

# CITY OF SACRAMENTO



## LAW AND LEGISLATION COMMITTEE AGENDA

**JANUARY 5, 2006 12:30 P.M.**

**City Hall – 915 I Street  
First Floor, Council Chambers  
Sacramento, CA 95814**

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### ***NOTICE TO THE PUBLIC***

Notice is hereby given that the Sacramento City Council will conduct concurrent meetings with the Council Committee(s) listed on this agenda which is incorporated herein by reference. The Special Meeting(s) are called to permit members who are not on the listed committees to attend the meetings and participate in the discussion. In the event five (5) or more members of the City Council are present at a committee meeting, only those items listed on the agenda can be acted upon or discussed.

All meetings will be held at the date, time and place indicated; and the subjects to be considered and acted upon shall be those as listed on the agenda. The numbered items listed on the agenda are a brief description of business to be transacted or discussed; the recommendations of the staff as shown do not prevent the committees from taking other action.

## COMMITTEE MEMBERS

**Lauren Hammond, Chair**  
Councilmember, District 5,

**Steve Cohn**  
Councilmember, District 3

**Sandy Sheedy**  
Councilmember, District 2

**Robbie Waters**  
Councilmember, District 7

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**Notice to Lobbyists:**

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## NOTICE

(Government Code Section 54954.2 – The Brown Act)

Numbered items on this agenda give a brief general description of each item of business to be transacted or discussed at this meeting. Staff recommendations, as shown, do not prevent the legislative body from taking other action.

This agenda may be amended up to 72 hours (2:00 p.m. Saturday) prior to the meeting being held. An Agenda is located in the posting cabinet on the I Street side of City Hall. Any item not addressed at this meeting may be continued, by motion, to a future afternoon or evening meeting.

Meeting facilities are accessible to persons with disabilities. Please notify the City Clerk's office at (916) 808-7200 at least 48 hours prior to the meeting if you require special assistance to participate in the meeting.

The meeting is archived and accessible along with other meeting information on the City's website.

# AGENDA

City Hall – 915 I Street  
First Floor, Council Chambers

Tuesday/December 6, 2005/12:30 pm

## Preliminary Matters

1. Call to Order
2. Roll Call

## Consent Calendar

*All items listed on the consent calendar are considered and acted upon by one motion. A member of the legislative body or staff may request an item be removed for separate consideration.*

### 3. Approval of Minutes

**Recommendation: Approve Committee minutes for meeting of December 6, 2005.**

### 4. Pending Legislation Log

**Recommendation: Approve municipal legislation log.**

## Staff Report

### 5. Rental Inspection Program Ordinance (CONTINUE TO JANUARY 17, 2006)

**Recommendation: Approve the Residential Rental Housing Permit Program Ordinance and forward to the full City Council.**

### 6. Wood Burning Curtailment Ordinance

**Recommendation: For Committee information and direction to staff on whether to draft a wood burning ordinance and, if so, which policies to include in the ordinance.**

**7. Report Back on the Superstore Ordinance**

**Recommendation:** Direct staff to take the interim ordinance text to public hearing before the City Planning Commission and the full City Council for final adoption as the permanent superstore ordinance.

**Citizens Addressing Council (Matters not on the Agenda)**

*Each speaker is limited to a maximum of 3 minutes.*

**8. To Be Announced**

**Committee Ideas and Questions**

**9. To Be Announced**

**Adjournment**

**10. To Be Announced**

**LAW AND LEGISLATION COMMITTEE**  
**Preliminary Calendar**  
**As of December 28, 2005**

**DISCLAIMER:** The following information is tentative as to dates and subjects.

**Tuesday, January 17, 2006**

Rental Inspection Program – **CODE** (contd from 12/6/05)  
Intermodal Environmental Streamlining Legislation – **PLANNING** (withdrawn by staff)  
2006 Legislative Platform – **GOVT AFFAIRS**  
Amend and Update Code Regarding Heliports – **DEVELOPMENT SVCS**

**Tuesday, February 7, 2006**

Mobile Food Vendor Ordinance – **FINANCE**

**Tuesday, February 21, 2006**

Alcohol Use Permit Processing Ordinance - **POLICE**

**PENDING ORDINANCES/REPORTS:**

Report Back on Contract Standards - **General Svcs**  
Report Back on Representation of Neighborhood Associations - **Development Svcs/NSD**  
Contractual Conflict of Interest of City Employees - **Finance**  
Amendments to R Street SPD - **Development Svcs**  
Ordinance Amending Code Relating to Temporary Construction Zones - **Transportation**  
Amendments to the Condominium Conversion Regulations - **Development Svcs**  
Lighting and Signal Ordinances - **Development Svcs**  
Drug & Gun Free Zones and Creation of Civil Exclusion - **Police**  
Report Back on City-wide Sign Ordinance - **Development Svcs**  
Illegal Dumping Vehicle Impound Ordinance – **Code Enforcement**  
Fire Code Revisions - **Fire**  
Housing Trust Fund Nexus Study - **Development Svcs**  
Revisions to Building Appeals Board Process – **Development Svcs**  
Front yard Landscaping – **Code Enforcement**  
Amend Ordinance Regarding Reward Program – **Code Enforcement**  
Solid Waste Facility Fee - **Utilities**  
Amend Tree Ordinance – **Parks & Rec**  
Pedi-cab Ordinance – **Finance**  
Public Financing of Campaigns – **City Clerk**



# REPORT TO LAW & LEGISLATION COMMITTEE City of Sacramento

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915 I Street, Sacramento, CA 95814-2671

Consent  
January 5, 2006

Honorable Members of the  
Law and Legislation Committee

**Subject:** Approval of Minutes – December 6, 2005

**Location/Council District:** All

**Recommendation:** Approve the minutes for the Committee meeting of December 6, 2005.

**Contact:** Patti Bisharat, Special Projects Manager - 808-8197

**Presenters:** Patti Bisharat, Special Projects Manager - 808-8197

**Department:** City Manager's Office

**Division:** Legislative Affairs

**Organization No:** 0300

**Summary:** Staff is recommends the approval of the minutes for the Committee meeting of December 6, 2005.

**Committee/Commission Action:** None.

**Financial Considerations:** None.

**Environmental Considerations:** None.

**Policy Considerations:** None.

**Emerging Small Business Development (ESBD):** None.

Respectfully Submitted by:   
Patti Bisharat, Special Projects Manager

Recommendation Approved:

  
for  GUS VINA  
Assistant City Manager

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# CITY OF SACRAMENTO



## LAW AND LEGISLATION COMMITTEE MINUTES

**DECEMBER 6, 2005 12:30 P.M.**

**City Hall – 915 I Street  
First Floor, Council Chambers  
Sacramento, CA 95814**

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# MINUTES

City Hall – 915 I Street  
First Floor, Council Chambers

Tuesday/December 6, 2005/12:30 pm

## Preliminary Matters

1. Call to Order – 12:34 p.m.
2. Roll Call – All present

## Consent Calendar

*All items listed on the consent calendar are considered and acted upon by one motion. A member of the legislative body or staff may request an item be removed for separate consideration.*

Moved, seconded, carried (Sheedy/Waters; Absent – Cohn) to adopt the Consent Calendar in one motion except as indicated:

3. **Approval of Minutes**  
**Recommendation: Approve Committee minutes for meeting of November 15, 2005.**  
Action: Minutes approved.
4. **Pending Legislation Log**  
**Recommendation: Approve municipal legislation log.**  
Action: Legislation log approved.
5. **Approval to Pursue Legislation for Environmental Streamlining for the Sacramento Intermodal Transportation Facility**  
**Recommendation: Approve pursuing state legislation to streamline the environmental review process for the Sacramento Intermodal Transportation Facility.**  
Action: Continued to January 17, 2006.

**6. Report Back on Findings of the Multi-Department Task Force on the Impacts of Rental Housing on Service Delivery (CONTINUED FROM 11-15-2005)**

**Recommendation: Approve and forward to the City Council the requirement: 1) that future discretionary and special permits for rental housing developments be linked to the proposed Rental Housing Program under consideration by the Law & Legislation Committee; and, 2) that the recommendations contained in this report be incorporated into both existing and future rental developments.**

A speaker slip was submitted by Jim Lofgren but he did not speak as item was continued.

Action: Moved, seconded, carried (Waters/Sheedy; absent-Cohn) to continue to a 2006 Law and Legislation meeting agenda.

**7. Rental Inspection Program Ordinance (CONTINUED FROM 11-15-2005)**

**Recommendation: Approve the Residential Rental Housing Permit Program Ordinance and forward to the full City Council.**

Public testimony given by Jim Lofgren, Sofuying Mougess, Nhia Leng Vang, Shoua Lao Cheng, Betty Giniadon, Ron Dwyer-Voss, Iymarie Smith, William Powers, Ramona Garcia, Letiticia Johnson, Tim Boyd, Clara McKeithern, Chai Saevang, Rachel Iskon, Ehtan Evans, and Anne Marie Flores.

Those who submitted speaker slips but were unable to speak due to time constraints include: Eric Rasmusson, Linda Roberts, Emanuel Gale, Diana Bingham, Patti Uplinger, Jim Danielson, Edgar Hilbert, Pa Kao Vang, Grantland Johnson, Matt Gray, Robert Lawlet, James Clark, Ron Emslie, Carole Garcia, and John Dangberg.

Action: Moved, seconded, carried (Sheedy/Waters; Noes – Hammond) to direct staff to come back with a targeted program with a team to work specifically on problem rentals. An educational and relocation component should be included. Report back should include a response to questions asked about the budget for this targeted proposal, the staff proposed ordinance, and the Rental Housing Association proposal. This item will appear one more time before the Law and Legislation committee in January 2006, after which it will be forwarded to the full council for consideration.

**Citizens Addressing Council (Matters not on the Agenda)**

*Each speaker is limited to a maximum of 3 minutes.*

**8. To Be Announced**

**Committee Ideas and Questions**

9. None

**Adjournment**

10. Adjourned at 2:05 p.m.

# Legislation Log

revised 28-Dec-05

Tracking Number	Subject Matter	Ordinance Sponsor/ Staff	Estimated Law & Legislation hearing Date <sup>1</sup>	Notes	Controversial or Significant Policy Issues	Anticipated Attorney Drafting Time for Completion <sup>2</sup>	City Departments Possibly Affected
<b>NEW OR UPDATED ITEMS</b>							
<b>SCHEDULED LAW &amp; LEG ITEMS</b>							
1	Rental Inspection Program	CM Pannell/NSD/ Max Fernandez	17-Jan-06	Heard by the L&L Committee on December 6, 2005. Staff directed to return in January with alternatives including budget.	Yes	Significant	NSD/ Dev Svcs
2	Amend City Code Related to Heliports	Development Svcs/Joy Patterson	17-Jan-06	Ordinance amending Section 12.92 and Ordinance amending Sections 17.16.010, 17.14.030 and 17.24.050(57) of the Sacramento City Code relating to heliports.	No	Minimal	Dev Svcs
3	Mobile Food Vendor Ordinance	CM Tretheway/ Aaron Chong	7-Feb-06	Revising ordinance to address regulation of Mobile Food Vendor industry including hours of operation, locations, etc.	Potentially Yes	Moderate	Finance/Dev Svcs
4	Approved Alcohol Use Permits Processing	CM Hammond/ Police/Sherri Scroggs	21-Feb-06	Amend Chapter 17 of the City Code regarding deemed approved alcohol use permits processing. Heard by the Law & Leg Committee on 9/20/05. Directed staff to report back with draft ordinance in 120 days.	Possibly	To be determined	Police/Code

<sup>1</sup> Reflects atty drafting time only not time required for the leg. process. incl. staff direction, public outreach, comm. meetings, wkshps, formal noticed public hearings req. for adoptions.  
<sup>2</sup> Limited =<10 hrs. Moderate =10-40 hrs. Sig. => 40 hrs

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## Legislation Log

Tracking Number	Subject Matter	Ordinance Sponsor/ Staff	Estimated Law & Legislation hearing Date <sup>1</sup>	Notes	Controversial or Significant Policy Issues	Anticipated Attorney Drafting Time for Completion <sup>2</sup>	City Departments Possibly Affected
				<b>LAW AND LEG COMMITTEE ORDINANCE &amp; REPORTS - DATE PENDING</b>			
5	Amend Tree Ordinance	Parks & Rec/Jack Harrison	Pending	Amend Tree ordinance to add section to allow assessment of fees; add section prohibiting "topping" of trees; and amend tree permit appeals process.	Maybe	To be determined	Parks & Rec
6	Solid Waste Facility Fee/ Host Benefit Fee	General Svcs/Harold Duffy	Fall 2005	Ordinance to mitigate potential impacts to a geographic area relative to locating a solid waste facility. The Law & Leg Committee heard a staff report on this issue on November 4, 2004 and directed staff to get input from an advisory committee and report back to the L&L Committee with recommendations on fees.	To be Determined	To be Determined	Solid Waste/ Dev Svcs
7	Report Back on Contract Standards	Gen Svcs	Summer 2004	Law & Leg Committee heard a report on SB163 on 5/20/03. Report back requested on what contract standards the city currently uses, an evaluation of the proposed standards of SB163 and how they may help the city improve its standards and a recommendation from staff for other contracting standards we should apply in the City.	Potentially	To Be Determined	Gen Svcs
8	Report Back on Representation of Neighborhood Associations	Dev Svcs/NSD	Pending	On June 3, 2003 the Law & Leg Committee requested a report back regarding the noticing process and reliance on Neighborhood Associations that do not always represent a majority of residence on an issue.	To Be Determined	To Be Determined	Dev Svcs/NSD
9	Contractual Conflict of Interest of City Employees	Finance	Pending	Amendment of code related to prohibition on city employees having a financial interest in a city contract.	No	Minimal	Citywide
10	Amendments to R Street SPD	Dev Svcs/Todd Leon	Aug/Sept 2005	Amendments to R Street Special Planning District to Facilitate Development	To be Determined	To be Determined	Dev Svcs

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## Legislation Log

Tracking Number	Subject Matter	Ordinance Sponsor/ Staff	Estimated Law & Legislation hearing Date	Notes	Controversial or Significant Policy Issues	Anticipated Attorney Drafting Time for Completion 2	City Departments Possibly Affected
11	11.04.1 Amend Code Relating to Temporary Construction Zones	Transportation/ Parking/ Howard Chan	06-Jan-05	Amend Section 10.36.140 of Title 10 of City Code to delete the use of the cumbersome portable construction signs in favor of a monthly hangtag to improve staff efficiency and provide better customer service.	Unlikely	Moderate	Trans
12	12.04.2 Amend Condominium Conversion Regulations	Dev Svcs/Aaron Sussman	Pending	Proposed updates and revisions to the City Code relative to Condominium Conversions. Heard by Council on 05/17/05 and referred back to staff for report back.	Possibly	To be determined	Dev Svcs
13	12.04.3 Lighting Ordinance	Dev Svcs/Gary Stonehouse	Pending	Council requested that the Lighting Ordinance be placed on the Law & Leg Committee schedule.	To Be Determined	To be determined	Dev Svcs
14	11.04.2 Establish Drug & Gun Free Zones and Creation of Civil Exclusion	Police/Sherrri Scruggs	Pending	Subject heard by Committee on 12/7/04. Staff met with Portland DA and federal agencies to share information. CAO reviewing information provided. There are concerns regarding the differences in the Oregon and California state constitutions which could impact the ordinance. Staff will follow-up with a date to return to the committee.	Possibly	Major	Police/CAO
15	1.2 Update on Sign Ordinance and Sign Program	Dev Svcs/ NSD	Pending	Report presented to Committee in January 2004. Committee provided feedback and directed staff to report back. Staff is reviewing the issue and preparing its report back to the Committee.	Yes	Significant	Dev Svcs/ NSD
16	09.04.02 Illegal Dumping Vehicle Impound Ordinance	CM Hammond/ NSD/Max Fernandez	Pending	Provide for seizure and impound for a specified time for vehicles involved in illegal dumping. Code and CAO working on options.	Potentially Yes	Significant	Code
17	03.05.03 Front yard Landscaping Ordinance	NSD/Max Fernandez	Pending	Amend City Code related to front yard landscaping to allow maintained garden vegetation. Committee directed staff to return with more restrictive language.	Possibly	Moderate	Dev Svcs / NSD

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## Legislation Log

Tracking Number	Subject Matter	Ordinance Sponsor/ Staff	Estimated Law & Legislation hearing Date <sup>1</sup>	Notes	Controversial or Significant Policy Issues	Anticipated Attorney Drafting Time for Completion <sup>2</sup>	City Departments Possibly Affected
18	Housing Trust Fund Nexus Study	Dev Svcs	Pending	Amend City Code related to Housing Trust Fund fees.	Possibly	To Be Determined	Dev Svcs
19	Fire Code Revisions	Fire/Troy Malaspino	Summer 2005	Update the City Code related to fire safety.	No	Moderate	Fire/Dev Svcs
20	Building Appeals Board Process	Dev Svcs/ Ron Beehler	Pending	Revisions to City Code 2.4 related to the Construction Code Advisory Board	Possibly	To be determined	Dev Svcs
21	Amend Ordinance Relating to Reward Program	Waters/ Code/Max Fernandez	Fall 2005	Amend ordinance relating to reward program to allow payment of reward at arrest and prosecution.	Unlikely	Minimal	Code
22	Pedi-Cab Ordinance	CM Tretheway/ Finance/Code	To be determined	Discussion on proposed ordinance regarding permitting of non-motorized pedi-cabs	Possibly	Moderate	Finance/Code/ DOT/Police
23	Public Campaign Financing	CMO/Clerk	To be determined.	Staff returning to committee, per City Council direction, to review what other cities do regarding qualifications on use of public funds for campaigns.	Yes	Moderate	CMO/Clerk
			City Council Date	<b>ORDINANCES/REPORTS FORWARDED TO COUNCIL OR OTHER COMMITTEES</b>			
24	Amend to Title 10 re: Taxi Zones	Finance	Jan-05	Council approved the taxi reforms. Ordinance to implement reforms to Council in November.	Potentially Yes	Moderate	Code
25	Parade Ordinance Revisions	NSD	Pending	Amend City Code to include weapons that may not be carried in a parade. Committee directed Staff to go directly to Council with amended ordinance.	Possibly	To be determined	NSD/Police

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## Legislation Log

Tracking Number	Subject Matter	Ordinance Sponsor/ Staff	Estimated Law & Legislation hearing Date 1	Notes	Controversial or Significant Policy Issues	Anticipated Attorney Drafting Time for Completion 2	City Departments Possibly Affected
26	Amend Ordinance to Prohibit Open Beverage Container	CM Cohn/Police	Pending	The Law & Leg Committee heard a discussion paper regarding amending current city code to prohibit the possession of an open alcoholic beverages in public on November 16, 2004. The Committee directed staff to investigate extending the prohibition to include private property such as parking lots and to go directly to City Council with a proposed ordinance.	Significant	Moderate	Police
27	Parking of Trailers, Auto Coaches, etc in Residential and Industrial Areas Public Right of Way	Trans/Dennis Kubo	Pending	City may enact parking regulations to address problems of commercial vehicles parked in residential areas. City has current regulations to restrict parking without enacting a new ordinance when signs are posted, upon any street described in resolutions adopted by City Council. Implementation has been hampered due to cost. Additional follow-up requested by CM Sheedy and CM Pannell. DOT staff to meet with Councilmember to determine next steps.	Potentially yes	Moderate	Dev Svcs/ Trans/NSD (Code)

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# REPORT TO LAW & LEGISLATION COMMITTEE City of Sacramento

915 I Street, Sacramento, CA 95814-2604

STAFF REPORT  
January 5, 2006

Honorable Members of the  
Law and Legislation Committee

**Subject:** Wood Burning Curtailment in the City of Sacramento

**Location/Council District:** Citywide

**Recommendation:**

This report is for Committee information and direction to staff on whether to draft a wood burning ordinance and, if so, which policies to include in the ordinance.

**Contact:** Patti Bisharat, Government Affairs, 808-8197  
Yvette Rincon, Government Affairs, 808-5827

**Presenters:** Patti Bisharat, Government Affairs

**Department:** City Manager's Office

**Division:** Government Affairs

**Organization No:** 0310

**Summary:**

It has been requested that staff bring forward for consideration by the Law & Legislation Committee the issue of an ordinance to regulate wood burning in the City. Consistent with the protocols established by the Committee and City Council, staff has submitted this report with information and policy considerations on the concept of wood burning curtailment to receive direction on the potential drafting of an ordinance for consideration and the policy issues to include in such a draft.

**Committee/Commission Action:**

None.

**Background Information:**Wood burning as it relates to air quality in the region

According to the Sacramento Metropolitan Air Quality Management District staff report, exposure to particulate pollution is linked to increased frequency and severity of asthma attacks, pneumonia and bronchitis, and even premature death in people with pre-existing cardiac or respiratory disease. Health concerns are linked to particles smaller than 10 microns (PM10), and the subset of fine particles smaller than 2.5 microns (PM2.5). There are both state and federal air quality standards for PM10 and PM2.5. Sacramento County exceeds the state standards for both PM10 and PM2.5, but has attained the less restrictive federal standards. During the winter months of 2004 in Sacramento County, it is estimated that wood smoke contributed to 20 percent of the PM10 emissions and 44 percent of the PM2.5 emissions.

In 2003, the State Legislature enacted Senate Bill 656 to reduce public exposure to PM10 and PM2.5 and make progress toward attainment of state and federal standards. SB656 required the California Air Resources Board (CARB) in consultation with local air districts to adopt a list of the most readily available, feasible, and cost-effective control measures that could be employed by CARB and the air districts to reduce PM10 and PM2.5.

In July 2005, the Sacramento Metropolitan Air Quality Management District (SMAQMD) Board adopted an implementation schedule for particulate matter control measures which include wood burning control. SMAQMD staff are studying wood burning control measures in 2006-2007 to determine the cost-effectiveness emission benefit and bring these measures to the Board in 2007-2008. The intent of the Board is to implement the most cost-effective wood burning curtailment measures in 2007-2008. The SMAQMD continues to educate the public on wood burning through new releases, such as the one issued on November 21, 2005 (Attachment A)

Wood Burning Curtailment Measures

Should the Committee direct staff to draft an ordinance for wood burning curtailment, direction would be needed on:

- 1) Extent of the measures to include in the ordinance
  - Potential measures to curtail wood burning range from very restrictive such as requiring replacement or elimination of fireplaces in existing homes upon sale or remodel to a focus on voluntary curtailment and public education efforts. Below are a number of measures that could be included in a draft ordinance.

