urban blight caused by the closure of smaller (now "obsolete") retail stores.

Public Health Costs

San Diego residents are likely to bear additional costs as well, because workers and their families would lose precious health insurance benefits. When workers and their families lose (or never get) health insurance the local public agencies and non-profit organizations usually end up picking up the tab. We find the figures below to be extremely conservative, and thus a "best case scenario." Uninsured employees and their uninsured family members would require an average of $1,261 annually in public health care costs, most of which is likely to be borne by the County of San Diego.

Table 6 indicates that a minimum of $2,376,985 of health care costs would be borne by publicly-funded agencies initially. As market share increases to 20% of that currently held by the major grocery chains, this number would increase to $4,753,970. This is a low estimate that attempts to quantify the public costs associated with the conversion of major chain grocery store jobs into supercenter jobs. The projected major supercenter operators for California are Wal-Mart and Target. While there is less readily available information about Target's wage/benefit compensation, it is known that Wal-Mart actually covers only 48-50% of its employees, and that California retailers as a whole (including the major grocery chains) cover, on average only 61%. The major grocery chains currently cover 98% of their workers.
Lacking specific information about supercenter employees or Target employees specifically, we assume a maximum 55% coverage ratio (average of the first two two figures) for a San Diego supercenter. As stated above, the newest labor contract between the UFCW and major grocery chains divides workers into two groups or "tiers" within which Tier 1 (existing) workers receive substantially more in terms of wages and benefits than new hires which will receive compensation according to the Tier 2

schedule. This contract is up for re-negotiation in 2007, and the grocery stores are likely to press for reduced wages and benefits, especially in Tier 2.

The presence of highly efficient and competitive supercenters, is likely to further depress wages and health insurance benefits, resulting in substantially more persons receiving their health benefits at taxpayer's expense. In addition to causing a negative fiscal impact, the shifting of healthcare costs to the public is also another negative economic impact inasmuch as the healthcare costs formerly paid for by outsiders (owners of retail establishments such as Vons, Ralphs, Albertsons etc.) are now funded by local taxpayers, businesses, and ratepayers.

Table 6
Estimated Public Health Care Expenditures
Resulting From Market Penetration by Supercenters

Market Share	Coverage Ratio	Uninsured Employees	Uninsured Dependents	Total Uninsured Persons	Total Public Costs
10%	55%	585	1,300	1,885	$2,376,985
20%	55%	1,170	2,600	3,770	$4,753,970

Sources: Arindrajit Dube, PhD, and Alex Lantsberg, "Wage and Health Benefit Restructuring in California's Grocery Industry: Public Costs and Poilcy Implications" (Berkeley, UC Berkeley Center for Labor Research and Education, 2004)

Arindrajit Dube, PhD, and Ken Jacobs, "Hidden Cost of Wal-Mart Jobs: Use of Safety Net Programs by Wal-Mart Workers in California" (Berkeley, UC Berkeley Center for Labor Research and Education, 2004)

Conclusion

Economic Impact

Aside from improving the overall attractiveness of a community to visitors or investors, the addition of new retail establishments will rarely have a positive economic impact on a community. Since they are not part of the economic base which brings money into the local economy, they are dependent on that economic base and the consumer demand generated at the base level. While obviously providing an important service to consumers wishing to purchase goods such as general merchandise and groceries, retailers charge for that service, not unlike service sector businesses and public sector agencies. When retailers earn a profit, that profit might be "recycled" back into the local economy through additional spending, or that profit might be distributed to owners who live elsewhere. The profitability and ownership of a retailer are important inputs which could be used to determine if a particular retailer will have a greater or lesser negative economic impact on the local economy. Unless the retailer brings with it a significant wholesale component, it is highly unlikely that it will increase economic prosperity as a whole. The extent to which a retailer is willing or able to offer goods to local consumers

at relatively lower prices contributes to a less negative economic impact, because the retailer is providing a better value overall. Similarly, the extent to which a retailer pays higher wages and provides better fringe benefits (or does the opposite) also has a significant bearing on the overall economic impact to the community as a whole.

There are other economic and sociological considerations related to retailers which are difficult or impossible to quantify. Included among these would be the benefit associated with having a stable and growing middle class. As income distribution becomes more skewed to favor the top income earners the more social instability results. Social instability resulting in greater public safety costs, higher taxes, lower property values, urban blight, and capital flight. It is hard to overstate the importance of protecting and preserving good-paying, benefited, middle-income jobs and creating similar future job opportunities. A recent survey by the San Diego Regional Chamber of Commerce revealed some very disturbing trends which have emerged in recent years. Consider these statistics:

Out of 70,810 Jobs created between 1999-2002

- **42,320 (60%) pay less than $30,000/annually**
- **Slowest employment growth occurred in middle income jobs ($30,000-$55,000/annually) only 2% growth during this 4-year period**

Kelly Cunningham, the Research Manager for the Chamber's Economic Research Bureau provided this dire warning:

" We are creating some high end jobs and a lot of low-wage jobs, but the middle class is getting squeezed out. We run the risk of becoming like Santa Barbara, with a stratum of wealthy people and workers on the lower end who serve them"
Source: San Diego Union Tribune - April 15, 2004

<u>Fiscal Impact</u>

In large cities like San Diego, the addition of new retailers will rarely have a positive fiscal impact. Unless a new retailer locates near the City limit line, and also has a very large trade area which overlaps the territory of another city, any local sales tax revenues derived are likely to be merely shifted from other pre-existing retailers within the City. The vast majority of tax revenues are generated directly or indirectly from businesses such as manufacturers which are part of the economic base, not from retailers which merely re-direct that wealth. Retailers do not generate sales tax in any meaningful sense of that term. They merely collect the taxes as a function of their role in the transaction process. Sales tax revenues are directly proportional to the size, nature, and overall health of the City's economic base. An increase in the size or number or type of retailers is highly unlikely to increase of decrease local tax revenue to any measurable degree. If a new retailer's market penetration results in the replacement of jobs having health benefits with jobs which do not provide health benefits, it is likely that public revenues will be diverted from more traditional government responsibilities like public safety and parks towards public health and social programs. Thus, if a retailer does not provide health insurance for substantially all of its employees, or otherwise

shifts traditional business operating costs onto the public sector, it is most likely to have a negative fiscal impact as compared to an employer which absorbs these costs within it profit margin.

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