

**Comment on BAE's Fiscal and Economic Impact Analysis for Proposed East
Washington Place Shopping Center in Petaluma, CA**

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The Sonoma Living Wage Coalition asked the UC Berkeley Center for Labor Research and Education to review the Fiscal and Economic Impact Analysis (FEIA) prepared by Bay Area Economics in regards to a proposed shopping center at East Washington Place in Petaluma, CA. The Petaluma City Council passed an ordinance requiring an assessment of the impact of large scale retail development projects on the community. The goal of such community impact reports (CIRs) is to assess whether a proposed development will negatively or positively impact the economic and fiscal health of the communities workers, taxpayers, and citizens. A key component of a CIR is to measure the impact of development on existing standards and norms in the local labor market. While new developments may increase the quantity of jobs in the labor markets, they may also affect job quality for existing residents seeking jobs and incumbent workers in similar industries. Such job quality standards include wage levels, the proportion of full-time work available, as well as the likelihood of receiving employer provided medical benefits.

This written comment points out several factual and analytic errors in BAE's FEIA report, which collectively raise substantive doubt as to its basis for making an overall favorable recommendation for the proposed project. This comment makes five specific points concerning the FEIA report:

- 1) *The reported share of workers in retail who work part-time for non-economic reasons is understated;*
- 2) *The wage rates assumed for specific retail industries are too high;*
- 3) *The report over-estimates the income of tips on worker's incomes;*
- 4) *The report provides insufficient information on the number workers offered health coverage by Target;*
- 5) *The report does not mention the role of retailing, and big-box retailing in particular, in lowering standards in local labor markets.*

It is our recommendation that the council should consider these points before making its final recommendation or ask that BAE address these comments in their FEIA report. As the proposed development includes a big-box retailer (Target), it is essential to fully understand and estimate the impact of such developments in light of recent scholarship that suggests that highlights the negative impact of this particular form of retailing on the

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labor market. Since much of the literature on the impact of Big-Box retail is focused on Target’s leading competitor, Wal-Mart, it is particularly important that the developer and/or Target itself, provide specific details on wage levels, average turnover rates, and a richer description of its employee benefit program in order to construct a more accurate FEIA. The Council should consider asking developers and/or anchor tenants for these specific details in future community impact reports.

1. Part-time work for non-economic reasons

On page 45 of the FEIA, BAE states that only 13 percent of retail and wholesale workers nationwide were working part-time for economic reasons, as opposed to making the choice to work part-time while in school or caring for other household members. The citation for this figure lists the data source as table published on the web from the Bureau of Labor Statistics (BLS) derived Current Population Survey data. However, when I rechecked this figure it should actually read 18.1% for 2008, or 944,000 out of 5.2 million part-time workers in the combined wholesale and retail sectors.² The report then implies that since the figure is small, one should not be that concerned about the fact that Target plans to use approximately two-thirds part-time workers. Recent data from the Department of Labor also show that involuntary part-time work has risen sharply during the current recession.³

However, we can gauge a more accurate picture of the share of part-time workers working part-time for economic reasons if we make this calculation from the more detailed microdata available from the Current Population Survey (CPS). Table 1 lists the share reason for working part-time for workers in California working in a set of retail industries that better approximates the type of establishments included in the Development.

Table 1. California Part-time Workers in Selected Retail Industries by Reason for Working Part-time, 2008.

	Reason for working part-time		
	Economic	Non-Economic	% economic
Department stores and general merchandise	30,810	67,061	31.5%
Related retail sectors ⁴	68,813	235,551	22.6%
Total	99,623	302,612	24.8%

Source: Current Population Survey, 2008. Microdata accessed through IPUMS.org. Authors calculations.

² Bureau of Labor Statistics, Characteristics of the Employed (CPS Tables) Table. 21. “Persons at work in nonagricultural industries by class of worker and usual full- or part-time status” <ftp://ftp.bls.gov/pub/special.requests/lf/aat21.txt>

³U.S. Bureau of Labor Statistics (2008) “Involuntary part-time work on the rise” *Issues in Labor Statistics* Summary 08-08 / December 2008.