	<b>Policy</b>	<b>Description</b>	<b>Air Quality Management or Pollution Control Districts<sup>1</sup> and Cities/Counties with Adopted Policies</b>
Most Restrictive ↑	Implement a mandatory curtailment program.	Notify the public when burning is not allowed and fine those that do not comply.	SJUAPCD, City of Oakland
	Restrict the number of units installed.	Restrict number of wood burning units allowed in new residential developments and nonresidential	SJUAPCD, City of Oakland, City/County of San Francisco, City of San Jose, County of Santa Clara
	Control of wood moisture content.	Require sellers of wood to limit the moisture content of wood sold	SJUAPCD, YSAQMD
↓ Voluntary/Education	Require the replacement of units upon sale or remodel of property.	Require property owners to replace their non-certified units with certified units or decommission existing units	SJUAPCD, City of San Jose
	Require the use of certified units.	Require use of USEPA-Certified Phase II or equivalent units in new and existing homes, apartments, and condominiums.	SJUAPCD, YSAQMD, PCAPCD for Squaw Valley
	Implement a voluntary curtailment program.	Notify the public of predicted high PM levels and ask that they curtail their use of wood burning units on those days.	YSAQMD
	Establish a rebate program.	Offer rebates to those who replace their non-certified wood burning units with certified units.	
	Administer a public awareness/Outreach program.	Educate the public on the health impacts of wood smoke and how they can minimize these impacts.	SJUAPCD, YSAQMD

2) Timing of Implementation

- The SMAQMD Board will be considering adoption of the most cost-effective wood burning curtailment measures when their staff report back in 2007-2008 and the U.S Environmental Protection Agency (EPA) expects to have a more restrictive standard for PM emissions by September 2006. Currently no other jurisdictions in the Sacramento region have adopted wood burning curtailment ordinances. As such, the timing of implementation of a city ordinance may be a consideration. Alternatives for timing include:

<sup>1</sup> SJUAPCD – San Joaquin Valley, PCAPCD – Placer County, YSAQMD – Yolo-Solano County.

- develop an ordinance but make enactment contingent upon adoption of a similar ordinance by a number of other jurisdictions in the region,
- to ensure consistency, develop an ordinance but hold off on enactment until the proposed EPA standard is adopted,
- phase in requirements over time to evaluate the effectiveness of the measures.

### **What Are Other Jurisdictions Doing?**

As noted earlier, no other cities or jurisdictions in the Sacramento region have adopted wood burning control measures. There are measures that have been approved and advocated by the Bay Area Air Quality Management District and the San Joaquin Unified Air Pollution Control District (SJUAPCD). The SJUAPCD's measures include mandatory wood burning curtailment, limits on the number of wood burning devices in new developments, and replacement/removal of non-certified wood burning devices when the property is sold or transferred. A critical component of the SJUAPCD's program is educating its residents on wood burning health impacts and alternatives through informational pieces like Attachment C. The measures adopted by some cities in the bay area vary from voluntary to mandatory curtailment to restrictions on new construction and remodels. For example, the City of Oakland has restrictions on new construction, exempts masonry fireplaces, prohibits the conversion of gas appliances, and has a mandatory spare the air advisory while San Francisco only has restrictions on new construction. The variety found between cities' restrictions is also found in enforcement, which varies from passive-complaint-driven enforcement to active surveillance.

Based on discussions with SMAQMD staff, there have been no conclusive studies in California that measure the resulting improvement in air quality from a wood burning curtailment program. One study conducted in Washington State measured a 30 percent decrease in fine particle matter concentrations in one impacted residential area over a 6-year period.

On December 20, 2005, the U.S. EPA proposed a new rule that would keep the annual average PM 2.5 limit at 15 micrograms per cubic meter per day but lower the daily limit from 65 to 35 micrograms per cubic meter. Air pollution monitors in the City of Sacramento showed PM levels just below the current federal daily limit of 65 micrograms per cubic meter. The federally proposed rule faces a 90 day public comment period, the EPA expects the new rule to be in place by September 2006.

### **Financial Considerations:**

As with any additional requirement there would be costs associated with implementing wood burning curtailment measures. Pending direction from the Law & Legislation Committee, staff would return with specific financial requirements.

**Environmental Considerations:**

To the extent this program results in less wood burning on days forecasted to have high levels of PM, it would improve the air quality in the City of Sacramento.

**Policy Considerations:**

Air quality is of great concern for the City and is indeed an issue for the entire Sacramento region. Policy considerations in weighing a wood burning curtailment ordinance include: the potential for improvements to air quality if a similar ordinance is not adopted by other jurisdictions in the region; the possible impacts to future development opportunities if the City imposes requirements that are not imposed by surrounding jurisdictions; the potential cost of implementing and enforcing a wood burning curtailment program versus investing funding in another area that may produce greater benefits to air quality.

**Emerging Small Business Development (ESBD):**

Not applicable.

Respectfully Submitted by:   
Patti Bisharat, Government Affairs

Recommendation Approved:

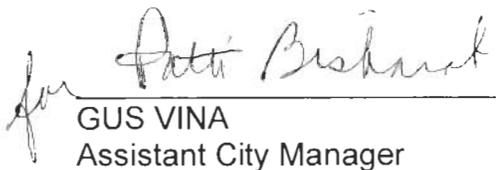
  
\_\_\_\_\_  
GUS VINA  
Assistant City Manager

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SACRAMENTO METROPOLITAN

AIR QUALITY  
MANAGEMENT DISTRICT

## News Release

November 21, 2005

### Simple Wood Burning Tips Improve Wintertime Air Quality

With the arrival of colder evenings, the Sacramento Metropolitan Air Quality Management District (AQMD) wants to remind residents that wood smoke from fireplaces and wood stoves can settle in neighborhoods and cause health problems.

Neighborhood smoke pollution is at its worst when calm, still weather conditions combine with residential wood fires using the wrong type of wood or burning at too low a temperature.

Wood smoke contains a number of air pollutants including particulate matter, carbon monoxide, and toxics such as benzene and formaldehyde. All of these pollutants can lead to significant health problems, especially for children, the elderly, and people with upper respiratory problems. Particulate matter is invisible to the naked eye and can be inhaled deep into the lungs.

If you decide to light a fire, there are several simple tips to reduce the amount of fine particles emitted into our air:

**Burn only dry, seasoned dry wood** - Unseasoned wood burns poorly and creates thick smoke because of its high moisture content.

**Use manufactured fireplace logs** - These are made from fine-particle sawdust and wax. They burn slowly at a higher temperature, sending less air up your chimney and producing less smoke.

**Build small, hot fires** - Large fires smolder and pollute more.

**Some things you should never burn** - Garbage, glossy paper, painted and chemically treated wood can create toxic smoke and fumes.

**Give your fire plenty of room** - A fire with a generous air supply reduces heavy smoke emissions.

Also, if you choose to use a wood or pellet stove, make sure it is EPA certified.

For more information on how to reduce pollution during the winter, please visit the AQMD's Web site at [www.sparetheair.com](http://www.sparetheair.com) or call the AQMD's Community Education Office at (916) 874-4848.

**CONTACT:**           **Media Line**  
                              **Communications Office**  
                              **(916) 874-4888**

# WOOD BURNING HANDBOOK

Protecting the Environment  
and Saving Money

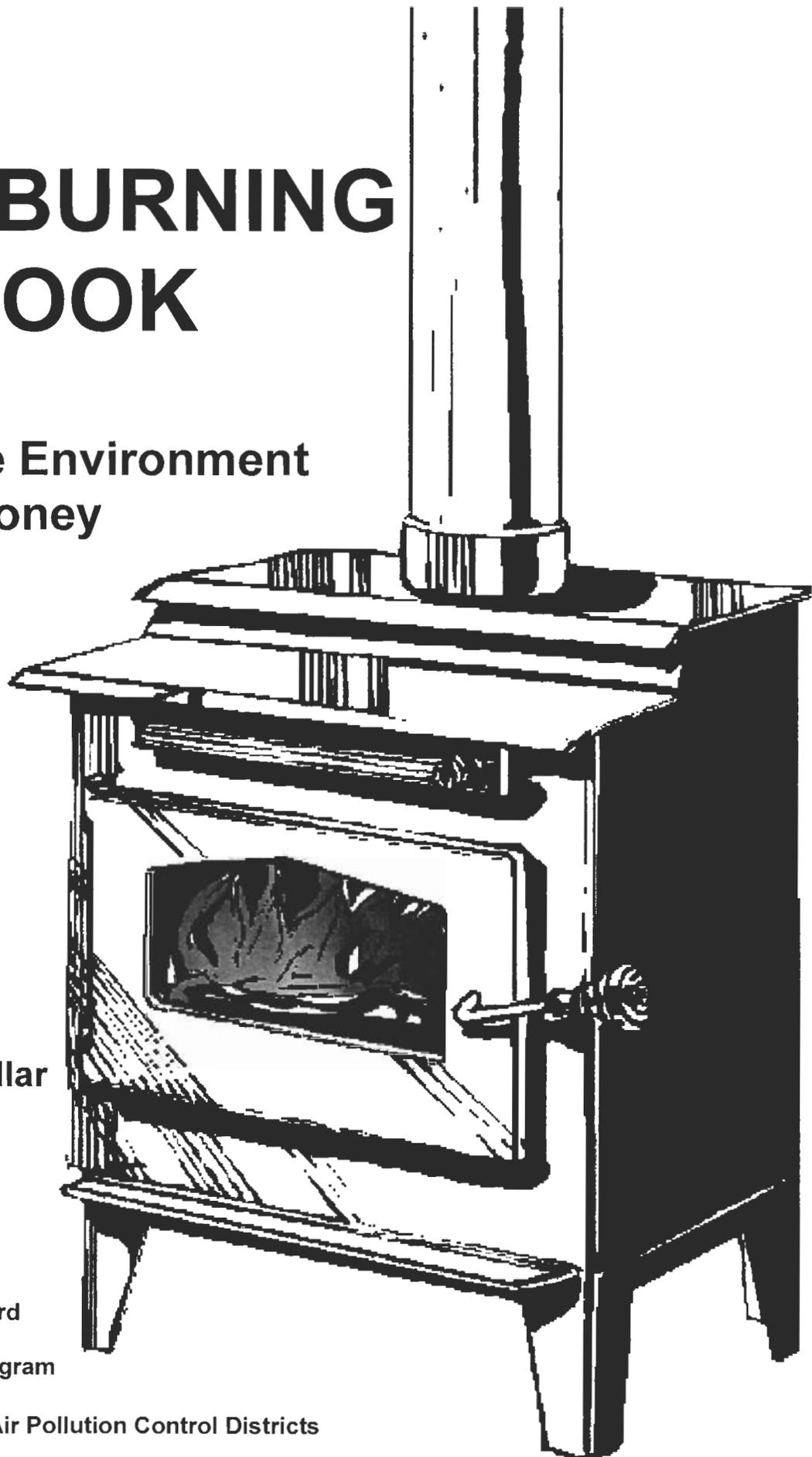
Alternatives to  
Burning Wood

Reducing Wood  
Smoke Pollution

Getting More Heat  
For Your Fuel Dollar

Cal/EPA Air Resources Board  
Enforcement Division  
Compliance Assistance Program

In Cooperation With Local Air Pollution Control Districts



# Burning Wood Produces Wood Smoke and Air Pollution!

The California Environmental Protection Agency and your local air district are asking you to help clear the air of wood smoke. In this handbook you will find information about the air pollutants in wood smoke, health effects of smoke, how wood burns, why it smokes and how you can reduce wood smoke pollution.

Smoke from neighborhood stoves and fireplaces, a common source of both odor and reduced visibility, greatly contributes to the air pollution problems people complain about most. When you include the health-related problems caused by inhaling smoke pollutants, health costs for individuals and the community can be significant. To be a good neighbor, eliminate wood burning. If you do burn, learn to limit the amount of wood smoke produced.



## Sources of Wood Burning and Air Pollution...

Air pollution affects millions of Californians every day. It damages our health, our crops, our property and our environment. In neighborhoods everywhere across California, residential wood burning is a growing source of air pollution. Most wood heaters, such as woodstoves and fireplaces, release far more air pollution, indoors and out, than heaters using other fuels. In winter, when we heat our homes the most, cold nights with little wind cause smoke and air pollutants to remain stagnate at ground level for long periods.



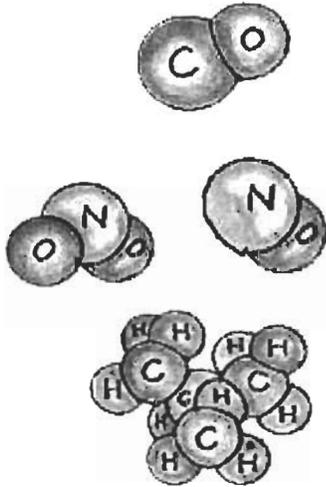
## Burning Wood Causes Indoor Air Pollution

High levels of smoke pollutants leaking from stoves and fireplaces have been measured in some wood burning homes. If you or family members suffer from chronic or repeated respiratory problems like asthma or emphysema, or have heart disease, you should not burn wood at all. If you must burn wood, make sure your stove or fireplace doesn't leak and that you operate it correctly.

**Remember - If you can smell smoke, you are breathing smoke!**

# What Happens when Wood Burns?

Complete combustion gives off light, heat, and the gases carbon dioxide and water vapor. Because when wood burns complete combustion does not occur, it also produces wood smoke, which contains the following major air pollutants, regulated by State and federal rules because of their known health effects:



**Carbon Monoxide (CO)** – An odorless, colorless gas, produced in large amounts by burning wood with insufficient air. CO reduces the blood's ability to supply oxygen to body tissues, and can cause stress on your heart and reduce your ability to exercise. Exposure to CO can cause long-term health problems, dizziness, confusion, severe headache, unconsciousness and even death. Those most at risk from CO poisoning are the unborn child, and people with anemia, heart, circulatory or lung disease.

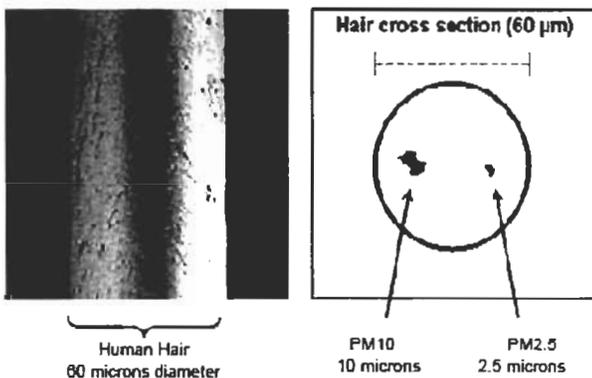
**Oxides of Nitrogen (NOx)** – NOx impairs the respiratory system and its ability to fight infection. NOx also combines with VOCs to make ozone and with water vapor to form acid rain or acid fog.

**Volatile Organic Compounds (VOCs)** – Evaporated carbon compounds which react with NOx in sunlight to form ozone (photochemical smog). Ozone injures the lungs and makes breathing difficult, especially in children and exercising adults. NOx and VOCs also form particulate matter through reactions in the atmosphere.

**Toxic Pollutants** - Wood smoke also contains VOCs which include toxic and/or cancer-causing substances, such as benzene, formaldehyde and benzo-a-pyrene, a polycyclic aromatic hydrocarbon (PAH). Manufactured fireplace logs, for instance, are not recommended for burning because they produce toxic fumes, including PCBs (polychlorinated biphenyls). Researchers are now studying these and other smoke products to learn more about their effects on human health.



Relative Size of Particulate Matter



**Particulate Matter less than 10 microns in diameter (PM10)** are very small droplets of condensed organic vapors of wood tar and gases. These particles are a result of unburned fuel and have a diameter of 10 microns or smaller (the diameter of a human hair is about 50 to 100 microns), which allows them to be inhaled into the lungs. Exposure to PM10 aggravates a number of respiratory illnesses.

**PM10** includes a smaller group of particles called **PM2.5**, particles with diameters of 2.5 microns and less. These finer particles pose an increased health risk because they can lodge deep in the lungs and contain substances that are particularly harmful to human health, contributing to lung diseases and cancer. Exposure to PM2.5 may even cause early death in people with existing heart and lung disease.

# Fireplaces and Old Woodstoves Are Inefficient, Expensive Heaters!

Why...Because of the Way Wood Burns -

As the fire temperature rises, different stages occur:

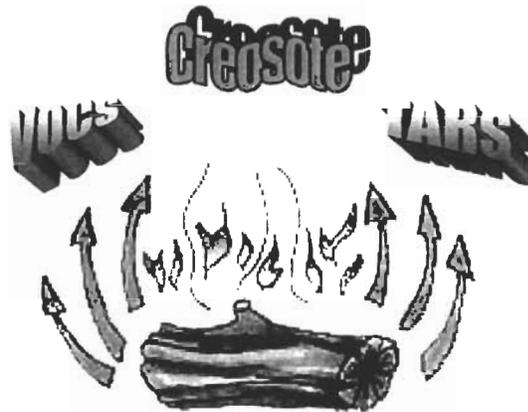


## Stage 1 – Water Boils Off

As the log heats, moisture contained in the log vaporizes, and escapes through the log's surface as water vapor. More energy is used up vaporizing the moisture than is used to burn the log. That heat energy could be warming your house instead of drying your wood before it burns.

## Stage 2 - Vaporizes Wood Gases

Before burning, firewood "cooking" creates and releases hundreds of new volatile organic gases, which contain VOCs, tars and charcoal or carbon. Because the log temperature at this stage is too low to burn gases and tars, they escape up the flue. As they cool, some of the gases will combine with water vapor to form highly flammable **creosote** that sticks to the flue walls; other gases condense into smoke particles.



## Stage 3 - Log Charcoal Burns

At temperatures above 600 degrees Fahrenheit the escaping gases start burning, ignited by nearby flames. As the temperature reaches 1000 degrees, the log charcoal burns and emits heat. Burning the charcoal produces most of the fire's usable heat.



**As you can see, most of your investment in wood goes up in smoke. This is an expensive way to produce a little heat!**

## Most Fireplaces are Not Good Heaters!

Most fireplaces rob your house of heat because they draw air from the room and send it up the chimney! Yes, you'll be warmed if you sit within six feet of the fire, but the rest of your house is getting colder as outdoor air leaks in to replace the hot air going up the chimney.

The key to burning clean and hot is to control the airflow. Most fireplaces waste wood because of unrestricted airflow. A lot of air helps the fire burn fast, but a load of wood will last only one or two hours.

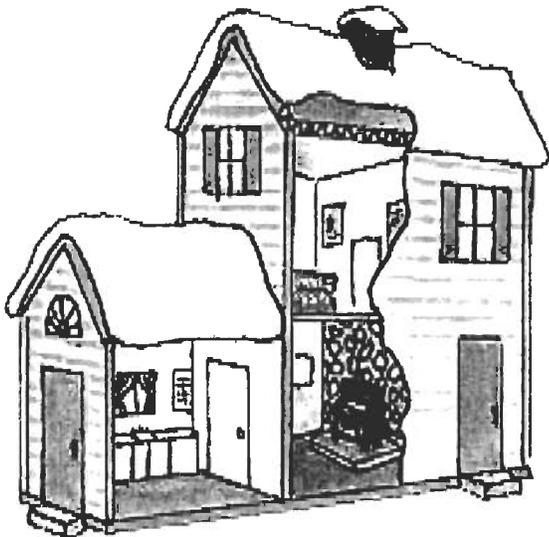
Some older fireplaces actually pollute more if you install glass doors on an old fireplace insert that is not a certified clean-burning model. Restricting the air supply causes the fire to smolder and smoke. Make sure you install a new, certified clean-burning fireplace insert.



### Where Does Your Heat Go? Check your Insulation and Weather-Stripping

Warm air is always escaping from your house, and is replaced by unheated outdoor air. The typical house has one-half to two air exchanges per hour, and more on windy and/or very cold days. If your house has little insulation and many air leaks, you are paying to heat the outdoors. **And if the outside air is smoky, soon your air inside will be too.**

Some air exchange is necessary because of the many sources of air pollution in the home (wood heater, gas stove, consumer products, cigarettes, etc.) Sufficient fresh air inlets are needed to replace air forced out of the house by exhaust fans, dryers, furnaces, water heaters, or wood fires. Here are some suggestions to minimize excess air exchange:



**Install Ceiling Insulation.** When hot air rises, much of the heat is lost through the ceiling and roof. Wall and floor insulation also reduce heat loss. Recommended amounts of insulation have increased in recent years, so be sure your house has all it needs.

**Caulk** around all windows, doors, pipes, and any opening into the house.

**Weather-strip** all door and window openings. Consider installing double-paned glass, outdoor or indoor storm windows, and/or insulated curtains.

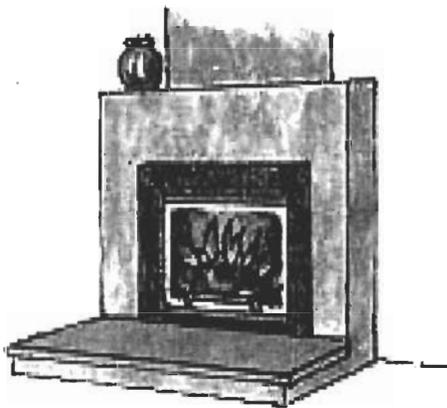
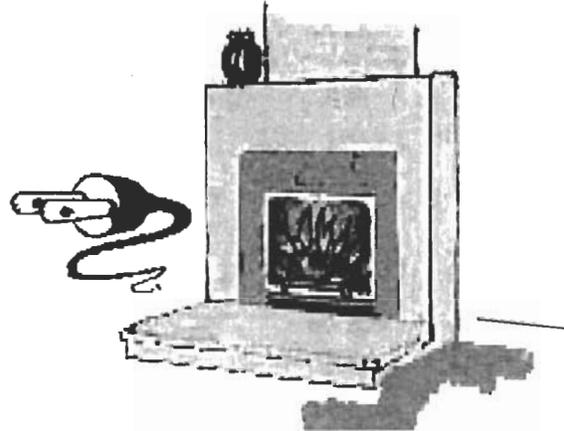
**Close the damper tightly** when the heater is not in use. Stoves and fireplaces allow air to leak out of the house even when they are not operating, unless they are literally airtight.

**Close off unused rooms if you do not use central heating** – Don't waste the heat!

# Clean up your Air Guzzling Fireplace by Trying Alternate Heating Methods...

## Use an Electric Fireplace

Electric fireplaces can be installed anywhere, and no vent is required. They can be plugged into any standard household electrical (120V) outlet and can operate with or without heat. Most fireplaces are made with an adjustable thermostat that maintains room temperatures. The fireplace glass does not absorb heat, so is safe to touch whether or not the heater is operating.



## Switch to Gas

Gas fireplaces are very popular and look like a real wood fire! They are self-contained units, which can be fitted into your existing (vented) fireplace. They send less of your heated air up the chimney. This equipment burns cleaner, is easy to start, convenient, safe and inexpensive to operate, and is a good source of heat. Gas fireplaces are also a good choice if you're remodeling a home and replacing a wood fireplace.

## Install a Certified Wood Burning Fireplace Insert

Fireplace inserts have been developed which meet federal emission standards and provide high fuel efficiency. They are available in many sizes and styles to fit into your masonry fireplace. They provide excellent fire viewing and heat output with very little smoke.



