

# Executive Summary

*Subsidizing Wal-Mart: A Case Study of The College Grove Redevelopment Project* is an in depth look at the costs and benefits associated with a large publicly assisted development project. By examining a broad range of community impacts—from fiscal returns and job creation to land use and environmental impacts—this study provides a more comprehensive way to evaluate how the community, the City and region are affected by such a project.

State and local government in California are increasingly active in subsidizing development. In 2001 alone California spent \$7.8 billion on subsidizing different development projects. Locally, the City of San Diego has a number of programs to assist in economic development, an important tool being redevelopment. For the fiscal year 2003, the City of San Diego Redevelopment Agency plans to spend \$251 million dollars.<sup>2</sup> Given the significant resources allocated for publicly assisted development, this study was conducted to evaluate the contribution of a large project to meeting the economic and social needs of the community and the region.

This analysis of the College Grove Wal-Mart Redevelopment Project, most recently developed by Wal-Mart and Vestar Development in 1998 with \$13,397,000 in public assistance, examines the overall project impact on (1) fiscal returns to the City and other agencies, (2) employment, including wages and health benefits, (3) housing creation, including affordable housing, (4) the community plan in the form of amendments, (4) neighborhood services and small business, and (5) environmental impacts including an assessment of smart growth elements.

While the College Grove Redevelopment Project contained important goals—providing new employment opportunities for the community, eliminating blighting conditions, revitalizing a mall which had a 50% vacancy rate, and providing new retail options for the community-- this study provides a broader, balanced picture of the community impacts. In each chapter of this report we raise a number of questions about the projects impact, and if it was the best for the community. Overall, a number of significant impacts stand out:

- The city spent nearly \$14 million in assistance, Wal-Mart receiving nearly \$10 million.
- There is a net fiscal return from the project annually, but this is significantly offset by other costs
- The majority of the jobs pay below a self-sufficiency wage and just above half of the employees have employer provided health care

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<sup>2</sup> City of San Diego 2003 Budget.

- The project design is bad for smart growth planning and contributes to sprawl due to increased traffic
- There are significant impacts on small business
- The project does contribute to affordable housing indirectly through the set-aside of affordable housing funds administered by the Redevelopment Agency, however, the project also eliminated lands for potential housing in the local community

We discuss the overall impacts in more detail below.

### **Fiscal Impact**

*How much was spent at the project and who received the benefits?*

- Public Assistance: \$13,397,000 for the whole College Grove Project to Wal-Mart and Vestar LLC; including \$9,538,671 attributable to Wal-Mart.
- The subsidy to Wal-Mart included a land write-down of over a million dollars and the leasing of parking spaces for a rarely used park and ride facility for over 2.4 million dollars.
- Fiscal Impact on the City of San Diego: The net impact to the City of San Diego from this combination of deals has been positive, but moderated by the expenditures on public services that are concomitant with a retail project of this size. The net annual return to the City is estimated at \$242,535 annually. This figure is most likely less, however, because (1) a significant portion of the sales are likely to be drawn from existing retailers in the city, and therefore the revenues are not new but simply transferred within the city, and (2) some small businesses may have been lost due to retail competition and no longer provide sales tax revenue.
- Fiscal Impact on the Redevelopment Agency: The net impact on the Redevelopment Agency of the City of San Diego has been positive. The project has brought in almost \$2 million in Tax Increment, generating approximately \$211,036 annually. Additionally, the Redevelopment Agency has incurred considerable debt, and is using most of this tax increment to repay the loans to the developer.
- While data limitations prevent a full analysis, it is likely that the proximity of the project at the city's edge has drawn retail sales away from Lemon Grove and La Mesa, simply transferring sales tax revenue from those jurisdictions to San Diego.

### **Employment**

*How many and what types of jobs were created by the project?*

The jobs created by the project were predominantly low-wage Service Sector occupations with limited career ladders.