⁴ Related retail sectors include the following industries: Furniture and home furnishings stores; Radio, TV, and computer stores; Building material and supplies dealers; Hardware stores; Grocery stores; Pharmacies and drug stores; Health and personal care, except drug stores; Clothing and accessories, except shoe stores; Shoe stores; Jewelry, luggage, and leather goods stores; Sporting goods, camera, and hobby and toy stores; Music stores; Book stores and news dealers; Office supplies and stationary stores; Miscellaneous retail stores.

As indicated above, this figure is considerably larger than the national rate quoted in the BAE report. When we focus specifically on the department stores and general merchandise sectors this figure is even higher, 31.5%.

These higher figures are consistent with recent academic research that highlights the growth of part-time work throughout the service sector and the fact that many workers are forced to take multiple part-time jobs to boost their incomes. According to the Economic Policy Institute, nonstandard workers—a group that includes part-time workers as well as temp-workers, independent contractors, and day laborers—made up over 30% of the workforce in 2005. They find that these workers “in general are not only often paid less but they are less likely to receive benefits from their employers and more likely to be uninsured.”⁵

2. Wage levels

On pages 47 and 48 of the FEIA, BAE presents an analysis of the expected wage levels associated with the projected 331 part-time and 390 full-time positions directly linked to the East Washington Place development. This is a critical step in the analysis as it makes a comparison between the wages offered at the project to the official living wage rate of \$13.64 for the City of Petaluma.

The report presents data from the California Employment Development Department (EDD) that indicates that the median wage rate for Sales and Related Occupations is \$14.00 per hour. While the authors of the BAE report are careful not to claim that all workers at Target and other retail establishments will necessarily earn the median wage, they make the implicit claim that, since this rate is above the official living wage rate for the City of Petaluma (\$13.64 without medical benefits in 2008), the project will not reduce average retail wages in the labor market.

The evidence from public data sources strongly suggests that this analysis is incorrect. First, the quoted wage rate for “Sales and Related Occupations” is not the correct comparison point, as it is an aggregate figure that includes unrelated, higher paid occupations⁶. Second, given recent scholarship on the high rate of turnover, or job-churning, in the retail sector (particularly at big-box establishments), it is likely that the wage rate for workers at Target are likely to be closer to the 25th percentile (entry-level) rather than the median.

In Table 2, we present a more detailed, disaggregated analysis of wage levels for most common retail occupations in establishments within the project itself. Specifically, we use the 2006 Industry Staffing Patterns report for California (published by the EDD) to

⁵ Mishel, Lawrence, Jared Bernstein, and Sylvia Allegreto, *The State of Working America 2006/2007*. Economic Policy Institute, Ithaca, NY: ILR Press, an Imprint of Cornell University, *Table 4.7*, page 241.

⁶ Insurance Sales Agents; Securities, Commodities, and Financial Services Sales Agents; Travel Agents; Real Estate Brokers; Real Estate Sales Agents; Sales Engineers. All of these occupations pay a mean wage above \$30/hour. Source: California Employment Development Department (EDD), OES Employment and Wages by Occupation, 2008 Q1.

find out what the most common occupations are for each retail industry. We then list the most recent occupational wage data available from the EDD for the Santa-Rosa-Petaluma MSA. For the Department Stores and Other General Merchandise industries—the sector which includes Target—the vast majority of workers (87%) are concentrated in only three occupations Retail Salespersons, Stock Clerks and Order Fillers, and Cashiers. However, these occupations have median wage rates (\$9.91-\$11.60) well below \$14.00 and below the prevailing living wage in Petaluma.