## Try a Pellet Stove

Pellet stoves are the most efficient and least polluting of the new stove designs. Most are exempt from certification because they provide less than 1 gram per hour of particulate emissions. Usually these stoves have some moving parts and require electricity. The fuel, which is made from compressed wood waste and formed into pellets, automatically feeds into the firebox. Combustion air is drawn in and the fire burns hot and clean. Another fan blows room air through a heat exchanger and into the room.

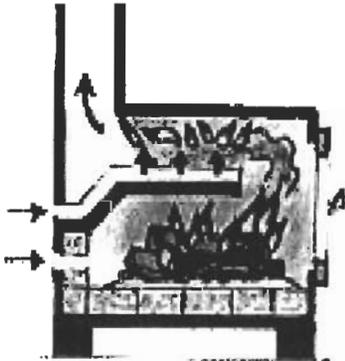
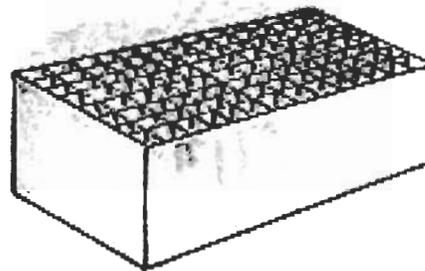
# U.S. EPA Certified Wood Stoves

## U.S. EPA Certified Wood Stoves Heat More and Pollute Less

U.S. EPA requires wood stove manufacturers to conduct a quality assurance program for wood heaters. Wood heaters must be certified. A permanent label on a wood heater indicates that it meets the emission standards. A consumer information label is also required that specifies the emission rate, the heating range of the wood heater, and overall efficiency. Certified stoves heat better with less wood because they burn more of the combustible gases that would otherwise become smoke in fireplaces and old stoves. There are two types of certified wood stove designs to choose from:

### Catalytic Stoves

Similar to the smog control device on new cars, the catalytic combustor in these stoves allows the volatile gases to burn at lower temperatures. Smoke passes through a ceramic honeycomb coated with a rare-metal catalyst, which allows complete smoke combustion and heat release at only 500-700 degrees F. Their efficiency does drop over time and the catalyst device requires replacement after three to seven years of use.



### Non-Catalytic Stoves

These stoves are designed with baffles and/or secondary combustion chambers, which route the burnable gases through the hottest part of the firebox and mix them with sufficient air to burn them more completely. They can attain up to four stages of combustion and completely burn the wood smoke before it escapes.

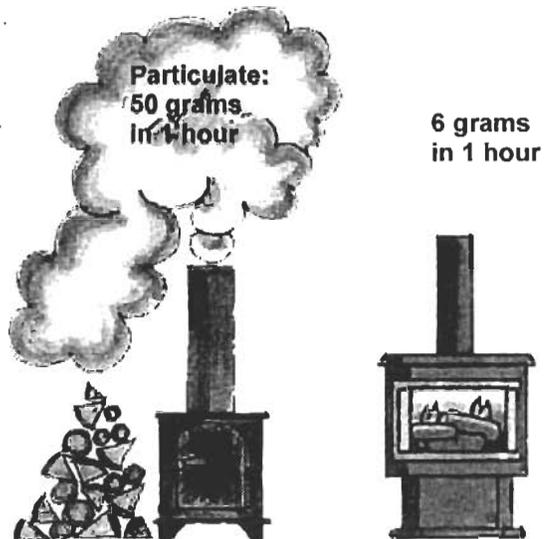
If your woodstove is not U.S.EPA certified, you should consider buying a new certified woodstove. A new U.S. EPA certified stove will increase combustion efficiency, produce far less smoke and creosote buildup, and reduce air pollution. It uses the latest and best technology available on transfer efficiency, and will provide more heat for your house and less for your flue. If you want to pollute less and save money on fuel, you should insist on an EPA Certified device, which will be clearly labeled as such.

**For a list of U.S. EPA certified stoves see:**

<http://www.epa.gov/Compliance/monitoring/programs/woodstoves/index.html>

# U.S. EPA Certified Wood Stoves Release Fewer Particulate Emissions

Because of incomplete combustion, old wood stoves can produce up to 50 grams of particulate per hour. EPA Certified fireplace inserts and EPA Certified wood stoves are considerably more efficient, producing only 6 grams per hour. EPA Certified devices create the right conditions for complete combustion; the right amount of air, high temperature, and time to allow the gases to fully burn.



## Check How Much Heat You Get ...

The heating efficiency of any wood heater depends on combining two factors:

- How completely it burns the firewood (combustion efficiency), and
- How much of the fire's heat gets into the room, rather than going up the flue (transfer efficiency).

How efficiently your wood heater operates depends on 2 more factors:

- Installation – is it located on an outside wall? Too big for house? Flue draws well?
- Operation – Is the wood green? Is the stove stuffed with wood? Is the fire starved for air?

**Your operating techniques account for the largest variations in your woodstove's heating efficiency.**

Non-Certified Stove      U.S.EPA Certified Stove

HEATING EFFICIENCY	
Masonry Fireplace	-10% to 10%
Manufactured Fireplace	-10% to 10%
Freestanding Fireplace	-10% to 30%
Antique Stove	20% to 40%
Fireplace Insert	35% to 50 %
Airtight Stove	40% to 50%
Certified Stoves, Inserts, Fireplaces	60% to 80%
Gas Heater	60% to 90%
Pellet Stove	75% to 90%
Electric Fireplace	100%

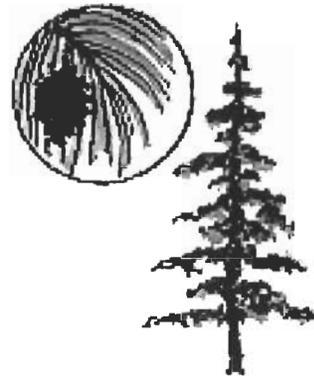
**Look for the Permanent U.S.EPA Label on Certified Devices!**

**For maximum safety and efficiency have a professional installer calculate the correct stove size for the area, install the stove, and design and install the chimney.**

# If you Still Must Burn Wood, Follow These Tips on Clean Burning – To Heat More Efficiently and Reduce Air Pollution!

## ➤ Start Your Fire With Softwood Kindling

Softwoods (pine, fir) are generally low in density, ignite easily, burn fast and hot and will heat the firebox and flue quickly. They are ideal for kindling and starting your fires, but form creosote easily due to the high resin (sap) content.



## ➤ Burn Longer and Cleaner With Hardwood

Hardwoods (oak, cherry) are denser and take longer to ignite, but burn slower and more evenly, producing less smoke. They also provide more heat energy than softwood logs of the same size.

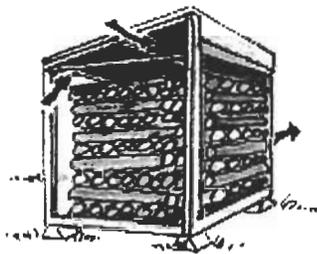


## ➤ Burn Only "Seasoned" Firewood

Firewood should dry, or "season" a minimum of 6 to 12 months after splitting. Hardwoods dry more slowly than softwoods and may take over a year to dry. Seasoned firewood by definition contains 20 percent moisture or less by weight. Wood dries faster in a warmer storage area with more air circulation.

## ➤ To Speed Drying:

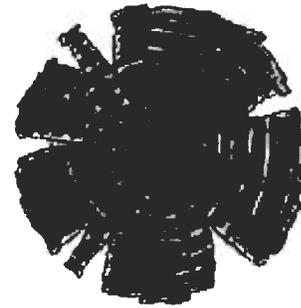
**Split and Stack** – logs dry from the outside in, so split big logs right away for faster drying. Stack loosely in a crosswise fashion to get good air circulation.



**Store High & Dry** – Stack a foot or more above the ground and away from buildings in a sunny, well-ventilated area. Cover the top to keep dew and rain off the wood, but leave the sides open to breezes.

➤ **Be Careful when Buying Wood Advertised as "Seasoned". Look for:**

- **Dark colored, cracked ends**, with cracks radiating from the center like bicycle spokes.
- **Light in weight**, meaning there is little moisture left; hardwood logs will weigh more than softwood.
- **Sound** - Hit two pieces together. Wet wood makes a dull "thud" sound. Dry wood rings with a resonant "crack," like a bat hitting a baseball.
- **Easily peeled or broken bark**. No green should show under the bark.



➤ **Build a Small, HOT Fire First...**



- **Open Damper Wide** - allow in maximum air to fuel the fire. And leave it and other air inlets open for 30 minutes.
- **Start Small and Hot** - leave a thin layer of ash for insulation. Crumple a few sheets of newspaper and add some small pieces of kindling, then light. Add bigger kindling a few at a time as the fire grows. Get it burning briskly to form a bed of hot coals. Now add 2 or 3 logs.
- **Position the next logs carefully** - place logs close enough together to keep each other hot, but far apart enough to let sufficient air (oxygen) move between them.

➤ **Refuel While the Coals Are Still Hot!**

If a fireplace insert or glass door is present, open it slightly for a minute to prevent back puffing of smoke into the room. When smoke subsides, then open the door fully.

Preheat again by placing a few pieces of kindling onto the red-hot coals. Add more as they catch fire, then add a few larger pieces. Small, frequent loading causes less smoke than a big load in most older stoves.

After refueling, leave the dampers and inlets open for about 30 minutes. The fire will get plenty of air and burn hot, retarding creosote formation (which forms early in a burn).



**Light & Refuel your fire quickly and carefully.  
These are the times it will smoke the most.**

➤ **Don't Burn Anything but Clean, Seasoned Wood, Fireplace Logs, and Non-glossy White Paper**

- No Garbage
- No Rubber
- No Particleboard
- No Glossy Paper
- No Solvent or Paint
- No Coal or Charcoal
- No Plastics
- No Waste
- No Plywood
- No Colored Paper
- No Oil
- No Painted/ Treated Wood

Burning these materials can produce noxious, corrosive smoke and fumes that may be toxic. They can foul your catalytic combustor, your flue, and the lungs of your family and neighbors.



**Warning: Kiln-Dried Lumber vaporizes too rapidly, causing creosote buildup.**



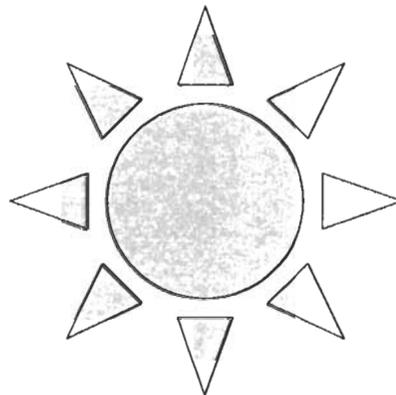
**Overnight Heating**

When using an open fireplace, **DO NOT** burn overnight unattended - it's a major fire hazard. This can also lead to a back draft of the smoke into your own home, causing very hazardous indoor air pollution.

Build a small, hot fire and let it burn out completely. Rely on your home's insulation to hold in enough heat for the night. When the fire is out, close the damper tightly.

➤ **Heating in Warmer Weather**

If you do need extra heat in warmer weather, and a small space heater will not suffice, open the air controls wide, build a small, hot fire, using more finely split wood, and let it burn out. **DO NOT** try to reduce the heat from a big fire by reducing its air supply because this leads to smoldering, creosote buildup and air pollution.



➤ **Maintain Your Fire Properly – Watch the Temperature**

- **Do Not Close the Damper or Air Inlets Too Tightly** - The fire will smoke from lack of air.
- **Follow the Wood Stove or Fireplace Manufacturer's Instructions Carefully** - Be sure that anyone who operates it is also familiar with these instructions.
- **Your Actions Determine How Efficiently Your Fireplace or Wood Stove Will Operate** - A good wood stove/fireplace is designed to burn cleanly and efficiently, but it can not do its job right if you do not cooperate.

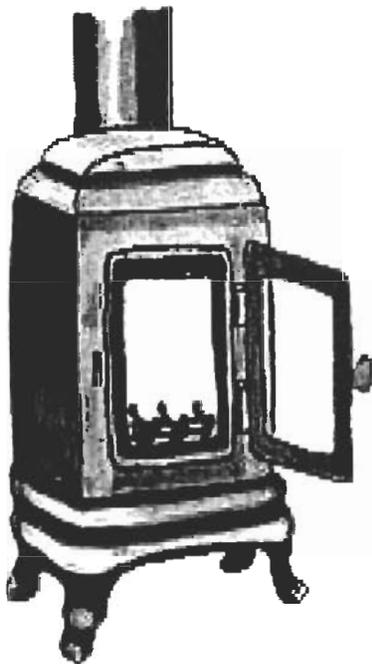
➤ **Watch for Smoke Signals!**

Get into the habit of glancing out at your chimney top every so often. Apart from the half hour after lighting and refueling, a properly burning fire should give off only a thin wisp of white steam. If you see smoke, adjust your dampers or air inlets to let in more air. The darker the smoke, the more pollutants it contains and the more fuel is being wasted.



➤ **Inspection and Upkeep - For Safety's Sake**

Periodic inspection of your wood stove or fireplace is essential to ensuring its continued safe and clean-burning operation. Keep in mind the following points when performing your fireplace inspection:



- **Chimney Caps** can be plugged by debris, which will reduce draft.
- **Chimneys** should be cleaned professionally at least once a year to remove creosote buildup. **Remember – Creosote can fuel a chimney fire that can burn down your house!**
- **Catalytic Combustor** holes can plug up; follow instructions to clean.
- **Stovepipe** angles and bolts are particularly subject to corrosion.
- **Gaskets** on airtight stove doors need replacement every few years.
- **Seams** on stoves sealed with furnace cement may leak. Eventually the cement dries out, becomes brittle, and may fall out.
- **Firebricks** may be broken or missing.
- **Grates** or stove bottoms can crack or break.

# Local Wood Burning Regulations

In light of growing evidence of health effects, the smell of wood smoke no longer has the pleasant associations it once had. Some California cities and counties have enacted local ordinances to limit the growing wood smoke problem. Mammoth Lakes, Squaw Valley, Cloverdale, Healdsburg, Petaluma, Fresno, and many cities and counties in the Bay Area, for instance, permit installation of only U.S.EPA certified wood-fired appliances in all new construction. Since 1991, the Bay Area AQMD has issued advisories for a voluntary no-burn program, called "Spare the Air Tonight", on poor air quality nights. The San Joaquin Valley APCD and Mammoth Lakes ban wood burning when the air quality is poor. And, both the Northern Sierra AQMD and the North Coast Unified AQMD have implemented a "Wood Stove Replacement Incentive Program". The following air pollution control districts have specific wood burning rules, regulations and/or ordinances:

BAY AREA AIR QUALITY MANAGEMENT DISTRICT, A Model Ordinance Pertaining to the Reduction of Air Pollution by Regulating the New Construction or Replacement of Woodburning Appliances. [http://www.baaqmd.gov/pio/wood\\_burning/modelord\\_woodsmoke.pdf](http://www.baaqmd.gov/pio/wood_burning/modelord_woodsmoke.pdf)

BUTTE COUNTY AIR QUALITY MANAGEMENT DISTRICT, RULE 207 – Residential Wood Combustion

FEATHER RIVER AQMD, RULE 3.17 – Wood Stove Heating

GLENN COUNTY APCD, ARTICLE 4, Section 99.2 – Fireplace and Solid Fuel Heating Device Usage

GREAT BASIN APCD, RULE 431, - Particulate Emissions – Town of Mammoth Lakes

KERN COUNTY APCD, RULE 416.1 – Wood Burning Heaters and Wood Burning Fireplaces

MONTEREY BAY UNIFIED APCD, RULE 1009 – Burning of Treated Wood

NORTHERN SONOMA APCD, REGULATION 4 – Control Measure for Wood Fixed Appliance Emissions

PLACER COUNTY APCD, RULE 225 – Wood Fired Appliances

SAN JOAQUIN VALLEY APCD, RULE 4901 – Wood Burning Fireplaces and Wood Burning Heaters

SAN LUIS OBISPO COUNTY APCD, RULE 504 – Residential Wood Combustion

SHASTA COUNTY AQMD, RULE 3:23 – Fireplace and Solid Fuel Heating Device Usage

YOLO-SOLANO AQMD, RULE 2.40 – Wood Burning Appliances

YOLO-SOLANO AQMD, A Proposed Model Ordinance Regulation of Wood Burning Appliances <http://www.dcn.davis.ca.us/go/ysaqmd/ProposedModelWBA.pdf>

**Your State and local air pollution control agencies urge you to  
burn clean, burn safe, and burn smart. Remember...**

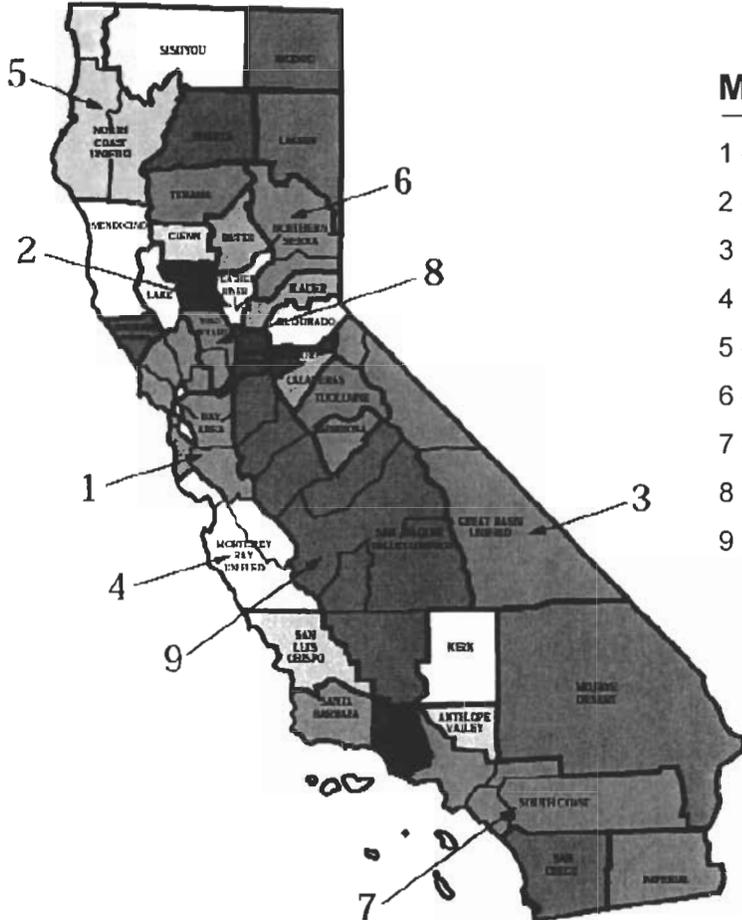
**Choose Not to Burn When Air Quality is Already Poor.**

**For more information contact your local building inspector, fire department, county agricultural extension office, woodstove retailer, chimneysweep, or air pollution control district office.**

# Need More Information?

Air Resources Board (800) 952-5588

District: \_\_\_\_\_



## Multi-County Air Districts

- 1 - Bay Area (415) 771-6000
- 2 - Feather River (530) 634-7659
- 3 - Great Basin (760) 872-8211
- 4 - Monterey Bay (831) 647-9411
- 5 - North Coast (707) 443-3093
- 6 - Northern Sierra (530) 274-9360
- 7 - South Coast (909) 396-2000
- 8 - Yolo-Solano (530) 757-3650
- 9 - San Joaquin Valley (559) 230-6000

## County Air Districts

Amador (209) 257-0112	Lake (707) 263-7000	San Diego (858) 650-4700
Antelope Valley (661) 723-8070	Lassen (530) 251-8110	San Luis Obispo (805) 781-4247
Butte (530) 891-2882	Mariposa (209) 966-2220	Santa Barbara (805) 961-8800
Calaveras (209) 754-6504	Mendocino (707) 463-4354	Shasta (530) 225-5789
Colusa (530) 458-0590	Modoc (530) 233-6419	Siskiyou (530) 841-4029
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California Environmental Protection Agency

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# REPORT TO LAW & LEGISLATION COMMITTEE City of Sacramento

915 I Street, Sacramento, CA 95814-2671

STAFF REPORT  
January 5, 2006

Honorable Members of the  
Law and Legislation Committee

**Subject:** Report back on the Superstore Ordinance (M05-025)

**Location/Council District:** Citywide

**Recommendation:**

Staff recommends that the committee review the comments that staff received during public outreach on the interim ordinance relating to superstores and direct staff to take the interim ordinance text to public hearing before the City Planning Commission and the City Council for final adoption as the permanent superstore ordinance.

**Contact:** Joy Patterson, Senior Planner, 808-5607

**Presenters:** Joy Patterson, Senior Planner

**Department:** Development Services

**Division:** Current Planning

**Organization No:** 4870

**Summary:**

On February 15, 2005, the Sacramento City Council adopted an interim ordinance requiring a special permit for superstores in the City of Sacramento (Ordinance 2005-013). The direction of the council was to come back with a permanent ordinance to regulate superstores. The council also directed staff to meet with members of the public that would be interested in providing comments to City staff as they finalized the permanent ordinance. A meeting with interested members of the public was held on October 17, 2005. As a result of the meeting and comments received after the meeting, staff recommends that the Law and Legislation Committee direct staff to prepare the interim ordinance for adoption as the final ordinance with no text changes and hold the required public hearings before the Planning Commission and City Council for final adoption.

**Committee/Commission Action:**

None.

**Background Information:**

On September 30, 2005 Assistant City Manager Ray Kerridge sent a letter, with a copy of the interim ordinance, to 32 interested groups and individuals who were interested in the superstore ordinance. The purpose of the letter was to invite them to a meeting on the evening of October 17, 2005 in order to provide input into final zoning code regulations relating to superstores in the City of Sacramento. People receiving the letter were encouraged to call if they had any questions or planned on attending.

Eight members of the public attended the superstore meeting. City staff from Development Services Department, Economic Development Department, City Attorney's office and Councilmember Sheedy's office were also in attendance. At the meeting staff gave a history and overview of the interim ordinance, answered any questions by those in attendance and had discussion on the current ordinance and suggestions for refinement. Generally those in attendance were happy with the provisions of the current ordinance. Staff encouraged participants to put any suggestions they had in writing. Staff followed-up by sending a summary of the meeting comments to the participants and giving participants a deadline of November 15<sup>th</sup> to provide written comments.

Staff received written comments from Judy Davidoff of Steefel, Levitt & Weiss, representing Wal-Mart Stores, Inc., and the Sacramento Central Labor Council AFL-CIO. These comments are attached for the committee's review. Ms. Davidoff suggested that the ordinance expand the definition of uses for which a special permit and economic impact analysis are required. The Sacramento Central Labor Council suggested that: the amount of gross floor area that is devoted to the sale of non-taxable merchandise should be limited to a maximum of 10% rather than 20%; superstores subject to the ordinance should be required to carry a performance bond to provide funds to cover the cost of building demolition and maintenance if a vacated building is not demolished or a site is not maintained; and if a superstore subject to the ordinance becomes vacant the building should not be kept vacant for more than 12 months.

