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Review of Planning Decisions report, "The Impact of a Proposed Wal-Mart Supercenter on the Town of Damariscotta," March 1, 2006

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Key Findings:

- The study does not perform the most basic kind of analysis needed to understand the impact of a superstore: a retail market analysis. Such an analysis would examine local consumer spending in various categories and estimate the proposed Wal-Mart's market share in each category. Based on this, it would then estimate the total sales losses to existing businesses, likely store closures, and the number of resulting job losses.
- The study relies on Wal-Mart's unverifiable assertion that "regular, full-time" workers are paid an average of \$10.41 an hour. Many of Wal-Mart's employees are part-time and temporary, and earn substantially less. According to data that the company was forced to disclose as part of a national class-action lawsuit, Wal-Mart workers paid by the hour earn an average of \$17,285 a year (in 2004 dollars). This is 32% below what the average job in Lincoln County paid in 2003, and 15% below what the average retail job paid. Yet, the study concludes that "Wal-Mart's entrance into this labor market will put upward pressure on wages both generally and in the retail sector in particular."
- The study uses faulty methodology that dramatically underestimates the public cost of providing services (road maintenance and public safety) to the proposed Wal-Mart. This method is not used by other firms that specialize in fiscal impact analyses.

Impact on Existing Businesses:

- The study asserts, based on an email message from a Wal-Mart official, that the proposed supercenter will do \$45 million in sales per year. That's \$241 in sales per square foot—more than 40 percent below Wal-Mart's average of \$415. It seems unlikely that the company would propose a store that would perform far below its average. The effect of using this unreasonably low estimate of Wal-Mart's sales is to substantially underestimate the degree to which a store of this size would dominate retail sales in the area and potentially monopolize sales of many consumer staples.¹
- The study does not perform the most basic kind of analysis needed to understand the impact of a superstore: a retail market analysis. Such an analysis would examine local consumer spending in various categories, estimate the proposed Wal-Mart's market share in each category, and, based on this, estimate the total sales losses to existing businesses following the superstore's arrival.
- The study includes no discussion or estimate of the impact on the town's Convenience retailers (grocers, pharmacies, etc.), which the study notes comprise nearly half of Damariscotta's retail businesses. It notes only in passing that the impact will be "severe."
- The study asserts that Damariscotta's Comparison and Destination retailers (books, furniture, clothing, etc.), which comprise the other half of the town's retail base, will benefit from the added traffic brought by Wal-Mart. To my knowledge, no empirical research exists to support this claim. No studies have shown a positive "spill-over" effect on downtown retailers from the presence of Wal-Mart. Several have reached the opposite conclusion: that Wal-Mart causes a decline in downtown customer traffic.²
- The study implies that Damariscotta's Comparison and Destination retailers (books, furniture, clothing, etc.) do not compete with Wal-Mart. Wal-Mart is the nation's top retailer of furniture and clothing. It sells more books than Borders and Amazon.com.
- The study discusses retail sales leakage to other counties, but includes no discussion of the surplus—dollars spent by residents of other counties in Damariscotta. Most of these shoppers and tourists undoubtedly are attracted to the town's vibrant downtown and unique retail offerings. Should Wal-Mart cause vacancies and a general decline in the liveliness of the downtown, Damariscotta's surplus sales will drop.
- The study says the fact that Lincoln County has some sales leakage is an anomaly. In fact, it's fairly common for rural areas. Unless Damariscotta wishes to develop a mall/big-box complex as extensive as that found in Augusta or Brunswick, or a downtown as big as Portland's Old Port, then residents will continue to make some shopping trips to these areas. That's part of the trade-off that comes with living in a peaceful small town.

Impact on Employment and Wages:

- Relying on statements from Wal-Mart officials, the study asserts that the store will employ 400-450 people. This is 10-25 percent higher than the number of jobs created by similarly

sized Wal-Mart stores.