Table 2. Top Occupations within Retail Industries in 2006 and 2008 Wage Rates

Rank	Occupation Title	California Employment, 2006 ¹		Wage Rates for Santa Rosa-Petaluma MSA, CA, 2008 ²		
		Emp.	Share of Industry Emp.	25th	Median	75th
<i>Department Stores and Other General Merchandise</i>						
1	Retail Salespersons	84,600	38%	\$9.03	\$11.60	\$15.57
2	Stock Clerks and Order Fillers	54,500	24%	\$9.11	\$11.60	\$15.33
3	Cashiers	47,300	21%	\$8.56	\$9.91	\$13.12
4	Managers of Retail Sales Workers	13,100	6%	\$15.41	\$18.67	\$23.65
5	Mgrs of Office and Admin. Supt Workers	7,300	3%	\$18.35	\$22.26	\$28.22
	<i>All other occupations</i>	15,700	7%	\$9.52	\$14.00	\$21.94
	Weighted Average Wage			\$9.67	\$12.18	\$16.33
<i>Other Retail Industries⁷</i>						
1	Retail Salespersons	322,300	30%	\$9.03	\$11.60	\$15.57
2	Cashiers	252,700	24%	\$8.56	\$9.91	\$13.12
3	Managers of Retail Sales Workers	88,100	8%	\$15.41	\$18.67	\$23.65
4	Stock Clerks and Order Fillers	70,900	7%	\$9.11	\$11.60	\$15.33
5	Packers and Packagers, Hand	40,100	4%	\$8.42	\$9.08	\$10.25
	<i>All other occupations</i>	325,500	30%	\$9.52	\$14.00	\$21.94
	Weighted Average Wage			\$9.85	\$12.77	\$17.85

Sources: California Employment Development Department (EDD). 1) 2006 Staffing Patterns by Industry and Occupation; 2) OES Employment and Wages by Occupation, First quarter, 2008.

For the additional retail industries that will include potential tenants in the remainder of the development, the top five occupations are slightly different, but are still dominated by the occupations paying the lowest wage levels. For each of these two industry

⁷ Industries included: Florists (453100); Shoe Stores (448200); Used Merchandise Stores (453300); Jewelry, Luggage & Leather Goods Stores (448300); Beer, Wine, and Liquor Stores (445300); Book, Periodical, and Music Stores (451200); Other Miscellaneous Store Retailers (453900); Sporting Goods/Musical Instrument Stores (451100); Specialty Food Stores (445200); Clothing Stores (448100) Gasoline Stations (447000); Lawn & Garden Equipment/Supplies Stores (444200); Office Supply, Stationery & Gift Stores (453200); Home Furnishings Stores (442200); Health and Personal Care Stores (446000); Building Material and Supplies Dealers (444100); Furniture Stores (442100); Electronics and Appliance Stores (443000); Grocery Stores (445100).

groupings—Department Stores/General Merchandise and Other Retail Industries—we present a weighted average wage rate, which are both below the prevailing living wage (\$12.18 and \$12.77 per hour).

While the median wage rate in retail occupations approaches the living wage rate, we suggest that the median may not be the best figure to use as a comparison for Target, given the high rate of job turnover associated with big-box retail. Given Target's statement that two-thirds of its proposed workforce will be part-time workers, the issue of job turnover and lack of tenure within a given job category is especially problematic and suggests that larger share of Target workers will be closer to the 25th percentile (\$8.56-\$9.03 per hour). According to a recent study of large companies in the retail industry, the rate of employee turnover ranged between 40% and 86% overall, and was highest among part time workers.⁸

However, the turnover issue is not the only reason to suspect that wages at Target will be below the wider average for the local labor market. We can use Wal-Mart as a comparison here. Researchers at the UC Berkeley Center for Labor Research and Education analyzed detailed payroll data provided by Wal-Mart and found that the overall wage distribution was 31% lower than other large retailers in California.⁹

Overall, this wage analysis argues that the wage figures used by BAE are too high and that the more realistic analysis suggests that the average wages offered by Target and other retail firms in the proposed development will be below the prevailing living wage in Petaluma.

3. Tipped workers only a fraction of restaurant workers

On page 48 of the FEIA, BAE states that workers in Food Preparation and Serving-Related Occupations, while earning a median wage of only \$10.47 per hour, make up for low wages by earning substantial tips. However, the level of tip income for workers in this broad occupational category varies greatly across specific restaurant occupations. Typically, the only servers who earn a large share of their income from tips work at full-service restaurants, while fast-food workers are typically not tipped. In addition, workers in the “back of the house” as well as managers and hosts do not generally receive tips.