At this time staff would recommend that the ordinance language as currently written is a good starting point for the permanent ordinance and provides for reasonable requirements for evaluating a proposed superstore's impacts upon existing retail stores in a community. In the future, the City Council could consider requiring economic impact analysis for other land uses besides superstores. The City Attorney's office has indicated that the addition of a performance bond for demolition has been rarely used and would require further research.

**Financial Considerations:**

There are no financial considerations associated with this report.

**Environmental Considerations:**

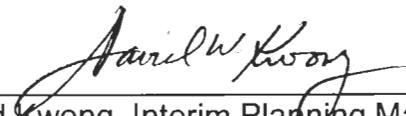
This report back to the committee does not require environmental review. An environmental determination will be made on the permanent superstore ordinance per California Environmental Quality Act (CEQA) guidelines.

**Policy Considerations:**

Adoption of a final ordinance will give policymakers a mechanism to insure that sufficient information regarding the economic impacts of superstores will be prepared and presented as part of the project approval process. The ordinance is consistent with the goals of the City's Strategic Plan to achieve sustainability and livability in the City of Sacramento.

**Emerging Small Business Development (ESBD):**

No goods or services are being purchased under this report.

Respectfully Submitted by:   
David Kwong, Interim Planning Manager

Approved by:   
William Thomas  
Director of Development Services

Recommendation Approved:

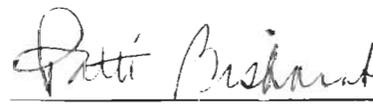
for   
GUS VINA  
Assistant City Manager

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# ORDINANCE NO. 2005-013

ADOPTED BY THE SACRAMENTO CITY COUNCIL

ON DATE OF FEBRUARY 15, 2005

## AN INTERIM ORDINANCE ESTABLISHING A SPECIAL PERMIT REQUIREMENT FOR SUPERSTORES

BE IT ENACTED BY THE COUNCIL OF THE CITY OF SACRAMENTO:

### SECTION 1.

#### THE COUNCIL DECLARES AND FINDS AS FOLLOWS:

1. California cities have recently seen an influx of retail stores that sell groceries and other non-taxable merchandise in addition to the stores' regular merchandise; and
2. These stores are often large, exceeding 90,000 gross square feet in size, and are referred to as "superstores"; and
3. These superstores can generate economic impacts on the jurisdiction where they are located that are different from the impacts that are generated by retail stores generally; and
4. The Council of the City of Sacramento is interested in ensuring a healthy business sector, and in particular, a healthy small business sector; and
5. While superstores generate significant sales tax revenues, the extent to which these revenues displace revenues from existing retail stores, as well as cause other economic impacts, requires additional analysis; and
6. The Council of the City of Sacramento is interested in ensuring that sufficient information regarding the economic impacts of these projects be prepared and presented as part of the project approval process.

- 1 -

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ORDINANCE NO. \_\_\_\_\_

DATE ADOPTED: \_\_\_\_\_

**SECTION 2.**

7. Notwithstanding the provisions of Title 17 of the Sacramento City Code (the Zoning Code), a special permit shall be required to establish a superstore in any zone where retail uses are allowed under Chapter 17.24 of Title 17, whether as a matter of right or otherwise. The requirement for a special permit shall apply to proposals to construct a new building or structure for a superstore, and it shall also apply to proposals to utilize an existing building or structure for a superstore.

Definitions: For purposes of this ordinance, the term "superstore" means a retail store where the use will occupy more than 90,000 gross square feet and where more than 20% of the gross floor area is devoted to the sale of non-taxable merchandise. Notwithstanding the foregoing, the term "superstore" shall exclude wholesale clubs or other establishments selling primarily bulk merchandise and charging membership dues or otherwise restricting merchandise sales to customers paying a periodic assessment or fee.

8. Prior to approving or disapproving a special permit pursuant to Section 2-A above, and in addition to any other requirements of Title 17 of the Zoning Code, an Economic Impact Analysis ("EIA") shall be prepared for the proposed project. The EIA shall be prepared by the City, or by another qualified entity or consultant retained by the City, and shall be an expense of the applicant. The EIA may not be prepared by the applicant.

The EIA shall be a report that analyzes the potential economic impacts of the proposed superstore, shall be considered by the Planning Commission at the time of consideration of the special permit application, and shall include at least the following:

1. A survey of existing retail stores in the City reasonably likely to be impacted or materially affected by the proposed superstore. A survey of the number of persons employed by existing retail stores in the City, an estimate of the number of persons who will likely be employed by the proposed superstore, and an analysis of whether the proposed superstore will result in a net increase or decrease of jobs in the City.

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2. A survey of the wage and benefit differentials, if any, between the proposed superstore and existing retail stores in the City.
  3. An analysis of the effects of the proposed superstore on retail sales and whether there will be a net increase or decrease in net retail sales in the City.
  4. An analysis of the sales tax revenues that are likely to be generated by the proposed superstore, and an analysis of the effect of the proposed superstore on sales tax revenues generated by existing retail stores in the City, including an analysis of the sales tax revenues that are likely to be lost by existing retail stores in the City, either due to loss of business or from closure.
9. This ordinance is enacted by the City Council as an interim ordinance, without notice and hearing before the Planning Commission and City Council as otherwise required by Section 17.208.010 of the City's Zoning Code. It is anticipated that permanent, comprehensive regulations governing superstores, consisting of amendments to Title 17 of the City Code, will be processed in the manner required by Section 17.208.010 within 180 days, and that this interim ordinance will be repealed at that time.

PASSED FOR PUBLICATION: January 11, 2005

DATE ENACTED: February 15, 2005

DATE EFFECTIVE: March 17, 2005

\_\_\_\_\_  
MAYOR

ATTEST:

\_\_\_\_\_  
CITY CLERK

\_\_\_\_\_  
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DATE ADOPTED: \_\_\_\_\_



Author's Direct Dial: (415) 403-3344  
E-Mail: [jdavidoff@steel.com](mailto:jdavidoff@steel.com)

October 31, 2005

**VIA EMAIL AND U.S. MAIL**

Ray Kerridge  
Assistant City Manager for Development  
City of Sacramento  
915 I Street, Suite 300  
Sacramento, CA 95814-2998

Re: Final Zoning Code Regulations Relating to Superstores

Dear Mr. Kerridge:

We are writing on behalf of our client, Wal-Mart Stores, Inc., regarding the proposed permanent ordinance to regulate superstores in the City of Sacramento, which was discussed during a public meeting on October 17, 2005, and which we understand will be forwarded to the Law and Legislation Committee for consideration in November 2005. The proposed ordinance (the "Ordinance") would require a special permit and the preparation of an economic impact analysis ("EIA") for any proposed "superstore" in Sacramento.

Wal-Mart agrees in principle with many of the goals of the proposed Ordinance. Informed decision-making is an important part of the land use approval process, and we support the City's desire to provide Planning Commissioners and City Councilmembers with as much relevant information as possible about the impacts of proposed projects. However, we question why the Ordinance is targeted at only a single type of user, when other comparable uses could have similar impacts. If the goal of the Ordinance is to inform decision-makers, then expanding the scope of uses for which a special permit and EIA is required would only benefit the City and the Sacramento community.

Wal-Mart is committed to the preparation of an EIA for any new Supercenter Wal-Mart proposes in Sacramento. However, economic analyses, if appropriate, should not be limited to superstores. Rather, regardless of the proposed use, the City on a case-by-case basis should determine whether a detailed economic analysis and studies are necessary. This sort of approach is more even handed and requires that the City look at all the facts, versus making a decision based on an arbitrary factor related only to the size of the proposed use and the type of merchandise sold by the user.

Accordingly, if the City is inclined to adopt the Ordinance in some form, we suggest that the Ordinance expand the definition of uses for which a special and EIA is required.

Roger Kemp  
City Manager  
October 31, 2005  
Page Two



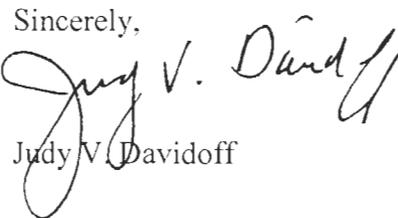
In addition, we have the specific comments regarding the inclusion of a provision requiring that the EIA include a survey of the wage and benefit differential between superstores and existing retail stores in the City. By requiring this sort of survey, the Ordinance improperly shifts from purported planning regulation to a vehicle of economic regulation. Any focus on wages and benefits demonstrates an intent to regulate wage and business practices, which is not a proper area of regulation for a City. The City should limit its inquiry to legitimate planning information that will inform the City planning staff and decision-makers.

For your information, we are attaching a copy of an article from The New York Times by Pankaj Ghemawat and Ken A. Mark that addresses wage and benefit issues related to Wal-Mart Supercenters (see "The Price Is Right"). We are also attaching a study prepared by Gregory Freeman of Los Angeles County Economic Development Corporation entitled "Wal-Mart Supercenters: What's in store for Southern California?"

Finally, we refer you to the letter that we submitted to the City Council on February 15, 2005, regarding the interim ordinance being considered at that time, which letter is hereby incorporated by reference.

\* \* \* \*

For these reasons, we urge you to consider our suggestions and comments before proceeding with adoption of the Ordinance. We would be happy to meet in person with City staff to discuss any of the concerns we have raised.

Sincerely,  
  
Judy V. Davidoff

Encl.

cc: Members of the Law and Legislation Committee  
Members of the Planning Commission  
Members of the City Council

## The Price Is Right

By Pankaj Ghemawat and Ken A. Mark

3 August 2005

The New York Times

Nowadays, mighty Wal-Mart's headquarters in Bentonville, Ark., must feel less like a hotbed of retailing than like a war room. The company faces a groundswell of criticism, largely focused on its treatment of workers. From low wages to limited health care coverage, Wal-Mart has some issues to tackle, and it has mostly responded with feel-good television advertisements and denial. But to chalk up Wal-Mart's success simply to the exploitation of its work force, as many of the company's most ferocious critics do, is simply wrong, for two reasons.

First, Wal-Mart hasn't just sliced up the economic pie in a way that favors one group over another. Rather, it has made the total pie bigger. Consider, for example, the conclusions of the McKinsey Global Institute's study of United States labor productivity growth from 1995 to 2000. Robert Solow, a Nobel laureate in economics and an adviser on the study, noted that the most important factor in the growth of productivity was Wal-Mart. And because the study measured productivity per man hour rather than per payroll dollar, low hourly wages cannot explain the increase.

Second, most of the value created by the company is actually pocketed by its customers in the form of lower prices. According to one recent academic study, when Wal-Mart enters a market, prices decrease by 8 percent in rural areas and 5 percent in urban areas. With two-thirds of Wal-Mart stores in rural areas, this means that Wal-Mart saves its consumers something like \$16 billion a year. And because Wal-Mart's presence forces the store's competitors to charge lower prices as well, this \$16 billion figure understates the company's real impact by at least half.

These kinds of savings to customers far exceed the costs that Wal-Mart supposedly imposes on society by securing subsidies, destroying jobs in competing stores, driving employees toward public welfare systems and creating urban sprawl. Even if these offenses could all be ascribed to Wal-Mart, their costs wouldn't add up to anything like \$16 billion.

Similarly, the savings to customers also exceed the total surplus the company generates for its shareholders-- a surplus that would be wiped out if Wal-Mart's million-plus employees were to receive a \$2-per-hour pay increase, modest though that sounds. Such a possibility would be unacceptable to Wal-Mart's shareholders, who include not only Sam Walton's heirs but also the millions of Americans who invest in mutual funds and pension plans. Instead, the more than 100 million Americans who shop at Wal-Mart would most likely just end up paying higher prices.

This last point suggests that the debate around Wal-Mart isn't really about a Marxist conflict between capital and labor. Instead, it is a conflict pitting consumers and

efficiency-oriented intermediaries like Wal-Mart against a combination of labor unions, traditional retailers and community groups. Particularly in retailing, American policies favor consumers and offer fewer protections to other interests than is typical elsewhere in the world. Is such pro-consumerism a good thing?

The answer depends on who these consumers are, and Wal-Mart's customers tend to be the Americans who need the most help. Our research shows that Wal-Mart operates two-and-a-half times as much selling space per inhabitant in the poorest third of states as in the richest third. And within that poorest third of states, 80 percent of Wal-Mart's square footage is in the 25 percent of ZIP codes with the greatest number of poor households. Without the much-maligned Wal-Mart, the rural poor, in particular, would pay several percentage points more for the food and other merchandise that after housing is their largest household expense.

So in thinking about Wal-Mart, let's keep in mind who's reaping the benefits of those "everyday low prices" -- and, by extension, where the real conflict lies.

*Pankaj Ghemawat is a professor of business administration at Harvard. Ken A. Mark is a business consultant in Toronto.*

---

# Wal-Mart Supercenters: What's in store for Southern California?



Prepared by:

Gregory Freeman  
Los Angeles County Economic Development Corporation

January 2004



*ECONOMIC DEVELOPMENT  
FOR THE REGIONS OF LA COUNTY*

**Editor's Note:**

The consulting practice of the Los Angeles County Economic Development Corporation (LAEDC) was commissioned by Wal-Mart Stores, Inc. to conduct an even-handed assessment of the potential impact of its Supercenters on Southern California.

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## **Wal-Mart Supercenters: What's in store for Southern California?**

### **Executive Summary**

Wal-Mart Stores, Inc. is now the largest grocery retailer in the country based on sales. It is preparing to introduce its Supercenters, which combine a large general merchandise store with a full service market, into Southern California. The City of Los Angeles, in particular, with its 3.61 million people, 1.28 million households, and annual food store spending of approximately \$5.65 billion, is a very attractive market. Wal-Mart's planned expansion into the local grocery business creates both a challenge to the major grocery store chains in the region, and an opportunity for cities to encourage strategic reinvestment in underserved neighborhoods.

The LAEDC agreed to assess the economic implications of Wal-Mart's entry into the Southern California grocery market because existing studies, which tend to tally only the negative impacts of Wal-Mart's operations, miss half the story. Here we aim to provide a fair and balanced assessment of both the good and not so good impacts of Supercenters in Southern California. Thus, we include not only the potential effects on existing grocery chains and their employees, but also the potential savings to consumers, and the potential job creation outside the grocery industry.

### **Costs and Savings**

Wal-Mart Supercenters have a substantial cost advantage relative to traditional supermarkets, based on careful supply chain and inventory management, volume discounts, and lower labor costs. Much of this can be attributed to Wal-Mart's willingness to invest in technology and business practices which make its operations more efficient. Wal-Mart passes the savings on to consumers, offering lower prices on groceries than traditional grocery market chains. If Wal-Mart Supercenters are introduced in Los Angeles, food prices should fall.

Wal-Mart shoppers would immediately save an estimated average of 15 percent relative to what they would have paid under the current status quo. The savings could be higher, particularly in portions of the City of Los Angeles such as South Los Angeles and the northeast San Fernando Valley, which are underserved by traditional grocery stores. The corner stores where much of the food purchases in these areas take place offer uncompetitive prices relative to existing grocery stores, never mind Supercenters. As Wal-Mart gradually builds market share, major competitors will lower their prices as well, thus bringing additional savings to some consumers who will never set foot in a Wal-Mart store. Smaller stores will adjust by emphasizing specific market niches and specialty products which Wal-Mart does not provide.

The LAEDC conservatively calculated the potential savings to consumers in the City of Los Angeles to be *at least* \$668 million, or \$524 per household, annually, once Wal-Mart reaches 20 percent market share. The savings could be much higher, though the savings will not materialize overnight. They will increase gradually over many years in step with Wal-Mart's market share. These savings add to a household's discretionary *after tax dollars* – the portion of the income actually available for spending. This "found"

money will be redirected to other items, including housing, savings, health, entertainment, and transportation. As households redeploy their savings, their spending will create jobs outside the grocery industry. In the City of Los Angeles, redirected grocery savings will create 6,500 additional jobs. The new jobs will be in a wide variety of occupations, reflecting the diverse spending patterns of Los Angeles households and the breadth of the regional economy.

The LAEDC also looked at the potential impact of Wal-Mart Supercenters on the entire Southern California market. In Los Angeles County, the aggregate annual savings to consumers would be at least \$1.78 billion. When the savings are redirected to other purchases, the county-wide job creation will total 17,300 jobs. For consumers in Imperial, Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura counties, the combined total annual savings will be at least \$3.76 billion. The seven-county Southern California job creation total is 36,400 jobs.

Wal-Mart compensation, while lower than for the best-paid unionized grocery employees, is better than most people realize, particularly in its food business. Wal-Mart benefits include health care, a stakeholders' bonus, which is paid to employees at stores that perform well, profit-sharing, company contributions to 401(k) plans, which are the most common form of defined contribution retirement plan, a 15 percent discount on company stock, and a 10 percent discount on purchases of general merchandise. Wal-Mart's healthcare plan requires employees to share the upfront costs (Wal-Mart pays 2/3<sup>rd</sup>; the associates pay 1/3<sup>rd</sup>), but in return does not have single incident or lifetime caps on coverage.

Two important factors make Wal-Mart's wages appear lower than they might otherwise. First, Supercenters are a relatively new phenomenon. Most Supercenters have simply not been open long enough to have accumulated many employees with lengthy service records, and thus higher rates of pay. Second, and perhaps most important, Wal-Mart's pay among its front line grocery workers is skewed downwards because it promotes from within. Wal-Mart recruits its management primarily from within the ranks of its own employees. This opens up career opportunities for associates, and crucially for wage comparisons, removes some of the most experienced and best paid Wal-Mart employees from the pool of workers typically being compared. In contrast to unionized grocery stores, where some of the most senior employees are cashiers, at Wal-Mart cashier is an entry level position.

Unionized grocery workers earn \$2.50-\$3.50 per hour more, on average, than Supercenter employees in Southern California could expect. Some union grocery workers are very well compensated, but the wages of the most highly compensated among them are frequently mistaken for *average* union wages, which are lower. The widely-cited Orange County Business Council (OCBC) study calculated the potential wage loss if all union workers in the Southern California grocery industry were to earn the same wages as Wal-Mart employees. Using more realistic assumptions of Wal-Mart Supercenter employee pay (and hence a narrower wage gap), we find the potential cumulative wage loss in Los Angeles County is \$150 million to \$258 million annually. For the 7-county Southern California region (including Los Angeles), the range is \$307 million to \$529 million. If all current unionized grocery employees were to eventually earn the equivalent of Wal-Mart Supercenter employees, the lost spending due to eroded household income could cost Los Angeles County alone 1,500 to 2,500 jobs and the 7-county region 3,000 to 5,100 jobs. Should these losses materialize, they would be

offset by region-wide gains of 36,400 jobs, meaning that outside the grocery sector at least seven jobs would be added for every one lost.

### **Timing**

Timing will be critical in determining the potential impact of Supercenters. Experience in other regions suggests that existing stores will have time to adjust. The potential benefits as well as the costs of Wal-Mart entering the Southern California grocery market described in this report assume that Wal-Mart will eventually gain a market share of 20 percent. Yet, gaining share will take a long time.

Wal-Mart will struggle to find suitable locations for its stores in many areas of heavily urbanized, built-out Southern California, including most of the City of Los Angeles. By comparison, in Fort Worth, Texas, it took Wal-Mart six years to achieve a 6.5 percent share in a market where stores can be built quickly. Unlike California, permitting, environmental regulation, and community opposition are not generally a factor in Texas, where growth has nonetheless proceeded at only a modest pace. Wal-Mart appears to be proceeding cautiously in California, with plans to build just 40 Supercenters in the state over the next three to five years. This represents just 4 percent of the 1,000 new Supercenters that will be added nationwide during the same period. Based solely on the state's share of the national population and the potential size of its market, the expected number of new Supercenters in California should be in the range of 100 to 150. If the distribution of existing Supercenters were factored in, the California number would be higher still. Again, by comparison, Texas, which is the nation's second most populous state, already has many Supercenters while California, the most populous state, has none.

The slow roll out of Supercenters in Southern California, compared to other regions, will delay the arrival of benefits for consumers, but it will also give Wal-Mart's competitors more time to adapt. With Southern California's rapidly growing population, Wal-Mart is likely to increase its presence by taking a greater share of overall market growth, rather than by luring existing customers from large supermarket chains. While a scenario in which Wal-Mart captures most of this growth may constitute a challenge for the major supermarket chains, their situation – aside from fierce price competition, which benefits consumers, and increased pressure on their balance sheets – is not likely to be significantly different than it is now.

### **Conclusion**

All indicators suggest that Wal-Mart will gradually enter the grocery market in Southern California. A 20 percent market share may be achievable over time, but not in the near future. Unlike what has occurred in other parts of the country, Supercenters will be rolled out slowly here, delaying the arrival of benefits. Conversely, any negative impacts will also be delayed, and lessened, since competitors will have more time to adapt. Over the long term, Wal-Mart is likely to increase its market share by absorbing a larger share of overall market growth, rather than by attracting existing customers from the large grocery chains.

The real choice facing the City of Los Angeles is whether Wal-Mart will serve residents from within the city's boundaries or from without. If Wal-Mart decides to open Supercenters to serve demand in the region, the stores could conveniently serve

customers residing in the City of Los Angeles from within the city, or from neighboring jurisdictions. In the former case, the city government would have the opportunity to influence Wal-Mart's presence. The City of Los Angeles could guide Wal-Mart and other large scale retailers to sites where their presence and spending would be a boon for local redevelopment. If, however, Wal-Mart builds in neighboring jurisdictions, the City of Los Angeles will have no control over the development. Wal-Mart customers in Los Angeles would leave the city to shop, taking their taxable spending (and any resulting local sales tax revenues) with them.

## **Study Highlights**

### **Savings for Consumers and New Jobs outside the Grocery Industry**

- Supercenter customers will save an average of 15 percent on their groceries.
- Price competition will lead to reduced prices at existing grocery chains, providing customers who shop at stores other than Wal-Mart average savings of 10 percent.
- Increased competition in non-grocery items will lead to price reductions averaging 3 percent at general merchandise and apparel competitors.
- Money that people save on groceries will be redirected to other items, including housing, savings, health, entertainment, and transportation. This new spending will, in turn, create jobs outside the grocery industry.

### **Savings in the City of Los Angeles**

- Consumers in the City of Los Angeles are conservatively estimated to save at least \$668 million annually, or \$524 per household, per year.
- Redirected grocery savings will create 6,500 additional full-time-equivalent jobs.

### **Savings in Los Angeles County**

- Consumers in Los Angeles County are conservatively estimated to save at least \$1.78 billion annually, or \$569 per household, per year.
- Redirected grocery savings will create 17,300 new jobs County-wide.

### **Savings in Southern California**

- Consumers in Imperial, Los Angeles, Orange, Riverside, San Bernardino, San Diego, and Ventura counties are conservatively estimated to save at least \$3.76 billion annually, or \$589 per household, per year.
- In these seven counties, 36,400 new jobs will be created.

### **Potential impacts to Major Grocery Chains**

- Major grocery companies have used fear of intense competition to seek wage concessions from unionized employees, most likely by lowering the wages of new hires.
- Future foregone wages of unionized grocery employees in Los Angeles County could equal \$150 million to \$258 million annually, and could reach \$307 to \$529 million annually across the entire 7-county Southern California region.