- Because the study does not estimate sales losses to existing business, it does not offer any estimate of how many current retail employees in Lincoln County will lose their jobs when Wal-Mart opens. A national statistical study, conducted by an economist at the University of California-Irvine and presented last year at a conference sponsored by Wal-Mart, found that the entrance of a Wal-Mart store reduced retail employment by an average of 2-4 percent. (That is, Wal-Mart employed fewer people than the stores that closed following its arrival.)³
- The study relies on Wal-Mart's unverifiable assertion that "regular, full-time" workers are paid an average of \$10.41 an hour. Many of Wal-Mart's employees are part-time and temporary, and earn substantially less. According to data that the company was forced to disclose as part of a national class-action lawsuit, Wal-Mart workers paid by the hour earn an average of \$17,285 a year (in 2004 dollars). This is 32% below what the average job in Lincoln County paid in 2003, and 15% below what the average retail job paid. Yet, the study concludes that "Wal-Mart's entrance into this labor market will put upward pressure on wages both generally and in the retail sector in particular."⁴
- The study asserts that the jobs created by Wal-Mart "will provide substantial economic benefits to those who seek and ultimately obtain these jobs." This is inconsistent with data released over the last year by numerous states showing that 15-20 percent of Wal-Mart employees are enrolled in Medicaid or other public welfare programs.⁵

Impact on Taxes and Public Costs:

- The study uses faulty methodology that dramatically underestimates the public cost of providing services (road maintenance and public safety) to the proposed Wal-Mart. This method is not used by other firms that specialize in fiscal impact analyses.
- It assumes that Wal-Mart will cost the town the same as the average cost of providing these services to all of Damariscotta's existing properties (per \$1,000 of assessed value). Because the existing tax base includes many homes, which do not generate routine police calls and thousands of car trips each day, this method produces an unreasonably low estimate of the actual public cost of the proposed superstore.
- Using this faulty methodology, the study concludes that Wal-Mart will produce a net gain of \$102,600 in town revenue per year. Should the town have to hire just one additional police officer and finance just one new squad car, this gain would be entirely wiped out. (Many other towns have reported having to hire one or more officers following the opening of a Wal-Mart supercenter.)⁶
- The study does not estimate or account for lost property tax revenue from the downtown or other retail properties (such as Yellowfront) that are likely to lose sales and may become vacant as a result of Wal-Mart.
- The study does not account for a decline in the state education subsidy, which generally decreases when a town adds new development.

¹ Wal-Mart 2005 Annual Report.

² Thomas Muller and Elizabeth Humstone, *What Happened When Wal-Mart Came to Town? A Report on Three Iowa Communities with a Statistical Analysis of Seven Iowa Counties*, National Trust For Historic Preservation, 1996.

³ David Neumark, Junfu Zhang, and Stephen Ciccarella, "The Effects of Wal-Mart on Local Labor Markets," presented on Nov. 4, 2005 at a conference organized by Global Insight and sponsored by Wal-Mart.

⁴ Annette Bernhardt, Anmol Chaddha, and Siobhán McGrath, *What Do We Know About Wal-Mart?*, Brennan Center for Justice, Aug. 2005, citing data from Dr. Richard Drogin, *Statistical Analysis of Gender Patterns in Wal-Mart Workforce* February 2003, submitted as expert report in *Dukes v. Wal-Mart Stores*, No. C 01-02252 MJJ (N.D. Calif.), appendices 6a and 6b.

⁵ "Many Wal-Mart Workers in Pa. on Medicaid," The Associated Press, March 2, 2006; Ralph Thomas, "More Than 3,100 Wal-Mart Workers Got State Health Aid," *Seattle Times*, January 24, 2006; "Employers Who Have 50 or More Employees Using Public Health Assistance," a report by the Executive Office of Health and Human Services Division of Health Care Finance and Policy in Massachusetts, February 1, 2006.

⁶ Institute for Local Self-Reliance, "Wal-Mart's Impact on Local Police Costs," 2005, citing numerous newspaper reports on the impact of superstores on local police departments.