The BAE report does not indicate if the restaurant included (with expected employment of 21 workers) in the development is a full-service or limited-service establishment. However according to data from the EDD, waiters and waitresses at full-service restaurants make up only 38% of jobs in the full-service restaurant industry, and 19% of the overall food service industry.¹⁰ Furthermore, the amount of tip income that servers earn is a function of the average menu prices at the restaurant. Thus, the only servers

⁸Carre, F. and C. Tilly (2008). "America's biggest low-wage industry: Continuity and change in retail jobs" Institute for Research on Labor and Employment (IRLE) Working Paper Series 2009-004: p. 2.

⁹ Dube, Arindrajit and Jacobs, Ken (2004) *Hidden Cost of Wal-Mart Jobs: Response to Wal-Mart's Statements*. UC Berkeley Center for Labor Research and Education, August 3rd, 2004, p. 1.

¹⁰ California Employment Development Department (EDD). Industry Staffing Patterns Report, 2006.

who will make the majority of the income from tips are those who work at higher-priced restaurants. Therefore, the issue of tip income should not divert the Council's attention from the fact that restaurant jobs offer some of the lowest wages in the labor market, well below the Petaluma living wage rate.

4. Health Insurance Coverage in Retail

A critical factor in assessing the impact of the proposed development on job quality in the local labor market and the overall fiscal health of the City and the surrounding community is the share of workers covered by employer-sponsored health insurance. In this section we make two arguments. First, we argue that the figures provided about Target are insufficient to accurately assess the degree to which new employees will receive health benefits and request that the City require more information to complete the FEIA. Second, we provide estimates from the Current Population Survey that show that the share of workers in retail who are offered employer-paid health insurance is below that of other industries, and that part-time workers are less likely to have such benefits through their jobs.

On page 48, BAE suggests that "on average Target pays more than 70% of the employee's health care premium." However, they do not state how many of their workers receive health care benefits, and what the total hourly threshold is for receiving such benefits. This is particularly critical given the large share of workers who are part-time. As reported by the Minneapolis Star-Tribune, Target eliminated health care benefits for workers who work less than 20 hours a week in 2003.¹¹ Without additional information from Target regarding the number of workers expected to be employed between 0-20 hours, 20-32 hours, and 32 hours and above, we cannot fully assess the number of workers who will be covered by employer sponsor health insurance.

Without this detailed information from Target, we can provide an approximation with publically available survey data from the Current Population Survey. For workers employed in relevant retail industries¹² employed in California in either 2007 or 2008¹³, 41% were included in employer sponsored group health insurance program. For workers specifically employed in the department stores and other general merchandise sectors, this figure is 47%.

For retail workers who were included in employer provided insurance programs, only 21% reported that their employers paid the full cost of the premiums. Within department stores this figure was 26%.¹⁴ Therefore, although only a minority of workers receive their health care coverage from their employers the vast majority of those covered workers share in the cost burden.

¹¹ Cited in "Target Cuts Part-Timers' Benefits" *Business and Legal Reports (BLR)* (http://compensation.blr.com/doc_print.cfm?id=150998)

¹² This analysis uses the same industry definitions as described in Table 1 above.

¹³ We roll together two CPS survey years to increase sample size.

¹⁴ US Bureau of Labor Statistics, Current Population Survey, 2007-2008; Authors calculations.

To analyze the likelihood that part-time workers within retail and general merchandise firms will be offered health insurance benefits, we must look at national level data, as the CPS sample sizes are too small for this cross-tabulation. Among part-time workers in related retail sectors, only 15% were included in the employer sponsor, while only 19% of general merchandise part-timers were included.

Therefore, given the relatively low rate of health insurance coverage for retail workers in general, and part-time workers in particular, the proposed development may have a potentially negative fiscal impact on the City of Petaluma, Sonoma County and the State of California, as uninsured workers will be forced rely on local public hospitals and clinics for services.