- These foregone wages would reduce overall household spending, potentially costing Los Angeles County 1,500 to 2,500 jobs and the 7-county region (including Los Angeles) 3,000 to 5,100 jobs.
- These losses will be offset by region-wide gains of 36,400 jobs outside the grocery business, or a net gain of at least seven new jobs for every one lost.

### **Catalyst for Redevelopment**

- Wal-Mart can be used as a catalyst for redevelopment, particularly in areas saddled with struggling (or failed) retail centers. In Panorama City, Wal-Mart replaced the Broadway department store, creating new jobs and revitalizing the mall and the surrounding neighborhood. Wal-Mart will open stores in an abandoned K-Mart in Canoga Park and in an abandoned AutoNation site in Harbor Gateway.
- Wal-Mart has demonstrated a willingness to enter communities that other businesses appear uninterested in serving. In Baldwin Hills, Wal-Mart brought jobs and retail opportunities to an underserved community by opening a store in a former Macy's, which had sat vacant for five years.
- There are many parts of Los Angeles that are underserved by retail. The need is acute in the grocery sector and these communities stand to gain the most if Wal-Mart were to enter the market and offer lower prices.

### **Sales Tax Leakage**

- Jurisdictions without Supercenters will lose taxable sales when their residents shop elsewhere. Supercenters have become an issue because they sell groceries, which are non-taxable. Sixty to seventy percent of the sales at Supercenters, however, are taxable. The appeal of Supercenters, for both Wal-Mart and the consumer, is that they allow shoppers to combine trips and do all of their purchasing in one location. If city residents choose to buy their groceries at Supercenters outside of the city, the City of L.A. will lose out on the local share of any taxable purchases shoppers make on those trips.
- Cities without Supercenters will also lose out on sales tax revenue when their residents combine trips to Wal-Mart with shopping at nearby stores.
- Overall sales taxes will increase to the extent that customers spend their savings generated from lower-priced groceries (which are not taxable) on goods which are taxable.
- The modest increase in overall taxable sales should not obscure the key issue – the distribution of taxable sales (and hence tax revenues) among Southern California jurisdictions based on where consumers choose to shop.

## **Background**

Wal-Mart is America's largest company, based on gross sales of \$245 billion in the fiscal year ending January 31, 2003. Wal-Mart sells a limited selection of food items at its general merchandise stores, and operates Sam's Club, which sells food and general merchandise in a warehouse format. Wal-Mart moved into the traditional grocery business in 1988, when it rolled out the first of its 1,386 Supercenters. These stores combine a traditional Wal-Mart with a complete grocery operation in spaces ranging from 109,000 to 230,000 square feet. Groceries account for approximately 30 percent of sales at Supercenters, or \$29.3 billion in 2002.<sup>1</sup>

Wal-Mart is now the largest grocery retailer in the United States, having passed Kroger for the top spot in 2001.<sup>2</sup> Wal-Mart began selling groceries both in response to customer demand for the increased convenience of one-stop shopping, and as a means of raising the average number of visits per month customers make to its general merchandise stores. The logic of increased customer visits is simple. Typical households visit grocery stores roughly three times as often as they visit mass merchandise stores such as traditional Wal-Marts.<sup>3</sup> By expanding into groceries, Wal-Mart offers consumers increased convenience. Shoppers can combine trips, picking up items such as a DVD, a new toaster or school supplies while buying their groceries. Wal-Mart benefits as well because consumers have less incentive to shop elsewhere, which would require an additional trip.

### **"Conscientious expense control"**

Although margins in the grocery sector of the retail industry tend to be low, they are still high enough that Wal-Mart can sell for less than the large chain grocery stores and still make a profit. Wal-Mart achieves lower prices through enormous economies of scale, efficiency, and what the company calls "conscientious expense control" in every aspect of its business. Four examples illustrate the company's commitment to cost control and efficiency.

- First, Wal-Mart produces far fewer advertising circulars than its competitors do. The savings of producing and distributing 12-13 fliers instead of 50-100 per year are passed on to consumers.<sup>4</sup>
- Second, Wal-Mart invests heavily in supply chain management. *CIO Magazine*, a trade publication for chief information officers, observes that

Wal-Mart's private exchange, known as RetailLink, provides suppliers with raw sales and inventory data to better manage stocking decisions and reduce costs... RetailLink... has allowed the company to reduce the cost of transactions within the supply chain by providing daily scan-data to suppliers, creating a system in which items are rarely out of stock. By contrast, many grocery retailers have 8 percent to 12 percent out-of-stocks because partners can't see the demand levels...<sup>5</sup>

- Third, Wal-Mart eschews charges such as "slotting fees," the practice in which grocers charge manufacturers for prime shelf and display space. Indeed, *Fortune* magazine describes a whole slew of fees retailers charge their suppliers, all of them eliminated at Wal-Mart:

Slotting fees. Display fees. Damage allowances. Handling charges. Late penalties. Special sales and rebates. Super Bowl tickets. Each is a small inefficiency that benefits the retailer at the supplier's expense and, ultimately—since the supplier builds those costs into its prices—the consumer's. [With] Wal-Mart, by contrast ... "All the funny money ... isn't there. They'll negotiate hard to get the extra penny, but they'll pass it along to the customer."<sup>6</sup>

- Fourth, Wal-Mart's corporate culture is steeped in frugality. Wal-Mart expects its executives to empty their own wastepaper baskets, refuses to spend money on lavish offices, and limits Wal-Mart related travel to economy car rentals and budget motels.

Wal-Mart's emphasis on cost control in every aspect of its business underpins its success. Wal-Mart makes a point of always listening to its customers, and focuses on the *consumer's* bottom line. Millions of people shop at Wal-Mart stores every day because the company's savings are passed on to them.

### **Wal-Mart will enter the grocery market in Southern California.**

Low prices on grocery items have made Wal-Mart Supercenters popular with consumers. The Supercenter format now accounts for about 40 percent of total corporate revenue at Wal-Mart Stores, Inc.<sup>7</sup> Wal-Mart plans to add 1,000 new Supercenters nationwide over the next five years, including 40 in California.<sup>8</sup> Wal-Mart's planned expansion into the Southern California grocery market has unnerved the major grocery store chains in the region. Not long ago, the major supermarkets displaced many local butchers, bakers, vegetable stands and neighborhood markets. Some of the supermarkets grew into enormous chains, with annual sales in tens of billions of dollars. Now, these chain supermarkets face competition from the "everyday low prices" of Wal-Mart Supercenters. The supermarkets, however, have already begun adapting to the changing retail environment in earnest, and will not be easily displaced.

The chain supermarkets have been increasing the square footage of their stores and adding more general merchandise items such as toys, lawn furniture, and small appliances. They have entered alliances with pharmacy chains, banks, and coffee vendors to offer their customers greater convenience and meet the growing demand for one-stop shopping. The supermarkets have also taken steps to improve the efficiency of their distribution systems, and are seeking to control labor costs in their stores. At present, cost control has been focused on improving productivity, most notably through the adoption of automated self-check out stations and by switching to less labor intensive business practices. Here the supermarkets strive to emulate Costco and other

wholesale membership warehouses, which combine their stores and storage areas in the same place. A pallet of goods is placed directly on the selling floor, the shipping materials are removed and the boxes are opened. The product is then ready for shoppers with little (if any) labor expended on labeling, sorting, and restocking.

Most of the public commentary on Wal-Mart's pending move into Southern California's grocery industry has been negative. This trend is unsurprising for two reasons. First, the potential downside – intense competition, possible business failures, and downward pressure on wages – is largely concentrated in a single sector of the retail industry. This makes the potential negative impacts highly visible, and suggests they may be acutely felt.

Second, the potential benefits, in contrast, are easy to overlook. Lower prices in the grocery sector will be shared among millions of households, meaning gains at the individual level will be relatively modest. And the job growth *outside* the grocery industry that will be induced by the cumulative impact of money once spent on groceries being redirected to other purchases is something that must be imputed rather than seen. (If a family saves \$20 per week, the redirected spending has a miniscule employment impact. Multiplied over millions of families, the job impact of even these modest savings would be quite large. Even with tens of thousands of new jobs, however, identifying specific individuals whose jobs are sustained by the redirected spending would be all but impossible.)

Just because the potential benefits are easily overlooked, however, does not make them any less real. The LAEDC agreed to assess the economic implications of Wal-Mart's entry into the Southern California grocery market because existing studies, which tend to tally only the negative impacts of Wal-Mart's operations, miss half the story. Here we aim to provide a fair and balanced assessment of both the good and not so good impacts of Supercenters in Southern California. Thus, we include not only the potential effects on existing grocery chains and their employees, but also the potential savings to consumers, and the potential job creation outside the grocery industry.

We start with the premise that large-scale economic change, while frequently unpleasant for those caught in the turmoil, is a normal occurrence in a free market economy. Wal-Mart's entry into the Southern California grocery market will occasion at least some turmoil. Companies that compete directly with Wal-Mart may see their future growth curtailed, and some may lose a portion of their existing sales. A few direct competitors may go out of business if they do not adapt. The negative implications of Wal-Mart's entry into the Southern California Grocery market are examined in Section Two of this report.

We begin, however, with an exploration of the potential benefits of Wal-Mart's presence, tracing the implications of "everyday low prices" in the grocery sector throughout the local economy. Lower prices will bring modest, widespread improvements in household purchasing power, which in turn will induce job growth beyond those working directly at Wal-Mart. In Section Three we compare the findings from the first two sections, before turning to the options available to the City of Los Angeles in Section Four.

**The potential impact of Wal-Mart's entry into the Southern California grocery business hinges on the timing and size of its market share.**

The calculations in the first two sections of this report are based on the assumption that Wal-Mart will eventually control 20 percent of the grocery sector in Southern California. The LAEDC selected this threshold chiefly so that our findings can be compared directly with those of a widely cited study conducted for the Orange County Business Council (OCBC) in 1999. The OCBC study assumed Wal-Mart would control 10 to 20 percent of the Southern California grocery market based on the average number of Supercenters per distribution center. Looking at Wal-Mart's operations elsewhere in the country, the OCBC study concluded the company would enter Southern California expecting to eventually build 47 to 57 Supercenters, giving it enough capacity to contend for 20 percent market share in groceries.

Whether Wal-Mart will eventually reach the 20 percent threshold is open to debate, but the LAEDC believes it is at least plausible. (The longer the time horizon, the more plausible the assumption becomes.) Note that Wal-Mart leapt from nowhere to first in the national grocery business in just over a decade. The more important question revolves around timing. Competitors care deeply about how rapidly (or slowly) Wal-Mart will gain market share, and policy makers should share their concern. The OCBC study leaves unstated how long it will take Wal-Mart to reach a 10 to 20 percent market share, though their discussion of the company converting general merchandise stores into Supercenters implies that Wal-Mart is poised for a rapid expansion into Southern California. This silent assumption is crucial. *The nature of the economic implications of Wal-Mart's entry into the local grocery market hinge almost entirely on the rate at which Wal-Mart gains market share and the willingness of its competitors to adapt to meet consumer demands.*

If Wal-Mart were to open 50 to 60 Supercenters in Southern California over the next few years, its growth would necessarily have to come at the expense of the established supermarket chains. The grocery business is, after all, a slow growth industry, rising roughly in line with population and income growth. Most calculations of economic harm appear to be premised on this sort of scenario, in which Wal-Mart arrives all at once, leaving no time for growth in the size of the overall market.

Yet, competitors will have time to adjust. Wal-Mart plans to build just 40 Supercenters *statewide* over the next three to five years. Even if half of these stores were built in the greater Los Angeles area, Wal-Mart could not conceivably capture 20 percent of the market. Given Wal-Mart's current plans, the company's initial share of the Southern California grocery market will be less than 5 percent. Southern California's population is also growing rapidly, adding an average of 330,000 people annually. Wal-Mart may well enter the grocery sector, capture virtually all of the growth, and get quite large without making serious inroads into the customer base of the major chains.

Our calculations examine the economic conditions that will prevail *once Wal-Mart reaches a 20 percent market share*. Yet it is critical to remember that timing is almost as important as the market share itself. Whether the conditions we model take five or fifteen years to materialize will have comparatively little bearing on the beneficial impacts. (As the population of Southern California – and hence the size of the local grocery market – continues to grow, the potential savings will increase as well.) For the negative impacts, on the other hand, the timing will determine both the nature and the scale of the consequences.

## **Section 1: The Benefits of “Every Day Low Prices”**

### **Summary**

Wal-Mart offers consumers lower prices on groceries than traditional grocery market chains. Surveys have repeatedly confirmed that Wal-Mart's grocery prices are substantially lower than those of its competitors. If Wal-Mart Supercenters are introduced in Los Angeles, we expect food prices will fall. Wal-Mart will offer lower prices at its stores, and grocery chains responding to this competition will reduce their prices as well. The LAEDC has conservatively calculated the potential savings to consumers in the City of Los Angeles to be *at least* \$668 million, or \$524 per household, annually once Wal-Mart reaches 20 percent market share. (In all likelihood, the savings will be much higher, though the savings will not materialize overnight. They will build gradually with Wal-Mart's market share.) Money that people save on groceries will be redirected to other items, including housing, savings, health, entertainment, and transportation. As households redeploy their savings, their spending will create jobs outside the grocery industry. In the City of Los Angeles, redirected grocery savings will create 6,500 additional full-time equivalent jobs.

The LAEDC also looked at the impact of Wal-Mart Supercenters on the entire Southern California market. In Los Angeles County, the aggregate annual savings to consumers would be at least \$1.78 billion. When the savings are redirected to other purchases, the county-wide job creation will total 17,300 jobs. For consumers in Imperial, Los Angeles, Orange, Riverside, San Bernardino, San Diego and Ventura counties, the combined total annual savings will be at least \$3.76 billion. The seven-county Southern California job creation total is 36,400 jobs.

### **Introduction and Methodology**

Wal-Mart plans to build 40 Supercenters in California over the next three to five years, including some in Southern California. We begin by examining the potential impact of Wal-Mart entering the grocery market within the City of Los Angeles. In this scenario, food prices would fall as Wal-Mart attempted to build market share. Prices would fall both for residents who shop at Wal-Mart, and for those who save when competitors respond by reducing their prices. To the extent that Los Angeles-based households have to spend less to purchase the same groceries each week, their real purchasing power will have increased. When these savings are reallocated within the household budget (i.e. when money that used to be spent on food is redirected to expenditures such as housing, transportation and entertainment) it will create additional jobs in a variety of industries.

We begin by documenting Wal-Mart's lower prices. Next, we determine the size of the pool of spending that is likely to be affected by lower prices, looking in particular at spending in grocery, general merchandise and apparel stores. We calculate spending on grocery store items in two steps. First, we multiply the average spending per household on food consumed at home by the total number of households. This is a rough measure of the money spent on non-taxable items at food stores. Then we add the taxable sales at food stores. For general merchandise and apparel stores we look just at taxable sales, since taxable sales totals include almost all purchases at these stores.

Having determined the spending pool that *could* be affected by competition from Wal-Mart, we proceed to estimate the potential savings for consumers. We estimate the savings separately for grocery, general merchandise and apparel stores, further breaking out the savings at grocery stores for patrons of Wal-Mart Supercenters, major grocery chains, and niche players. After calculating the savings for consumers in the City of Los Angeles, we repeat the process to determine the savings for consumers in Los Angeles County and the rest of Southern California.

Finally, we turn to job creation. By reducing the amount a household must spend to procure groceries each week, Wal-Mart's presence in Los Angeles will effectively increase real household spending. Thus, if a family that now buys \$100 worth of groceries per week instead spends \$80 for the same items, the family has gained \$20 in buying power. We use a customized version of the RIMS II input-output model developed by the U.S. Bureau of Commerce to determine the number of jobs created by the cumulative increase in spending by all households in the City of Los Angeles. We also calculate the number of jobs associated with the potential savings in the County of Los Angeles, and in Southern California as a whole.

The savings and job creation calculations are all based on the assumption that Wal-Mart gains a 20 percent share of the *current* grocery market. The market is, of course, growing, along with the population of Southern California. We have underestimated the impact, therefore, to the extent that the market increases in size during the time it takes Wal-Mart's presence in Southern California to reach these levels.

### **Wal-Mart Supercenters offer lower prices on grocery store items.**

Wal-Mart Supercenters have a substantial cost advantage relative to traditional supermarkets, based on careful supply chain and inventory management, volume discounts, and lower labor costs. This cost control could translate into substantial savings for consumers in Los Angeles.

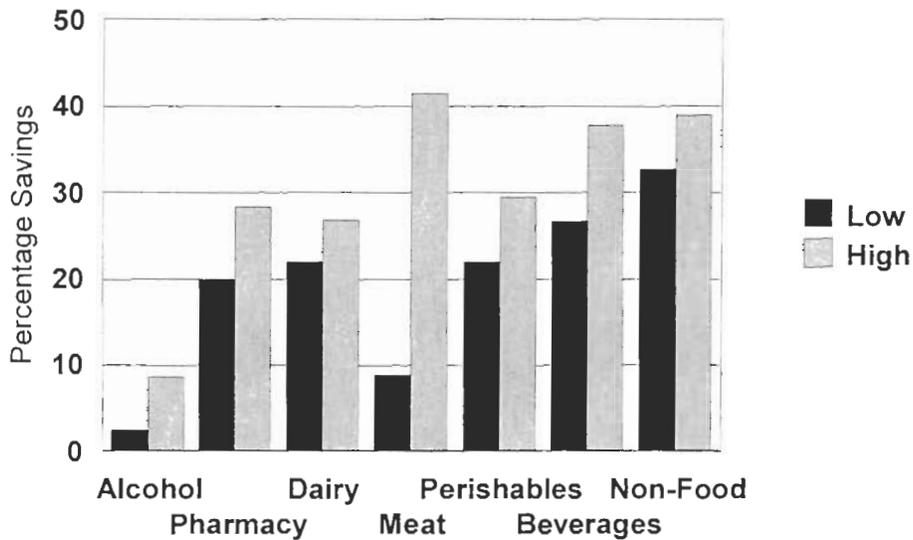
Wal-Mart entered the grocery market to increase the average number of visits per month customers make to its general merchandise stores and because it saw an opportunity to make money selling groceries. Consolidation in the grocery industry reduced competition and increased margins. Nationwide, food prices "grew at twice the rate of the producer-price index from 1991-2001... [which means] ...Wal-Mart could come in, cut prices 10% to 15% and still make a profit."<sup>9</sup> Indeed, "studies show that the items at Wal-Mart cost 8% to 27% less than at Kroger, Albertsons or Safeway, including discounts from these competitors' loyalty cards and specials."<sup>10</sup> Deutsche Bank found that Kroger, which owns Southern California Ralph's stores and is the nation's second largest supermarket chain, has prices "13% to 24% higher than Wal-Mart Superstores."<sup>11</sup> In some categories, particularly for high-margin snack items, Wal-Mart savings approach 50 percent.

An informal local survey conducted by the Fort Collins *Coloradoan* found that for a typical 20-item grocery list, Wal-Mart offered the lowest total price. The same basket of groceries cost 17 percent less than at Safeway (parent of Vons), and 23 percent less than at Albertsons.<sup>12</sup> A more detailed and comprehensive price survey was conducted in Las Vegas, Nevada by the equity research firm UBS Warburg in November, 2000. UBS Warburg found that Wal-Mart offered shoppers in Las Vegas savings of 20 percent

to 40 percent for representative baskets of goods compared to traditional supermarkets including Raley's, Kroger, Albertsons and Safeway.<sup>13</sup>

Wal-Mart was the lowest-priced retailer in every department surveyed. Purchasing the same bundle of goods at Wal-Mart offered savings relative to competitors on wines and spirits ranging from 2.53 percent to 8.74 percent. In drugs and pharmacy the savings ranged from 20.01 percent to 28.38 percent; in dairy, 21.91 percent to 26.75 percent; in meat, 8.84 percent to 41.46 percent; in perishables, 21.98 percent to 29.52 percent; in beverages, 26.63 percent to 37.81 percent; and in non-food items, 32.84 percent to 38.86 percent. The UBS Warburg study concludes: "Wal-Mart offers considerable savings over traditional supermarkets... [and it] ...will force prices to come down longer term."<sup>14</sup>

**Observed Range of Wal-Mart Savings, By Department Compared to Supermarket Competitors**



Source: UBS Warburg (November, 2000)

**Wal-Mart will increase competition for dollars spent at grocery, general merchandise and apparel stores.**

**Grocery Stores**

We calculate spending on grocery store items in two steps. First, we multiply the average spending per household on food consumed at home by the total number of households. This is a rough measure of the money spent on non-taxable items, primarily food products, at food stores. Then we add the taxable sales at food stores.

The Consumer Expenditure Survey, 2000-2001, from the U.S. Department of Labor, Bureau of Labor Statistics collects information from the nation's households and families on their buying habits (expenditures), income, and other characteristics. The Consumer Expenditure Survey covers "consumer units," a term that is used interchangeably with family and household. There are some technical differences between consumer units and households of interest to economists, but these do not have a material impact on the estimates presented here. The Consumer Expenditure Survey covers major metropolitan statistical areas and is the best available measure of household food purchases. The Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area (CMSA), which obviously includes people living outside the city of Los Angeles, consists of 5,047,000 consumer units (households), with an average of 2.9 persons per consumer unit. The average income per consumer unit was \$53,514 during the 2000-2001 survey. Annual expenditures on food eaten at home per consumer unit were \$3,207.

The U.S. Census Bureau reports that as of April 1, 2000, there were 1,275,412 households in the City of Los Angeles, with an average of 2.83 persons per household. Multiplying the number of households in the City of Los Angeles by the average amount spent on food reveals that Los Angeles residents together spend \$4.09 billion dollars annually on food eaten at home. This is a rough measure of total food purchases for the city. Yet, typical grocery stores also sell a range of products besides food. The non-food items are typically taxable, in contrast to food, which typically is not subject to sales taxes.

The California Board of Equalization tracks taxable sales, including the type of establishments at which the sales take place. Taxable sales at food stores in the City of Los Angeles, 2001, were \$1,562,989,000. In Table 1.1 we add taxable sales at food stores to our measure of food purchased for home consumption in the City of Los Angeles. City residents spend an aggregate annual average of \$5.65 billion on food and taxable items at food stores.

Households in the City of Los Angeles	1,275,412
Avg. Annual Expenditure on Food Eaten at Home (Per Household)	\$3,207
Total Spent on Food Eaten at Home	\$4.09 billion
Taxable Sales at Food Stores in the City of Los Angeles	\$1.56 billion
<b>Total Spending</b>	<b>\$5.65 billion</b>

Sources: U.S. Census Bureau; U.S. Department of Labor, Bureau of Labor Statistics; California Board of Equalization; LAEDC.