Research by labor economists at UC Berkeley supports this point. A 2004 study by Arindrajit Dube and Ken Jacobs finds that a significant portion of workers at Wal-Mart—Target’s closest competitor—were paid such low wages that they were eligible for and utilized MediCal and other publicly funded safety net programs. This resulted in a cost of \$32 million in health related expenses by local and state governments in California and another \$54 million in other public costs.¹⁵ Current health policy research indicates that the State of California and its counties collectively spend \$2 billion annually to cover the costs of uncompensated care.¹⁶

5. The link between big-box retail and the proliferation of low-wage work

While developments such as the proposed East Washington Place project bring the promise of jobs and sales tax revenues—a prospect that may be especially appealing during a down economy—it is critical that public officials examine the long-term impact of such development on the local community and the local labor market. In requiring a FEIA report for new, large-scale developments, the City of Petaluma not only recognizes the importance of such analysis, but also recognizes that the process itself presents an opportunity to make wider changes in the economic landscape.

Over the past two decades, there has been a significant increase in income inequality in California, the Bay Area and the North Bay.¹⁷ This is largely due to the proliferation of low-wage work and the decline of middle-income, family-sustaining job opportunities. The retail and food service industries are the largest employer of low-wage workers and are projected to grow rapidly in the region.

¹⁵ Dube, Arindrajit and Ken Jacobs (2004) “Hidden Cost of Wal-Mart Jobs: Use of Safety Net Programs by Wal-Mart Workers in California” UC Berkley Labor Center.

¹⁶ New American Foundation (2006) "A Premium Price: The Hidden Costs All Californians Pay in Our Fragmented Health Care System."

¹⁷ A number of recent reports have documented the increase in inequality and its link to low-wage jobs. See California Budget Project: *A Generation of Widening Inequality* (2007), (http://www.cbp.org/publications/pub_workwagesinc.html); *The Rising Tide Left Some Boats Behind: Boom, Bust, and Beyond in the San Francisco Bay Area* (2005) (http://www.cbp.org/publications/pub_workwagesinc.html); New Economy, Working Solutions Nari Rhee and Dan Acland. *The Limits of Prosperity: Growth Inequality and Poverty in the North Bay* (2005). (http://www.neweconomynorthbay.org/news_reports.php)

For example, “the top three occupations with the most job openings are Retail Salespersons, Cashiers, and Waiters and Waitresses”. As noted in above these occupations pay very low wages, typically between \$8.50-\$11.50 per hour and require only short-term on-the-job training.¹⁸

However the fact that these industries are growing and pay low-wages is not inevitable. Rather research shows that recent restructuring and low-road business strategies have led to the destruction of higher wage retail jobs and the creation of jobs of very low quality. One recent paper found a direct causal link between the entry of one big-box retail firm—Wal-Mart—on retail workers earnings. Dube, Lester and Eidlin (2007) find that for each new store opening in a county, retail workers see their earnings decline by 0.5 to 0.9%.¹⁹ Since Wal-Mart’s competitive strategy is offering lower prices, they are able to draw market share from existing retailers in local communities. To the extent that their lower prices are derived from paying lower wages and existing retailers are displaced, this results in an overall degradation of wage standards in local labor markets that can now be measured at aggregate levels.

This research suggests that, even though the retail sector will continue to grow, communities do have some degree of discretion with regard to enforcing and upholding labor standards. The choice is between welcoming companies that compete through a low-road strategy that drives down wages or attracting those that choose an alternative strategy that treats workers fairly and competes based on quality and improved consumer choice.

Ultimately, the information provided by Target and the developer, as reflected in BAE’s report, is insufficient for policy makers to consider this choice fully. Without better data from Target, it is impossible to do a thorough analysis. Lacking such data, there is no choice but to rely on general data sources or studies focused on Wal-Mart. These sources raise significant doubts about the overall impact of the project on the local economy.

¹⁸ California Employment Development Department, Labor Market Information Division, 2006 – 2016 *Sonoma County Projection Highlights*. ([http://www.calmis.ca.gov/file/indproj/satr\\$ highlights.pdf](http://www.calmis.ca.gov/file/indproj/satr$%20highlights.pdf))

¹⁹ Dube, Arindrajit, T. William Lester, and Barry Eidlin (2007) “Firm Entry and Wages: Impact of Wal-Mart Growth on Earnings Throughout the Retail Sector” Institute for Research on Labor and Employment (IRLE) Working Paper No. 126-05, August 6, 2007.