### General Merchandise and Apparel Stores

The impact of Wal-Mart Supercenters would not be confined to the grocery industry, since Supercenters combine a large general merchandise store with a full service market. These stores offer some items offered at chain grocery stores (and which are therefore included in Table 1.1. above). They also offer items typically found at drugstores, general merchandise stores, and apparel stores. Thus, price competition from Wal-Mart will affect more than groceries. Annual taxable sales at general merchandise and apparel stores, recorded by the California Board of Equalization, are roughly equivalent to the annual spending at these establishments. Table 1.2 reveals that in 2001 consumers purchased \$3.12 billion in taxable goods from general merchandise stores and \$1.24 billion from apparel stores located in the City of Los Angeles.

	Taxable Sales
General Merchandise Stores	\$3.12 billion
Apparel Stores	\$1.24 billion
<b>Total</b>	<b>\$4.36 billion</b>

Note: Numbers may not sum due to rounding.  
Source: California Board of Equalization.

### Wal-Mart offers the potential for enormous savings in the City of Los Angeles.

Table 1.3 shows that consumers shopping at food stores in the City of Los Angeles could save more than one-half billion dollars annually, if Wal-Mart Supercenters captured 20 percent market share. This calculation is based on current annual spending of \$5.65 billion at food stores in the City of Los Angeles, and would likely rise in the time it took Wal-Mart to increase its presence. We conservatively estimate *Wal-Mart*

shoppers would save an average of 15 percent relative to what they would have paid under the current status quo.

Wal-Mart shoppers could save even more, particularly if the price difference compared to the supermarkets matched those observed by UBS Warburg in its study of Las Vegas. Increasing the assumed savings from an average of 15 percent to 25 percent adds a further \$113 million annually to the aggregate savings. Our estimate is also conservative because there are portions of the City of Los Angeles, such as the northeast San Fernando Valley, which are underserved by traditional grocery stores. The corner stores where much of the food purchases in these areas take place offer uncompetitive prices relative to regular grocery stores, never mind Supercenters. If Wal-Mart were to open stores in these areas, the savings for local consumers could be considerably higher than those assumed here.

Table 1.3  
**What if Wal-Mart Were Here?**  
Potential Aggregate Savings for  
Consumers Shopping at Food Stores in the City of Los Angeles  
(Based on 2000-2001 Expenditures of \$5.65 Billion)

	Market Share	Savings Offered	Aggregate Savings
Wal-Mart Supercenters	20%	15%	\$170 million
Competitors – Major Grocery Chains	65%	10%	\$367 million
Competitors – Niche Players	15%	0%	--
<b>Total</b>			<b>\$537 million</b>

Note: Numbers may not sum due to rounding.  
Source: LAEDC

Of course, people will continue to shop at food retailers besides Wal-Mart. We assume shoppers at food stores comprising 65 percent of the market will enjoy some price relief as the *major grocery chains lower prices* in response to increased competition. We estimate *an average price reduction of 10 percent* at these stores. Note that these savings would probably start out lower, rising only as Wal-Mart's growing market share created addition pressure on prices. (In practice, we would anticipate a wide variation in actual savings both among and within chains depending on the competitive strategies these companies were to adopt.)

Some "competitors" would feel little pressure from Wal-Mart Supercenters, either early on or once it had completed its build out in Southern California. We estimate that firms comprising 15 percent of the total food store market would thus be unlikely to lower their prices much, if at all. Factors that might put a store in this position include greater convenience based on a prime location; general proximity to target market; and a niche product mix such as ethnic, organic, gourmet or bulk foods. Finally, discount stores such as Costco, which typically offer low prices, are unlikely to lower their prices much in response to a nearby Wal-Mart. Accordingly, we have assumed *no additional savings among niche players* owing to Wal-Mart's presence.

The impact of Wal-Mart Supercenters would not be confined to the grocery industry, since the Supercenters include full Wal-Mart discount stores. The potential savings for

consumers shopping at general merchandise and apparel stores in the City of Los Angeles consumers is conservatively estimated at 3 percent. This small reduction in price levels still produces large overall savings because of the scale of spending described in Table 1.2.

Table 1.4  
**What if Wal-Mart Were Here?**  
Total Potential Savings for Consumers Shopping  
at Selected Non-Food Stores in the City of Los Angeles

	Savings Offered	Aggregate Savings
General Merchandise Stores	3%	\$94 million
Apparel Stores	3%	\$37 million
<b>Total</b>		<b>\$131 million</b>

Note: Numbers may not sum due to rounding.  
Source: LAEDC.

Table 1.4 reveals potential annual savings of \$94 million at general merchandise stores and \$37 million at apparel stores. The potential savings are estimated at just 3 percent to reflect (1) the existence of aggressive price competition in some segments of this sector even without Wal-Mart; and (2) our anticipation of a negligible market share for Wal-Mart (and hence little or no price influence) in some segments.

Combining the potential savings at all three types of stores reveals the potential for enormous aggregate savings for consumers shopping in the City of Los Angeles. Table 1.5 shows total savings for consumers in the City of Los Angeles of at least \$668 million annually. This a conservative estimate, and should be considered a floor for potential savings. In particular, price surveys conducted by reputable firms suggest that the price savings offered by Wal-Mart Supercenters could be substantially higher than the 15 percent estimate used here. The aggregate savings are also likely to be higher because the estimates here are based on population counts from 2000, and spending estimates from 2000-2001. The population is growing, and along with it the amount spent each year on purchases at food stores. The potential savings will thus rise along with the size of the market.

Table 1.5  
**What if Wal-Mart Were Here?**  
Potential Aggregate Savings for Consumers  
Shopping in the City of Los Angeles

Retail Sector	2001 Spending	Aggregate Savings
Food Stores	\$5.65 billion	\$537 million
General Merchandise Stores	\$3.12 billion	\$94 million
Apparel Stores	\$1.24 billion	\$37 million
<b>Total</b>		<b>\$668 million</b>

Note: Numbers may not sum due to rounding.  
Sources: U.S. Census Bureau; U.S. Department of Labor, Bureau of Labor Statistics; California Board of Equalization; LAEDC.

The \$668 million in aggregate potential savings will have a considerable positive impact, averaging \$524 per household per year. Note, of course, that the savings will not be immediate, and will reach these levels only after Wal-Mart has significantly expanded its grocery presence.

**Wal-Mart offers the potential for similar savings in the rest of Southern California.**

**Los Angeles County**

The 2000 Census recorded 9,519,338 people living in Los Angeles County, and 3,133,774 households. The average household size was 2.98 people, with a median annual income of \$42,189 and a mean annual income of \$61,373. The Consumer Expenditure Survey, 2000-2001, for the Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area (CMSA), revealed annual expenditures on food eaten at home per consumer unit were \$3,207. Table 1.6 combines this information with the taxable sales at food, general merchandise, and apparel stores in Los Angeles County.

	Expenditures
Food Consumed at Home	\$10.05 billion
Taxable Purchases at Food Stores	\$4.21 billion
Taxable Purchases at General Merchandise Stores	\$10.58 billion
Taxable Purchases at Apparel Stores	\$3.67 billion
<b>Total</b>	<b>\$28.51 billion</b>

Note: Numbers may not sum due to rounding.

Sources: U.S. Census Bureau; U.S. Department of Labor, Bureau of Labor Statistics; California Board of Equalization; LAEDC.

Next, we apply the same assumptions from the City of Los Angeles calculations to the Los Angeles County spending patterns in Table 1.6. Thus, we assume that Wal-Mart Supercenters achieve a 20 percent share of the grocery market. Wal-Mart shoppers in Los Angeles County are assumed to save 15 percent compared to the status quo; shoppers at large grocery chains (serving 65 percent of the market) save 10 percent compared to the status quo; and shoppers at niche players serving 15 percent of the market see no additional savings. Shoppers at general merchandise and apparel stores in the county are assumed to reap an additional 3 percent savings compared to the status quo owing to increased competition from Wal-Mart. The potential savings are reported in Table 1.7.

Table 1.7  
**What if Wal-Mart Were Here?**  
Potential Aggregate Annual Savings for Consumers  
Shopping in Los Angeles County

Retail Sector	2001 Spending	Aggregate Savings
Food Stores	\$14.26 billion	\$1.35 billion
General Merchandise Stores	\$10.58 billion	\$0.32 billion
Apparel Stores	\$3.67 billion	\$0.11 billion
<b>Total</b>		<b>\$1.78 billion</b>

Note: Numbers may not sum due to rounding.

Sources: U.S. Census Bureau; U.S. Department of Labor, Bureau of Labor Statistics; California Board of Equalization; LAEDC.

The potential aggregate annual savings for shoppers in Los Angeles County related to competition from Wal-Mart Supercenters are \$1.78 billion, or \$569 per household per year.

### Southern California

The 2000 Census recorded 19,329,839 people living in the seven counties of Southern California: Imperial (142,361), Los Angeles (9,519,338), Orange (2,846,289), Riverside (1,545,387), San Bernardino (1,709,434), San Diego (2,813,833), and Ventura (753,197). Information on the region's 6,381,168 households is presented in Table 1.8, including the number and average size of households in each county, the mean and median household income, and the average amount spent on food at home.

Table 1.8  
Southern California Households: Number, Size, Annual Income  
and Spending on Food Eaten at Home

County	Households	Avg. Size (People)	Median Income	Mean Income	Food at Home
Imperial	39,384	3.33	\$31,870	\$43,991	\$2,524
Los Angeles	3,133,774	2.98	\$42,189	\$61,373	\$3,207
Orange	935,287	3.00	\$58,820	\$75,344	\$3,207
Riverside	506,218	2.98	\$42,887	\$54,763	\$3,207
San Bernardino	528,594	3.15	\$42,066	\$53,422	\$3,207
San Diego	994,677	2.73	\$47,067	\$60,805	\$2,524
Ventura	243,234	3.04	\$59,666	\$73,100	\$3,207
<b>Southern California</b>	<b>6,381,168</b>	<b>2.96</b>	<b>\$46,035</b>	<b>\$62,489</b>	<b>\$3,096</b>

Note: Household number and size from 2000; income data, 1999; food expenditure estimates, 2000-2001.

Southern California estimates (besides number of households) are weighted averages.

Sources: U.S. Census Bureau; U.S. Department of Labor, Bureau of Labor Statistics.

The figures for average household spending on food eaten at home are from the U.S. Department of Labor, Bureau of Labor Statistics Consumer Expenditure Survey, 2000-2001. The Los Angeles-Riverside-Orange County Consolidated Metropolitan Statistical Area (CMSA) includes San Bernardino and Ventura counties. The average spending

per household on food eaten at home in the 5 counties covered by the Los Angeles CMSA was \$3,207. The San Diego Metropolitan Statistical Area (MSA) covers San Diego County, where average spending per household on food eaten at home was \$2,524. The Consumer Expenditure Survey only covers major metropolitan statistical areas: in California, the San Francisco CMSA, the Los Angeles CMSA, and the San Diego MSA. Imperial County, therefore, is not included. We have somewhat arbitrarily assumed that Imperial County households spend the same amount on food eaten at home (\$2,524) as their counterparts in San Diego. (This assumption would not materially alter our results, even it was off by several hundred dollars per year in either direction. Imperial County contains just 0.62 percent of all households in Southern California.)

With seven counties and more than 19 million people, Southern California is an enormous consumer market. Table 1.9 reveals that Southern Californians collectively spend almost \$20 billion on food eaten at home each year. In addition, taxable sales at food stores in Southern California were \$9.5 billion. A further \$24.7 billion was spent at general merchandise stores, and \$7.6 billion was spent at apparel stores.

Table 1.9  
Southern California Annual Spending on Selected Items, in Millions

County	Food At Home	2001 Taxable Sales		
		Food Stores	General Merchandise Stores	Apparel Stores
Imperial	\$99	\$80	\$266	\$48
Los Angeles	\$10,050	\$4,212	\$10,577	\$3,669
Orange	\$2,999	\$1,509	\$4,334	\$1,364
Riverside	\$1,623	\$889	\$2,062	\$538
San Bernardino	\$1,695	\$914	\$2,173	\$492
San Diego	\$2,510	\$1,557	\$4,307	\$1,182
Ventura	\$780	\$385	\$1,048	\$327
<b>Total</b>	<b>\$19,758</b>	<b>\$9,549</b>	<b>\$24,771</b>	<b>\$7,621</b>

Sources: U.S. Census Bureau; U.S. Department of Labor, Bureau of Labor Statistics; California Board of Equalization; LAEDC.

Even modest savings quickly reach astonishing levels when aggregated across such an enormous market. We repeated the potential savings calculations for Southern California using the same assumptions described for our City and County of Los Angeles estimates. Table 1.10 shows that consumers shopping at Southern California food stores could save \$2.78 billion dollars annually if competition from Wal-Mart Supercenters lowered prices. When the savings at general merchandise and apparel stores are included, the seven-county potential savings grow to \$3.76 billion annually.

Table 1.10  
**What if Wal-Mart Were Here?**  
 Potential Aggregate Savings for Consumers  
 Shopping in Southern California

Retail Sector	2001 Spending	Aggregate Savings
Food Stores	\$29.31 billion	\$2.78 billion
General Merchandise Stores	\$24.78 billion	\$0.74 billion
Apparel Stores	\$7.62 billion	\$0.23 billion
<b>Total</b>		<b>\$3.76 billion</b>

Note: Numbers may not sum due to rounding.

Sources: U.S. Census Bureau; U.S. Department of Labor, Bureau of Labor Statistics; California Board of Equalization; LAEDC.

Total savings of \$3.76 billion in Southern California suggests an average saving of \$589 annually for each of the 6.38 million households in the 7-county region. Note, again, that the actual savings will start out much lower and gradually build over time as Wal-Mart increases its grocery presence. By the time Wal-Mart has finished its build out in Southern California, the size of the market (and thus the potential savings) will have increased.

**Thousands of jobs will be created after Wal-Mart moves in as households redirect their savings to other purchases.**

Lower prices on groceries will have an important job creation impact as households purchase additional items with their savings. By reducing the amount a household must spend to procure the same groceries each week, Wal-Mart will effectively increase real household purchasing power. Thus, if a family that now buys \$100 worth of groceries per week instead spends \$80 for the same items, the family has gained \$20 in buying power. When millions of families save hundreds of dollars per year, the potential boost to regional spending quickly becomes quite large. We use a customized version of the RIMS II input-output model developed by the U.S. Department of Commerce to determine the number of jobs created by the cumulative increase in spending by households in the City of Los Angeles. We also calculate the number of jobs associated with the potential savings in the County of Los Angeles, and in Southern California as a whole.

**Increased Buying Power**

The average household shopping in the City of Los Angeles will eventually save \$524 annually if competition from Wal-Mart lowers prices, as demonstrated above. This is the equivalent of giving an extra \$524 in purchasing power to the average household, or 0.89 percent of the average household income of \$58,641, and 1.43 percent of the median household income of \$36,687. The real impact will be greater. The average and median household incomes are in gross (pretax) dollars. The savings, on the other hand, add to a household's *after tax dollars* – the portion of the income actually available for spending.

Individual households shopping in the City of Los Angeles would thus be able to redirect an average of \$524 per year in spending. Freed from spending \$524 on food and other items offered at Wal-Mart (since they have purchased the same basket of goods as before, just for less money), families in Los Angeles could use the money to meet other household needs. A portion of the money would likely go towards meeting the high cost of housing in Los Angeles. Some of it may be saved, or spent on transportation. Depending on their priorities, families may opt to spend their savings on sports equipment, continuing education classes, or restaurant meals. Undoubtedly, individual households will allocate their potential savings in myriad ways reflecting the incredible diversity of Los Angeles. Note that lower income families, which spend disproportionately more of their income on food, stand to benefit the most from lower food prices.

### Job Creation

For its economic impact analysis work, the LAEDC uses a customized version of the RIMS II input/output model developed by the U.S. Bureau of Commerce. It should be noted that the RIMS II model measures the effect of adding to gross (*pre-tax*) incomes. Here we are observing a hypothetical shift in *after-tax* household income, since groceries are purchased with the money that is left after tax obligations have been paid. Since we have not adjusted for this tax effect, and we began with conservative estimates of the potential income effect (the savings in the previous section), LAEDC's jobs estimate almost certainly understates the actual impact. Table 1.11 reveals the impact of households redirecting average savings of \$524 in annual savings.

Total Increase in Household Purchasing Power (Real Income)	\$668 million
Average Increase per Household	\$524
Jobs Per \$1 Million of Household Income	9.7
Total Full-Time Equivalent Jobs Created	6,500

Sources: (1) U.S. Department of Commerce, Bureau of Economic Analysis; LAEDC.

Even with our conservative methodology, we estimate that lower prices following the introduction of Wal-Mart Supercenters to the City of Los Angeles would generate new spending sufficient to create 6,500 full-time equivalent jobs.<sup>15</sup> If we include the redirected savings of consumers in the rest of Southern California, the number of jobs created is even greater. Households in Los Angeles County will save an average of \$569, for a combined annual savings of \$1.78 billion. Adding \$1.78 billion to household income will create 17,300 full-time equivalent jobs in L.A. County alone. Over all seven counties of Southern California, households will save an average of \$589, for a combined annual savings of \$3.76 billion. Adding \$3.76 billion to household income will generate 36,400 full time-equivalent jobs in the 7-county region.

## Section 2: Wages

### Summary

Wal-Mart compensation, while lower than for the best-paid unionized grocery employees, is better than most people realize, particularly in its food business. Wal-Mart benefits include health care, a stakeholders' bonus, which is paid to employees at stores that perform well, profit-sharing, company contributions to 401(k) plans, which are the most common form of defined contribution retirement plan, a 15 percent discount on company stock, and a 10 percent discount on general merchandise. Wal-Mart's healthcare plan requires employees to share the upfront costs (Wal-Mart pays 2/3<sup>rd</sup>; the associates pay 1/3<sup>rd</sup>), but in return does not have single incident or lifetime caps on coverage.

Two important factors make Wal-Mart's wages appear lower than they might otherwise. First, Supercenters are a relatively new phenomenon. Most Supercenters have simply not been open long enough to have accumulated many employees with lengthy service records, and thus higher rates of pay. High employee turnover also brings down the average length of service, and hence affects average wages as well. (Average employee turnover in the retail industry is 65 percent; Wal-Mart's turnover rate, though considerably lower, is still near 50 percent.) Second, and perhaps most important, Wal-Mart's pay among its front line grocery workers is skewed downwards because it promotes from within. Wal-Mart recruits its management primarily from within the ranks of its own employees, with 2/3<sup>rd</sup> of its management having started off as hourly workers. This opens up career opportunities for associates, and crucially for wage comparisons, removes some of the most experienced and best paid Wal-Mart employees from the pool of workers typically being compared. In contrast to unionized grocery stores, where some of the most senior employees are cashiers, at Wal-Mart cashier is an entry level position.

Unionized grocery workers earn \$2.50-\$3.50 per hour more, on average, than Supercenter employees in Southern California could expect. Some union grocery workers are very well compensated, but the wages of the most highly compensated among them are frequently mistaken for *average* union wages, which are lower. Union cashiers make up to \$17.90 per hour, journeymen clerks earn hourly wages in the \$17 range, and some meat cutters earn more than \$20 per hour. The people who bag groceries and round up shopping carts earn far less. The average wage among *all* union grocery store employees is \$14 per hour or less. The widely-cited Orange County Business Council (OCBC) study calculated the potential wage loss if all union workers in the Southern California grocery industry were to earn the same wages as Wal-Mart employees. Using more realistic assumptions of Wal-Mart Supercenter employee pay (and hence a narrower wage gap), we find the potential cumulative wage loss in Los Angeles County is \$150 million to \$258 million annually. For the 7-county Southern California region (including Los Angeles), the range is \$307 million to \$529 million. If all current unionized grocery employees were to eventually earn the equivalent of Wal-Mart Supercenter employees, the lost spending due to eroded household income could cost Los Angeles County alone 1,500 to 2,500 jobs and the 7-county region 3,000 to 5,100 jobs. Should these losses materialize, they would be offset by region-wide gains of 36,400 jobs, meaning that outside the grocery sector at least seven jobs would be added for every one lost.

**Wal-Mart's compensation, while lower than for the best paid unionized grocers, is better than most people realize, particularly in its food business.**

### **Benefits**

Wal-Mart's employee benefits are widely perceived to be poor, particularly when set along side those offered to unionized grocery workers in Southern California. Wal-Mart insists that it offers an attractive package of employee benefits, while unionized grocery workers say they are being asked to accept cuts in their medical benefits so that their employers can compete with Wal-Mart. Wal-Mart benefits include:

- Health care
- Sick days and personal and vacation time;
- Stakeholders' bonus (paid to employees at stores that perform well);
- Profit-sharing;
- Company contributions to 401(k) plans (the most common form of defined contribution retirement plan);
- 15% discount on company stock; and
- 10% discount on general merchandise.

The value of these benefits varies, particularly for those related to the company's stock price. Some long-term employees have become wealthy by buying and holding company stock. Interestingly, the discount on merchandise is the most popular benefit among employees. Health care coverage, of course, is the most contentious issue.

### **Health Benefits**

Union grocery workers have excellent health benefits, including some plans in which the employer covers both the health care premiums and the deductibles. Wal-Mart, in contrast, requires employees to share the cost of the monthly premiums, and has a relatively high deductible. (Wal-Mart pays two-thirds and associates pay one-third of the premium. This applies to family coverage as well.) As the *Wall Street Journal* notes, however, an important facet of the Wal-Mart health plan is frequently overlooked. Wal-Mart's philosophy is to share the routine costs – both for the medical insurance and services – but to protect its employees from catastrophic medical bills that could bankrupt them. Thus, Wal-Mart's medical coverage does not have single incident or lifetime caps on coverage. For the parents of a premature child or someone in need of an organ transplant – both medical events that routinely incur costs of one million dollars and more – catastrophic coverage is crucial. The union grocery workers' medical plan covers their routine expenses but the coverage is capped, leaving workers with extraordinary medical expenses exposed.<sup>16</sup>

Wal-Mart workers, of course, only enjoy their company's medical coverage if they agree to share the costs of the plan. (Part-time workers are eligible to join the plan after an initial waiting period.) Since they must pay some of the upfront costs of medical care, many Wal-Mart employees who are eligible for the coverage choose not to participate. This leads to much lower participation rates among Wal-Mart employees than among union workers, virtually all of whom participate since their up front costs are paid by their employer. It is worth noting that more than 90 percent of all Wal-Mart employees have health coverage from some source, including the company itself, a covered spouse,

parents, through retirement benefits (from another job), etc. The issue of participation rates may become moot in California, however. In October, Governor Davis signed SB 2 – Health Care for Working Families that mandates large employers to provide health care coverage to all of their employees.

The structure of the grocery workers' union health plan may change as well, pending the outcome of labor negotiations. The grocery chains are seeking to alter their health coverage obligations in response to the continued upward spiral of health-care costs in the United States. As *The Economist* notes, American employers across industries are struggling with rising health-care costs that have driven the average cost of insurance premiums up 14 percent in 2003 alone.<sup>17</sup>

### Wages

Wal-Mart operates stores around the country, and pays competitive wage rates in each of the geographic markets and retail sectors in which they do business. Three key points are worth bearing in mind when comparing Wal-Mart's compensation with the wages of unionized grocery workers in California. First, a fair comparison ought to involve similar job categories. This means comparing union food workers with Wal-Mart food workers, not Wal-Mart general merchandise workers. Even among non-union workers, the average retail wages are higher in the grocery sector than in the general merchandise sector. This is true at Wal-Mart, too. Second, we need to consider what wages Wal-Mart would pay here in Southern California, rather than their average wage in rural Oklahoma. The cost of living varies from region to region, a fact reflected in differences in Wal-Mart's wages around the country. Third, it is important to compare average wage rates that reflect overall pay, rather than comparing the top end (or even the average) at one store with entry-level wages at another.

Since Wal-Mart does not yet have any Supercenters in California, we gathered information on wages at one of the Supercenters in Las Vegas. Although not exactly the same as Southern California, Las Vegas is a major metropolitan area with a labor market that at least resembles the one in Los Angeles – more so than rural Oklahoma does, at any rate. Since the cost of living is higher in Southern California than in Las Vegas, workers here will probably be offered slightly higher rates.

Job Classification	Pay Range
People Greeter/Cart Pusher	\$7.65 to \$13.40
General Merchandise Cashier	\$7.65 to \$11.45
General Merchandise Sales Associate	\$7.40 to \$12.70
Overnight Stocker	\$8.40 to \$15.30
Food Sales Associate	\$7.40 to \$13.75
Food Stocker	\$8.40 to \$14.40
Bakery	\$8.00 to \$13.75

Source: Wal-Mart Stores, Inc.

Table 2.2 presents the actual pay range paid to current workers in each job classification at the Las Vegas store. The average pay among workers who have been at the Supercenter for one year or less is \$8.62, with higher averages among more experienced workers. Note that unlike union shops, there is no predetermined pay scale or wage caps for workers at Wal-Mart. This leads to some oddities, such as the “people greeter” who earns \$13.40 per hour. (Only one greeter earns this amount, most earn considerably less.) The lack of a wage cap allows associates to change positions within the company while maintaining the same wage level.

If we look just at the grocery side of the business – covering about 20 percent of the workers at the store – we find that the average wage is \$9.95/hour. This snapshot is a weighted average, which takes into account the total number of hours worked by employees at each pay level. The average wage reflects current conditions in Las Vegas, and will change over time.

Critically, two factors make Wal-Mart's wages appear lower than they might otherwise. First, Supercenters are a relatively new phenomenon. Most Supercenters have simply not been open long enough to have accumulated many employees with lengthy service records, and thus higher rates of pay. Wal-Mart introduced its first Supercenter in 1988, and brought the concept to the Las Vegas market in mid-2000. Once the store has been open longer, presumably it will have more employees who have been there longer, and the top end of the pay ranges listed above will rise accordingly. High employee turnover is also a factor in lowering the average length of service, and hence the average wage rates as well. (Average employee turnover in the retail industry is 65 percent; Wal-Mart's turnover rate, though considerably lower, is still near 50 percent.)

Second, and perhaps most important, Wal-Mart's pay among its front line grocery workers is skewed downwards because it promotes from within. At a union grocery store, a cashier who has been with the company for 15 years or more earns top of the scale, but is still a cashier. At Wal-Mart, in contrast, many of the employees who have been with the company for 15 years or more no longer work as food clerks or cashiers. Wal-Mart recruits its management primarily from within the ranks of its own employees, with 2/3<sup>rd</sup> of its management having started off as hourly workers. This opens up career opportunities for associates, and crucially for wage comparisons, removes some of the most experienced and best paid Wal-Mart employees from the pool of workers typically being compared. The number of employees involved is not trivial. Two-thirds of Wal-Mart's managers started as sales associates with the company, and *Business Week* reports that Wal-Mart's expansion plans will add 47,000 new management positions nationwide, 2004-2008.<sup>18</sup> Indeed, some Wal-Mart associates cite the opportunity to move up the ranks as their primary motivation for joining the company.

**Union grocery workers are well compensated, but the wages of the most highly compensated among them are frequently mistaken for average union wages, which are lower.**

To help their audience understand complex economic issues, media organizations frequently try to “put a face” on the wage issue by focusing on a particular employee. The selected subject representing “typical” employees has often worked for one of the major chains for 15 years or more and earns the top pay scale in his or her job classification, often \$20/hour or more. The wages of these “typical” workers, who earn

considerably more than the average wage of employees at their own stores, are contrasted with the \$7-\$8/hour paid to entry level Wal-Mart employees.<sup>19</sup> The implication, of course, is that the union jobs pay \$12-14/hour more than Wal-Mart.

### Grocery Industry Wages

Examining the wage issue in the grocery industry is complicated by the dual nature of the business. The supermarket sector has bifurcated into major chains, many of which are the product of mergers, and smaller independent supermarkets, often specializing in niche markets such as ethnic and gourmet foods. All of the large chains are unionized and tend to pay higher wages than the majority of the independents, which are not unionized and tend to offer lower pay.<sup>20</sup> The pay differential is masked when looking at statistics for the grocery sector as a whole. Wage issues are further complicated by the widespread use of part-time labor. (Wal-Mart classifies 70 to 80 percent of its employees as full-time, based on a work week of at least 34 hours; at union grocery chains as few as 25 percent of workers are full-time.) Even well-paid part-time grocery workers will dilute the average hourly wage when it is calculated based on *annual* earnings. With these caveats, we turn first to the 2001 *County Business Patterns*.

The U.S. Census Bureau conducts an annual survey that provides subnational economic data by industry, as defined in the *North American Industry Classification System: United States, 1997 (NAICS)*. *County Business Patterns* data for the grocery industry in Southern California, including number of businesses, number of workers, and total payroll, is presented in Table 2.1.

County	Establishments	Employees	Payroll (000s)
Imperial	45	1,233	\$24,381
Los Angeles	2,127	63,239	\$1,513,432
Orange	548	20,426	\$517,744
Riverside	263	9,898	\$245,834
San Bernardino	296	10,893	\$269,011
San Diego	545	20,234	\$468,574
Ventura	155	5,558	\$139,223
<b>Total</b>	<b>3,979</b>	<b>131,481</b>	<b>\$3,178,199</b>

U.S. Census Bureau, *County Business Patterns*, 2001.

Note that establishments are places of business, not necessarily companies. A single company – Albertsons or Ralph’s for example – may have numerous establishments. Establishments in the Southern California grocery industry average 33 employees each, though this average masks great variation in size. For the industry as a whole, the average annual pay per employee is \$24,172. On a full time basis (assuming 50 weeks per year at 40 hours per week), the average hourly wage in the industry is \$12.09. The average among unionized grocery workers is higher.

We can get more information on grocery wages by looking at occupational surveys from the California Employment Development Department (EDD) and the U.S. Bureau of

Labor Statistics (BLS). Each year the EDD conducts the Occupational Employment Statistics (OES) survey to measure occupational employment and wage rates in nonfarm establishments, by industry. The 2001 OES survey is the most recent available, which has wage data updated by EDD (adjusting for inflation) to 2002. The survey of cashiers in the Los Angeles MSA found a mean hourly wage of \$9.50, and a mean annual wage of \$19,766. Yet, the occupational title "cashier" covers many, many workers who are not part of the grocery industry. Indeed, union grocery cashiers are among the highest paid workers in their occupation. The OES survey reports wages for the 25<sup>th</sup>, 50<sup>th</sup> and 75<sup>th</sup> percentiles. The average wage of cashiers in the 75<sup>th</sup> percentile is \$10.77. (This means that 75 percent of all cashiers in the Los Angeles MSA earn less than \$10.77 per hour.)

The BLS survey of cashiers in the Los Angeles MSA is similar in most respects to the OES. (The 2001 BLS survey reported an hourly mean wage of \$9.38, and an annual mean of \$19,510, with both figures in unadjusted 2001 dollars.) Yet, the BLS survey also reports 90<sup>th</sup> percentile wages for cashiers, both hourly (\$16.07) and annually (\$33,430).

### **Union Wages in the Grocery Industry**

While there is plenty of information on wage rates at the higher end of the union pay scale, pinning down the *average* union wage in the grocery industry is surprisingly difficult. A Ralph's spokesman told the *Los Angeles Times* that cashiers make up to \$17.90 per hour. The *Los Angeles Daily News* reported that "journeymen clerks protected by union contracts earn hourly wages in the \$17 range." And the president of UFCW Local 1036 in Camarillo, CA, told *The Morning News* that members "who work in California grocery stores earn an average of \$18/hour."<sup>21</sup> Yet, these characterizations of union grocery wages are misleading. We consider multiple sources to get a more accurate estimate.

### **California EDD Local Area Wage Survey**

- The California Cooperative Occupational Information System (CCOIS) is run jointly by the EDD and local employment and training agencies in all 58 California counties. Local agencies survey 15 to 50 occupations each year to determine wages, project demand and skill requirements. While grocery occupations have not been surveyed in the 7 counties of Southern California, the 2002 survey in Santa Barbara included grocery checkers. The Santa Barbara survey recorded union and non-union grocery checker wages separately. Entry level union grocery checkers with no experience earned \$9.78/hour. (Their non-union counterparts earned wages that ranged from \$6.75 to \$8.00 per hour.) For experienced checkers with three years experience working for their firm, the hourly wage climbed to \$17.50. (For experienced non-union checkers, the range was \$7.00 to \$12.00 per hour.)
- These union wages provide an accurate, if incomplete, snapshot of the grocery industry because they focus on just one job category. Absent are the clerk's helpers and general merchandise clerks who also work at unionized grocery stores. The people who bag groceries and round up shopping carts earn far less than food clerks or journeymen meat cutters, typically less than \$10/hour. Roughly half of the hourly

employees at union grocery stores in Southern California are *neither* food clerks *nor* meat cutters.

#### **Orange County Business Council Study**

- The widely cited study conducted for the Orange County Business Council (OCBC), relying on an interview conducted with the Food Employers Council, reported “the average hourly wage at the major chains in southern California [was] \$12.82, as of July, 1999.”<sup>22</sup> The average wage took account of actual job classifications and experience, exclusive of benefits.
- After adjusting for contractual increases since 1999, the average of \$12.82 reported by the OCBC study would be consistent with an average wage of not more than \$14.00 per hour in 2003. An apparent increase in the use of part-timers, who typically earn less than their full-time counterparts, however, may have kept the overall average under \$13.00 per hour. (The 1999 study reported an average work week of 35.5 hours; the UFCW today says the average is 30 hours per week.)

#### **Supermarket Chain Public Filings**

- Publicly traded companies have to report data on their operations, allowing us to create a rough estimate of a company's average wage as a share of revenues. BizStats.com, a provider of industry financial ratios and benchmarks, reports profitability, operating, balance sheet and financial ratios for grocery and specialty food stores. BizStats.com provides national averages based on all U.S. Corporations in industry sectors, classified by size of balance sheet assets. For companies with assets over \$50 million in the grocery industry (i.e. the major chains), operating expenses averaged 26.8 percent of sales (revenues). Operating expenses are further broken down, with salaries and wages averaging 11.2 percent of sales. The employer cost of retirement plans averaged 0.5 percent of sales; employer cost of employee benefits averaged 1.4 percent. We can apply these figures to data from the Albertsons 2002 annual report.
- Albertsons had sales in 2002 of \$35.6 billion dollars, and employed 202,000 people. If Albertsons is similar to the average store in its industry, this suggests an average annual wage of \$19,753. The annual average rises to \$23,103 if benefits are included, though it is important to note that this includes money paid *on behalf of* and not necessarily *to* the employees. Assuming 50 weeks per year at 40 hours per week, this translates to an average wage of \$9.88 per hour, exclusive of benefits. Allowing for part-time workers, and assuming a more realistic average of 30 hours per week suggests an average hourly wage of \$13.17. (Note that 70 to 75 percent of union grocery workers in Southern California are part-timers.)
- Albertsons has stores in numerous states outside of California, and the company almost certainly pays wages commensurate with the prevailing conditions in each state. The average wage is thus a blend of rates that includes places with a much lower cost of living (and lower

average wages, across industries) than Southern California. Adjusting upwards to compensate suggests again that \$14 per hour is a reasonable upper estimate of union grocery wages, allowing for the full mix of occupations and experience levels. Note, however, that the Albertsons estimate (admittedly a rough measure) includes some management level employees, whose higher earnings will skew the estimate upwards.

#### **UFCW Local 770**

- The United Food and Commercial Workers Union Local 770 provided information on its website at part of its public education efforts during the Southern California grocery workers labor dispute.
- The UFCW describes a typical union member working at a Southern California grocery store as working an average of 30 hours per week, noting that between 70 and 75 percent of its members work part-time.
- The UFCW variously describes the average hourly wage of its members in Southern California as \$12.30, \$12.50, and \$12.00 to \$14.00.<sup>23</sup>

**The gap between the overall average pay rate at unionized grocery stores in Southern California and what Wal-Mart would pay its Supercenter workers in this market is \$2.50 to \$3.50 per hour.**

Comparing the reported average wages of unionized grocery employees in Southern California (\$12.00-\$14.00 per hour) to a snapshot of Wal-Mart grocery workers in Las Vegas (\$9.95) suggests a maximum wage gap in the range of \$2.05 to \$4.05 per hour. The actual range is probably closer to \$2.50 to \$3.50. According to *Retail Traffic*, an industry trade magazine, "Morgan Stanley Equity Research indicates that major grocers pay 20-30 percent more in wages and benefits to their workers than Wal-Mart."<sup>24</sup> And the United Food and Commercial Workers, in an update to its members, approvingly cited a study by the Institute for Women's Policy Research that "reported employees represented by the UFCW earn thirty-one percent (31%) more than their non-union counterparts."<sup>25</sup> Using the high end of average grocery union workers' wages (\$14.00), these studies suggest a maximum wage gap of \$3.23 per hour. This result is consistent with the position of the UFCW, which argues on its website that the wage gap is roughly \$3 per hour.<sup>26</sup> Our analysis suggests the \$3 per hour figure is probably correct.

#### **OCBC Study of Cumulative Wage Loss**

Next, we use the wage gap estimates to replicate the OCBC study. Wal-Mart opponents believe that competitive pressures will drive wages down in the grocery industry. The OCBC analysis of Wal-Mart's impact on wages in the grocery sector in Southern California is widely cited, but flawed. We begin by addressing these flaws, before replicating and extending the original analysis. We add calculations of the potential jobs impact of varying levels of household income loss. This will allow comparison with the job creation numbers from the section on the impact of lower prices.

The OCBC study suggests that (a) Wal-Mart pays far less than the unionized grocery chains; (b) Wal-Mart's entry into the grocery market will lead employers to demand and

receive wage cuts from unionized workers, such that (c) all unionized workers will earn wages equivalent to what Wal-Mart pays, representing a massive wage loss. The first flaw in the OCBC study is that its calculated wage gap is much too large, mainly because the assumed Wal-Mart wage rate is unrealistically low. There are several problems with additional assumptions buried in the OCBC formulation of the wage gap issue, which we will address after correcting the OCBC calculations.

The overall wage loss in Southern California was calculated by multiplying the wage gap number by the total number of hours worked each year by all union grocery employees. The OCBC study said 80,000 of 128,471 grocery workers in Southern California were union members in 1999. Assuming the percentage of union workers has remained constant suggests 81,874 of 131,481 grocery workers were union members in 2001. (These figures are based on 2001 industry employment data, the most recent available.) The OCBC study also said that union grocery workers averaged 35.5 hours per week. Yet, the extensive use of part time labor in unionized grocery stores – up to 75 percent of the employees are part time – the assumption of 35.5 hours per week seems unrealistically high. At 52 weeks per year, 35.5 hours per week, 81,874 union grocery workers would log more than 151 million hours annually. The aggregate number of hours worked annually is closer to 123 million if we assume a weekly average of 30 hours per worker. Table 2.3 shows the potential income loss if all union workers in the Southern California grocery industry were to earn the same wages as Wal-Mart pays its Supercenter employees.

	Cumulative Annual Wage Loss	
	Los Angeles County	7-County Southern California
Low Range Estimate	\$150 million	\$307 million
High Range Estimate	\$258 million	\$529 million

Source: LAEDC

The low range estimate assumes a \$2.50/hr wage gap, and a weekly average of 30 hours worked per union employee. The high range estimate assumes a \$3.50/hr wage gap, and a weekly average of 35.5 hours worked per union employee. The Los Angeles County total alone ranges from \$150 million to \$258 million. The 7-county Southern California total of \$307 million to \$529 million in lost annual wages, while far less than the \$1.37 billion figure from the OCBC study, still represents a great deal of money. The first question, however, is whether the loss is real.

By themselves, the OCBC study's wording and calculations create the impression that current workers in the grocery industry and their families will suddenly find their paychecks considerably smaller because Wal-Mart has entered the Southern California grocery business. The economic dislocation caused by a loss of up to roughly one half billion dollars, annually, in spending power would be substantial both for the families themselves, and for the indirect workers supported by their spending. (See below.) Yet, this situation is unlikely to materialize.

Missing from the OCBC study is any consideration of how the dynamics in the grocery industry are likely to unfold. Just as the price pressure described in Section 1 will take years to develop as Wal-Mart gradually rolls out Supercenters, any downward wage pressure will develop over time as well. (See Section Three for more on this issue.) A more likely scenario would be for the unionized grocery chains to seek a two-tier system in which newly hired workers start and remain on a lower wage scale than existing employees. Alternatively, the chains could keep future pay raises for current employees below the consumer price index. (This would keep nominal wages up while gradually eroding their real value over time.) Both of these scenarios eventually lead to lower average real wages in the grocery sector, but they suggest a situation more accurately described as “wages forgone” than “wages lost”. And gradual declines in average real wages over time and lower pay scales for new hires (while certainly not a good thing) are less bad than a sudden, sharp drop in the wages of existing workers.

**Cost to the Economy**

In Section 1, we demonstrated the economic benefits of falling prices. Money previously spent on groceries could be redirected to other purchases, effectively raising real household income, boosting spending, and thus creating new jobs in the area. Setting aside the issue of timing, we apply the same logic in reverse to the forgone wages of unionized grocery workers assuming they eventually earn the same wages as their Wal-Mart Supercenter counterparts. If grocery workers as a group earn less money, their collective spending will be reduced which means they could sustain fewer jobs. Table 2.4 shows the potential cost to the Southern California economy.

Table 2.4 <b>What if Wal-Mart Were Here?</b> Potential Jobs Lost due to the Decrease in Household Income If All Unionized Workers in the Southern California Grocery Industry Earned Wages Equivalent to those at Wal-Mart Supercenters		
	Los Angeles County	7-County So. California
Total Decrease in Purchasing Power (millions)	\$150 to \$258	\$307 to \$529
Total Full-Time Equivalent Jobs Lost	1,500 to 2,500	3,000 to 5,100

Sources: U.S. Department of Commerce, Bureau of Economic Analysis; LAEDC.

If all current unionized grocery employees were to eventually earn the equivalent of Wal-Mart Supercenter employees, the lost spending due to eroded household income could cost Los Angeles County alone 1,500 to 2,500 jobs. The 7-county Southern California region could lose 3,000 to 5,100 jobs. Note that these jobs losses would be among the indirect workers – those people sustained by the spending of the direct workers – and not among the grocery workers themselves. We’ll have more to say about the supermarket chains and their employees in the next section.

### **Section 3: Weighing the Impacts**

Wal-Mart is planning to enter the grocery sector in Southern California. The LAEDC has calculated both the potential upside and the downside, assuming Wal-Mart eventually gains a 20 percent market share.

#### **Upside**

##### **Savings for Consumers and New Jobs outside the Grocery Industry**

- Wal-Mart Supercenter customers will enjoy the benefits of “everyday low prices,” saving an average of 15 percent on their groceries.
- Intense price competition will lead Wal-Mart’s grocery competitors to reduce their prices, offering their customers average savings of 10 percent.
- Increased price competition in non-grocery items will lead to price reductions averaging 3 percent among general merchandise and apparel sector competitors.
- Money that people save on groceries will be redirected to other items, including housing, savings, entertainment, and transportation. As households redeploy their savings, their spending will create jobs outside the grocery industry. These jobs do not include people who work for Wal-Mart or its suppliers.

##### ***City of Los Angeles***

- Consumers in the City of Los Angeles are conservatively estimated to save *at least* \$668 million annually, or \$524 per household per year.
- Redirected grocery savings will create 6,500 additional full-time equivalent jobs.

##### ***Los Angeles County***

- Consumers in the Los Angeles County are conservatively estimated to save *at least* \$1.78 billion annually, or \$569 per household per year.
- When the savings are redirected to other purchases, the county-wide job creation will total 17,300 jobs.

##### ***Southern California***

- Consumers in Imperial, Los Angeles, Orange, Riverside, San Bernardino, San Diego, and Ventura counties are conservatively estimated to save *at least* \$3.76 billion annually, or \$589 per household per year.
- The seven-county Southern California job creation total is 36,400 jobs.

## Assessment

The potential benefits of Wal-Mart's entry into the grocery market in Southern California are substantial and diffuse. Lower prices in the grocery sector will be shared among millions of households, meaning gains at the individual level will be relatively modest. Collectively, however, the savings are vast. Families in the City of Los Angeles together will save hundreds of millions of dollars per year. Across Southern California, the savings are in the billions of dollars per year. When all of this money is reallocated within household budgets, the increased spending will create new jobs. No one will be able to identify an individual outside of the grocery industry and say: "She owes her job to Wal-Mart's everyday low grocery prices." Nonetheless, the statement will be true of thousands of people in the City of Los Angeles, and tens of thousands of people throughout Southern California.

Timing will affect the potential benefits in two respects, both of them positive. If Wal-Mart gains market share rapidly, consumers in the City of Los Angeles and the rest of Southern California will reap the benefits sooner rather than later. If, on the other hand, Wal-Mart expands its presence in the region cautiously, it may take ten or fifteen years or more before the benefits described in this report materialize. In such a scenario, our estimate of the total savings will be too low, because the size of the market on which it is based will have increased.

## Downside

### Major Grocery Chains Have Used Fear of Intense Competition to Seek Wage Concessions from their Unionized Employees

- Wal-Mart's cost-control ethos pervades every aspect of its operations, including wages. Supercenter employees will likely earn \$2.50-\$3.50 per hour less than unionized employees at major grocery chains.
- *If the average wage among all current unionized employees at major grocery chains in Southern California were the same as the average wage at Supercenters, union workers in Los Angeles County would collectively earn \$150 million to \$258 million less than they do currently. For all of 7-county Southern California, (including Los Angeles), the range is \$307 million to \$529 million.*
- These forgone wages would reduce overall household spending, potentially costing Los Angeles County alone the 7-county region 1,500 to 2,500 jobs and the 7-county region 3,000 to 5,100 jobs.

## Assessment

Economic change is often accompanied by turmoil, from which some people benefit and some people lose. To compete with Wal-Mart major supermarket chains with union contracts will try to close the wage gap between their employees and Wal-Mart's. They will close the gap not through outright wage reductions for existing employees, but through lower starting rates for new employees and gradual erosion of real wages over time. Employees in a single sector of the retail industry will thus bear the brunt of competition with Wal-Mart. Even if offsetting gains in the rest of the economy are much

larger, the losses are not trivial. Since the costs are concentrated among a relative few, they will be acutely felt.

On the other hand, the downside is unlikely to be as awful as previous studies have indicated. First, instead of the sharp, sudden reduction in wages forecast by some, major supermarkets will likely reduce their *real* average wages gradually. This reduction will matter, particularly to those affected: each \$1 per hour represents at least \$1,500 in annual income for grocery workers. Yet, the most likely mechanism of payroll reduction is some combination of a separate, lower pay scale for new hires, and future pay raises that are kept below the consumer price index. (The latter strategy keeps nominal wages up while gradually eroding their real value over time.) The typical unionized grocery store workforce may change over time as a result, with more people viewing the job as an entry into the workforce rather than as a career.

The eventual reduction in real household income (and hence spending) from lower wages paid to grocery workers will also cost the region jobs outside the sector. As with the jobs created by lower prices, no one will be able to identify an individual and say "He lost his job because grocery workers earn less than they used to." Nonetheless, the statement will be true of as many as 5,100 workers across Southern California. These losses will be offset by region-wide gains of 36,400 jobs, meaning that outside the grocery sector at least 7 jobs will be added for every one lost.

Next, we turn to the grocery stores themselves. Their competition with Wal-Mart will be shaped by the crucial issue of how quickly Wal-Mart adds market share. The potential benefits as well as the costs of Wal-Mart entering the Southern California grocery market are based on calculations that assume Wal-Mart gains a market share of 20 percent. This assumption is perfectly reasonable in the long run (i.e. any time frame longer than ten years), but strains credulity in the near to medium term. Critically for this discussion, the magnitude and type of Wal-Mart's negative impacts vary greatly depending on the rate with which it gains market share.

To see why, consider two scenarios. In one, Wal-Mart plunges into Southern California with its Supercenters, rapidly gaining 20 percent of the market in the near term. Such explosive growth would virtually guarantee severe consequences for the major supermarket chains and their employees. One national estimate, which appears to presume no growth in market size, "predicts that for every new Supercenter Wal-Mart opens, two supermarkets will close."<sup>27</sup> This prediction is excessively dire for the Southern California market. Still, at least some direct competitors in the local grocery industry will lose a portion of their existing sales to Wal-Mart if it grows quickly. Some competitors would probably have to close their hardest hit stores, which would have a further impact on neighboring tenants and real estate investors. In short, this "rapid market entry" scenario suggests layoffs and additional job losses at the traditional grocery chains, which would probably exceed the job gains at the new Wal-Mart stores. Fortunately, this gloom and doom scenario *is not plausible* since Wal-Mart only plans to open 40 Supercenters over the next 3-5 years throughout all of California.

In the alternate "gradual market entry" scenario, Wal-Mart market share builds at a gradual pace following its initial foray into Southern California. This scenario is based on several assumptions. First, Wal-Mart appears to be proceeding cautiously in California. Of the 1,000 Supercenters planned for the next three to five years, only 4 percent (40 stores) will be built in California. Based solely on the state's share of the national

population (and potential market size), we would have expected the number of Supercenters in California to be in the 100 to 150 range. If we factor in the distribution of existing Supercenters we would have expected the California number to be higher still. (Texas, the nation's second most populous state, has many Supercenters while California, *the* most populous state, has none.)

Second, the OCBC study arrived at a 20 percent market share estimate based on the number of Supercenters typically served by a Wal-Mart distribution center. Their estimate of 57 stores within a day's drive of a Southern California distribution center is reasonable. Yet, we can already account for the stores this distribution center will serve. All 40 planned stores in California will be within a single day's drive, and trucks returning from northern California will probably pick up produce in the Central Valley on the return trip. Reno, Las Vegas, Salt Lake City, Phoenix, and Tucson – all markets within a day's drive from Southern California – will probably account for the rest. (Supercenters now served by distribution centers to their east will be shifted west to the one in Southern California, making way for expansion in other markets.) Eventually, more distribution centers could be built, freeing capacity locally to serve additional stores in Southern California.

Third, gaining a twenty percent market share will take time. The OCBC study notes that after six years in the market, Wal-Mart Supercenters in Fort Worth had gained a 6.5 percent share. *In Texas, unlike Southern California, Wal-Mart can quickly build as many stores as it desires.* Permitting, environmental regulation, and community opposition are not generally a factor in Texas. Nor is land availability an issue. *Wal-Mart will struggle to find suitable locations for its stores in many areas of heavily urbanized, built-out Southern California.* The unique high-density urban environment of Southern California will slow Wal-Mart's expansion here, and make it all but impossible in some areas.

Thus, Wal-Mart could eventually gain 20 percent market share in the Southern California grocery market, but it will not happen overnight over even in the next five years. This is good news for Wal-Mart's competitors, since it will give them time to adapt. Furthermore, the local market is not static; it's growing. The 7-county Southern California region will add over 6 million people (more than twice the population of Chicago), 2000-2020. This means the region will need to add service capacity, across all sectors of the economy, equivalent to that which exists in Chicago today, twice, just to maintain the status quo. Wal-Mart may well enter the grocery sector, capture virtually all of the growth, and get quite large without making serious inroads into the customer base of the major chains. While a scenario in which Wal-Mart captures most of this growth may not be particularly appealing to the major supermarket chains, competing for growth has considerably different implications than competing for existing customers.

## **Conclusion**

All indicators suggest that Wal-Mart will gradually enter the grocery market in Southern California. A 20 percent market share seems plausible, but is a long way off. The comparatively slow roll out of Supercenters (in relation to the rest of the country) will delay the arrival of the benefits described in Section 1 of this study. The negative impacts described in Section 2 will also be delayed, and critically, *lessened* by this slower build out. Wal-Mart's competitors in the grocery industry will have more time to

adapt to direct competition. Over a longer time frame, Wal-Mart may be able to increase its presence by taking a disproportionate share of overall market growth, instead of competing directly for existing customers of the large supermarkets.

## **Section 4: City of Los Angeles Response**

### **Summary**

Wal-Mart Stores, Inc. is already the largest grocery retailer in the country by sales, and plans to build Supercenters, which combine a large general merchandise store with a full service grocery market, in Southern California. With 3.61 million people, 1.28 million households, and annual food store spending of approximately \$5.65 billion, the City of Los Angeles is an enticing market. The company has announced plans to build 40 Supercenters in California, which presumably will include one or more stores in the City of Los Angeles. If Wal-Mart is unable to open Supercenters within the city, however, the logical response would be for the company to build Supercenters in neighboring jurisdictions just outside Los Angeles city limits.

The real choice facing the City of Los Angeles is whether Wal-Mart will serve residents from within the city's boundaries or from without. If Wal-Mart decides to open Supercenters to serve demand in the region, the stores could conveniently serve customers residing in the City of Los Angeles from within the city, or from neighboring jurisdictions. In the former case, the city government would have the opportunity to influence Wal-Mart's presence. The City of Los Angeles could guide Wal-Mart and other large scale retailers to sites where their presence and spending would be a boon for local redevelopment. If, however, Wal-Mart builds in neighboring jurisdictions, the City of Los Angeles will have no control over the development. Wal-Mart customers in Los Angeles would leave the city to shop, taking their taxable spending (and any resulting local sales tax revenues) with them. Many cities throughout Southern California face the same questions. The results of this analysis apply to them as well.

### **Wal-Mart will enter the Southern California grocery market.**

Southern California is a wealthy market that is simply too large and too important for Wal-Mart to ignore. There are 3.61 million people in the City of Los Angeles, 38 percent of the countywide total of 9.52 million. In Southern California – Imperial, Los Angeles, Orange, Riverside, San Diego, San Bernardino, and Ventura counties – there are 19.33 million people. Considered as a separate state, Southern California would rank third by population, ahead of New York and Florida, and trailing only (all of) California and Texas. Southern California will only become more attractive as a potential market because it is also growing rapidly. The region is forecast to add more than 6 million people, 2000-2025.

The median household income in Southern California is approximately \$46,000, which is higher than the overall U.S. median household income of \$42,000. Consumers in the City of Los Angeles spend an estimated \$5.65 billion at grocery stores annually. Regional grocery store spending (across the 7 counties of Southern California) is an estimated \$29.3 billion dollars annually. Wal-Mart will enter this market as it continues its nationwide rollout of Supercenters.

In the fall of 2003, there were almost 1,400 Wal-Mart Supercenters in the United States, yet none in Southern California. With Wal-Mart planning to add 1,000 Supercenters in the next five years, this region will eventually play a large role in the company's future growth. Nonetheless, Wal-Mart appears to be proceeding cautiously in California. Of

the 1,000 Supercenters planned for the next three to five years, only 4 percent (40 stores) will be built in California. Based solely on the state's share of the national population (and potential market size), we would have expected California's share of the new Supercenters to be in the 100 to 150 range. If we factor in the distribution of existing Supercenters we would have expected the California number to be higher still. Texas, the nation's second most populous state, has many Supercenters while California, *the* most populous state, has none. Indeed, even tiny Fayetteville, Arkansas, population 59,000, has more Supercenters (2) than all of California.

### **Wal-Mart faces opposition in some California communities.**

Supercenters have proven enormously popular with the shoppers in communities across America. Wal-Mart will soon open its first California Supercenter in La Quinta. The City of Inglewood is considering a ban on stores larger than 155,000 square feet if 20,000 square feet or more is devoted to non-taxable items. In the City of Oakland, "big box" stores that also sell groceries cannot be larger than 100,000 square feet. Contra Costa County voters are considering a measure that would place restrictions on the percentage of floor space that can be devoted to non-taxable goods in stores of more than 90,000 square feet. Supporters claim these ordinances are not aimed at any one store. Yet, the measures were motivated by, and their impact is largely restricted to, Wal-Mart Supercenters. In Los Angeles, the city council is investigating the merits of adopting similar restrictions.

### **Option #1: Ring around Los Angeles**

The City of Los Angeles could adopt an ordinance that precludes the development of Wal-Mart Supercenters within city limits. If Wal-Mart is unable to build within the City of Los Angeles, it will undoubtedly attempt to serve the city's residents from neighboring communities. There are 88 cities in Los Angeles County, plus the unincorporated areas. The borders between these cities are rarely obvious, since the cities tend to blend into one another. Traveling from one to the next is often a matter of crossing the street, or taking the next freeway exit. With so many communities nearby, including many which are adjacent to or even, as with the City of San Fernando, completely surrounded by the City of Los Angeles, Wal-Mart will have plenty of alternatives. If Los Angeles passes an ordinance that makes the city an unattractive place to do business, Wal-Mart will just surround the city with Supercenters. Los Angeles consumers will still shop at Wal-Mart; they will just do so outside the city's borders.

The implications of a Los Angeles ringed by Wal-Mart Supercenters are clear. First, many residents of the City of Los Angeles will travel outside the city to shop. Consumers who live in the City of Los Angeles already spend tens of millions of dollars each year at traditional Wal-Mart discount stores located within the county but outside the city's political boundaries. The lure of inexpensive groceries – with potential savings of up to 20 percent compared to the large supermarket chains – available just outside the city limits would accelerate this trend. We expect that even more city residents would shop outside the city than do today.

Second, the City of Los Angeles will lose substantial taxable sales. Supercenters have become the focus of union concerns because they compete with unionized grocery chains. Groceries, which are non-taxable, account for 30 to 40 percent of the sales at

Supercenters, meaning 60 to 70 percent of the sales are taxable. The appeal of Supercenters, for both Wal-Mart and the consumer, is that they allow shoppers to combine trips and do all of their purchasing in one location. If city residents choose to buy their groceries at Supercenters outside of the city, the City of L.A. will lose out on the local share of any taxable purchases shoppers make on those trips.

Third, the forgone local share of sales tax revenue from L.A. residents shopping in other cities will not be limited to sales at Wal-Mart Supercenters. Wal-Mart stores act as powerful magnets for major retail developments, drawing in shoppers who also patronize other stores nearby. To the extent that city residents change their shopping patterns, Los Angeles will lose additional sales tax revenue. This would occur each time residents combine trips, and shop at the nearby Wal-Mart *and adjacent stores*, and purchase taxable items outside Los Angeles city limits.

Thus, any perceived negative implications of Wal-Mart Supercenters *will still occur* if the City of Los Angeles makes doing business within the city too unappealing. City residents who prefer to shop at Wal-Mart will still be able to do so, potentially saving money in the process. Wal-Mart customers and their taxable spending will leave the city to shop, supporting Wal-Mart and other businesses outside city limits. The City of Los Angeles will forego any potential benefits from having the stores located within the city. Indeed, the city will have effectively exported money (in the form of the local share of sales tax revenue) to its neighbors.

## **Option #2: Working Together**

Wal-Mart *will* build Supercenters to serve residents of the City of Los Angeles. The real choice, therefore, is not between Wal-Mart and no Wal-Mart. Rather, the choice is whether Wal-Mart will serve Los Angeles residents from within the city's boundaries or from without. Given that the scarcity of large parcels of land suitable for Supercenters and other big box retail stores will limit the number of such businesses within city limits, restrictions based on the size or merchandise mix of large stores may be moot. Realizing this, the City of Los Angeles could choose to work with Wal-Mart, guiding Wal-Mart to sites where its presence would be welcomed. For this type of partnership to work, Wal-Mart would need to be able to serve its customers under conditions similar to those available in neighboring jurisdictions. Several possibilities are described below.

First, Wal-Mart could be used as a catalyst for redevelopment, particularly in areas saddled with struggling (or failed) retail centers. In Panorama City, the Panorama Mall lost its primary anchor tenant in 1996 when Federated Department Stores closed its Broadway store. Wal-Mart replaced the Broadway store in 1998, bringing local jobs and revitalizing the mall. Sales are up at other stores in the mall, which benefit from the increased foot traffic generated by Wal-Mart's presence. The locally owned grocery store in the neighborhood, La Curaco, expanded to meet the additional demand. Other stores such as Food 4 Less and Pep Boys have also opened nearby. And in the five years since Wal-Mart opened, the neighborhood has been revitalized, too. Crime rates have fallen and housing values have risen more rapidly than in the surrounding community.<sup>28</sup>

Second, Wal-Mart has demonstrated a willingness to enter communities that other businesses appear uninterested in serving. In Baldwin Hills, the Crenshaw Plaza mall

also had a Broadway store as an anchor tenant. Federated Department Stores converted the Broadway store into a Macy's in 1996, and then closed it two years later. Wal-Mart opened a store in the vacant space in early 2003, bringing jobs and retail opportunities to this underserved community.<sup>29</sup> A local resident, describing her community prior to the opening of the Crenshaw Plaza Wal-Mart, said "We always felt like we had to go out of our neighborhood to shop – like our neighborhood wasn't good enough for a good store."<sup>30</sup> Other parts of South Los Angeles and in the city as a whole continue to be underserved by retail. The need is acute in the grocery sector, and these communities stand to gain the most if Wal-Mart were to enter the market and offer lower prices.

Third, Wal-Mart has also demonstrated a willingness to adapt to the urban environment of Los Angeles. The Panorama City store was the first ever multi-story Wal-Mart and the Baldwin Hills was the first three-story Wal-Mart. In both cases, Wal-Mart altered its traditional layout to work with existing structures. This flexibility suggests that Wal-Mart is willing to deviate from its usual pattern of operations in order to gain access to the City of Los Angeles market. Wal-Mart may therefore be willing to work with the City of Los Angeles to determine reasonable variations that suit both the company and the community.

## **Conclusion**

The City of Los Angeles is a large, growing market, giving Wal-Mart a powerful incentive to expand here. Wal-Mart's eagerness to serve customers in L.A. gives the City of Los Angeles some leverage in dealing with the company. The city could use this opportunity to direct investment to communities that need it most. If the city asks too much, however, or attempts to shut Wal-Mart out altogether, the company will serve its customers in the City of Los Angeles from neighboring communities. Many cities throughout Southern California face the same questions. The results of this analysis apply to them as well.

<sup>1</sup> Information from Wal-Mart's annual report; "SN's Top 75," a list of top grocery stores compiled by *Supermarket News* <[www.supermarketnews.com](http://www.supermarketnews.com)>; Anthony Bianco, Wendy Zellner et al., "Is Wal-Mart Too Powerful?" *Business Week*, October 6, 2003; Kristin Young, "Wal-Mart Faces Calif. Roadblocks To Supercenters," *Women's Wear Daily*, September 17, 2003.

<sup>2</sup> [www.supermarketnews.com](http://www.supermarketnews.com); Bryan Roberts, "Wal-Mart Extending Grocery Market Leadership in the US," *M+M Planet Retail*, February 25, 2003. *Progressive Grocer*, the sector's definitive trade publication, placed Wal-Mart at the top of its annual ranking of the country's largest supermarket chains for the first time in 2003. The discrepancy arises because *PG* only counts supermarket sales in its rankings, and excludes other formats such as discount stores and warehouse clubs that sell groceries. See Tom Weir, "Wal-Mart's the 1," *Progressive Grocer*, May 1, 2003.

<sup>3</sup> [www.acnielsen.com](http://www.acnielsen.com)

<sup>4</sup> [www.walmart.com](http://www.walmart.com)

<sup>5</sup> Susannah Patton, "Food Fight," *CIO Magazine*, October 15, 2002.

<sup>6</sup> Jerry Useem, "One Nation Under Wal-Mart," *Fortune*, February 18, 2003.

<sup>7</sup> [www.supermarketnews.com](http://www.supermarketnews.com)

<sup>8</sup> Bianco, Zellner et al., *op.cit.*

<sup>9</sup> Patricia Callahan and Ann Zimmerman, "Price War in Aisle 3," *Wall Street Journal*, May 27, 2003.

<sup>10</sup> *Ibid.*

<sup>11</sup> Study cited in Andy Kish, "The Most Important Tenant," *The Dismal Scientist* (from *Economy.com*), September 23, 2003.

<sup>12</sup> Kirsten Orsini, "Food Fight," *Coloradoan*, April 13, 2003.

<sup>13</sup> Neil Currie and Jennifer Justynski, "There Goes the Neighborhood: Wal-Mart Expands in Vegas" (UBS Warburg, November 14, 2000).

<sup>14</sup> *Ibid.*

<sup>15</sup> Note that the RIMS II model is county-based. This means that the 6,500 jobs created by spending in the City of Los Angeles include jobs located throughout Los Angeles County.

<sup>16</sup> Bernard Wysocki Jr. and Ann Zimmerman, "Wal-Mart Cost-Cutting Finds A Big Target in Health Benefits," *Wall Street Journal*, September 30, 2003.

<sup>17</sup> "Employers' liability," *The Economist*, September 20, 2003.

<sup>18</sup> Percentage of Wal-Mart managers that started as sales associates from Wal-Mart Stores, Inc. Management positions to be created through expansion from Wal-Mart Vice-Chairman Thomas M. Coughlin, quoted in Anthony Bianco, Wendy Zellner et al., *op. cit.*

<sup>19</sup> See, for example, Frank Green, "Food Fight," *San Diego Union-Tribune*, August 18, 2002.

<sup>20</sup> A good overview is offered by Dennis Farmer et al., "Dynamics of the LA Supermarket Industry," in a paper from the Center for Regional Employment Strategies.

<sup>21</sup> Nancy Cleeland and Melinda Fulmer, "Supermarkets, Clerks Gird for Possible Strike," *Los Angeles Times*, September 29, 2003. "War on Wal-Mart?; Grocer Union Pledges to Resist Megastore Expansion," *Los Angeles Daily News*, August 8, 2002. Anita French, "Local Merchants Find Ways to Compete," *The Morning News of Northwest Arkansas*, August 1, 2003.

<sup>22</sup> Vacation and premium pay brought the average up to \$15.57. Marlon Boarnet and Randall Crane, "The Impact of Big Box Grocers on Southern California: Jobs, Wages, and Municipal Finances," (Orange County: Orange County Business Council, 1999).

<sup>23</sup> For information attributed to the UFCW in this section, see [www.ufcw.org](http://www.ufcw.org) and [www.ufcw770.org](http://www.ufcw770.org). Similar information has been presented by union representatives and members quoted in various new articles related to the labor dispute in the Southern California grocery industry. See, for example, Jack Katzanek, "Union uneasy with grocers' proposals," *The Press-Enterprise*, September 23, 2003; and others articles in the *San Diego Union Tribune* (October 20, 2003); *San Jose Mercury News* (October 10, 2003); *North County Times* (December 28, 2003); *Ontario Daily Bulletin*, (October 19, 2003).

<sup>24</sup> Brannon Boswell, "Grocers to get tough with unions," *Retail Traffic*, July 9, 2003.

<sup>25</sup> UFCW Local 1428, "March 2003 Food Contract Negotiations Update," [www.ufcw1428.org/master\\_food\\_contract\\_update\\_30203.htm](http://www.ufcw1428.org/master_food_contract_update_30203.htm).

<sup>26</sup> UFCW Local 770, "Say NO to Wal-Mart in your neighborhood!" [www.ufcw770.org/walmart.htm](http://www.ufcw770.org/walmart.htm).

<sup>27</sup> Retail Forward, cited in Bianco, Zellner et al., *op.cit.*

<sup>28</sup> Brent Hopkins, "No. 1 retailer breathes life into blight area," *Los Angeles Daily News*, May 24, 2003.

<sup>29</sup> Kristin Young, "Wal-Mart's New Look in L.A.," *The Wave*, January 29, 2003; and Lela Ward, "Baldwin Hills Wal-Mart Celebrates Grand Opening," *Los Angeles Sentinel*, January 16-22, 2003.

<sup>30</sup> Quoted by Abigail Goldman in "Wal-Mart's Move into Urban Markets Reaches a New Level," *Los Angeles Times*, January 23, 2003.



## SACRAMENTO CENTRAL LABOR COUNCIL AFL - CIO

*Embracing Amador, El Dorado, Nevada, Placer, Yolo and Sacramento Counties*

2840 El Centro Road, Suite 111 • Sacramento, California 95833  
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November 1, 2005

City of Sacramento  
Development Services Department  
915 I Street, 3<sup>rd</sup> Floor  
Sacramento, CA 95814  
Attn: Joy Patterson

Dear Ms. Patterson:

Below are our general comments pertaining to the Superstore Ordinance Information meeting:

- The amount of gross floor area that is devoted to the sale of non-taxable merchandise should be limited to a maximum of 10%.
- All superstores subject to this ordinance should be required to carry a performance bond that will provide funds to cover the cost of building demolition and maintenance of the site if the vacated building is not demolished or the sited is not maintained.
- If a superstore subject to this ordinance becomes vacant or is abandoned, the building should not be kept vacant for more than twelve (12) months.

Thanks for the opportunity to submit these brief comments.

Sincerely,

Grantland Johnson  
Director, Community & Economic Development

Cc: Bill Camp

Gj:/OPEIU29/afl-cio