- Total Temporary Construction Jobs Created: 218

- Total Permanent Jobs Created: 880 (67% Part time, 33% Full Time). This figure, however, does not include the loss of jobs from small business cannibalization due to competition, and therefore the actual figure is likely to be lower.
- Total Jobs Below Self-sufficiency Wage (\$11.38): 740 (84%)
- Portion of Jobs requiring only short-term on the job training: 712 (81%)
- Portion of Employees with Employer Provided Health Insurance: 492 (56%)
- While there was a local job fair at the project, no local hiring program was implemented to ensure that local residents had access to the jobs

### **Neighborhood Services**

*Did the project contribute to important community needs, including parks, open space, or school facilities?*

- Parks and Recreation: Chollas View Park has planned improvements and construction for a cultural center and park facilities, however no funding has been allocated for this to date, so there has been no direct project impact.
- Health Services: No contribution directly, but revenues are generated for the County that could ultimately be used for health services, although none were earmarked for these purposes despite being in a Medically Underserved Area (MUA) and Health Professional Shortage Area (HPSA.)
- Schools: No fiscal impact, as the state compensates for revenue lost to redevelopment.
- Retail Assessment: Provided new retail opportunities to the community, however these are offset by the potential loss or restructuring of small business in the local market area.

*How were small businesses affected?*

- Although data limitation prevents a quantified assessment of the total impact, our survey of local retailers shows that small businesses have been adversely affected due to competition from the new center, and the retail submarket for the area continues to have one of the highest vacancy and turnover rates in the city.
- No new economic activity in the local market area is evident from the increased draw of traffic and consumers to the project.

## Community Plan Conformance

*Did the project conform to the community's planning, zoning, and land use guidelines?*

- The project met some goals of the community plan, notably increasing retail opportunities and revitalizing the shopping center, but ran counter to others requiring amendment.
- The required amendments included four zoning changes which:
  - Raised the allowable level of traffic in the area, degrading the Level of Service from grade "A" to "C".
  - Increased the allowed level of parking in the area.
  - Eliminated potential land for housing.
- The lost land for housing, and degraded levels of service for the community, are unmitigated impacts of the project.

## Housing

*Was the project best designed and planned to contribute to affordable housing for the community?*

The project has generated nearly \$600,000 through transfers to the affordable housing funds via Tax Increment Financing (TIF). The project did not increase the available housing supply in the local area, however, and eliminated potential housing units through re-zoning.

- Housing units directly created by the project to date: None.
- The project is projected to create 50 Units over a 5-year period with funds from Tax Increment Financing.
- New funding for affordable housing generated to date by Redevelopment Tax Increment Set Aside Funds to date: \$596,000.
- Re-zoning resulted in a loss of land for potentially 30 local housing units.

## Environmental and Smart Growth Impact

*Did the project provide adequate mitigation of all environmental impacts, and were smart growth elements incorporated into the project to lessen sprawl?*

A regional power center with three anchor stores, the College Grove Project is a largely car-dependent commercial property, generating significant traffic. Rather than incorporate sound smart growth elements to mitigate sprawl and traffic, the project has increased traffic speed and congestion.

- The project resulted in an annual daily traffic increase of 15,500 vehicles per day, decreasing the Level of Service grade of the streets from LOS grade “A” to “C”.
- Road widening has allowed a higher rate of traffic speed than initially in the Community Plan.
- A Park and Ride Facility was leased with 350 spaces, but without exclusive access by the public.
- The Park and Ride Facility is rarely used, is not co-located with a transit stop and no marketing or promotional program was ever implemented.

## Conclusions

This analysis of the College Grove Redevelopment Project, most recently developed by Wal-Mart and Vestar Development in 1998, looked at the overall impact of the project on (1) fiscal returns to the City and other agencies, (2) employment created by the project including wages and health benefits, (3) housing and in particular the impact on affordable housing, (4) neighborhood services and small business impact, and, (5) environmental impacts including an assessment of smart growth elements.

This study shows that the City of San Diego and Redevelopment Agency invested large amounts of locally administered funds, relied on a variety of financing mechanisms and future debt service to redevelop the project area. A full examination of the impacts on the community and agencies involved shows how the City endures significant annual costs associated with large retail development, the majority of the jobs created by the project pay below the self-sufficiency wage, no direct housing was created by the project, and unmitigated traffic and parking impacts remain.

## Policy Recommendations

Given large public investment at the project, the absence of standards established for the project in terms of employment, housing, continued unmitigated environmental impacts and community service needs, we provide several policy recommendations.

- 1. Include job quality standards for publicly assisted economic development and Redevelopment Projects, and job quality goals in Redevelopment Plans to ensure that public tax dollars do not contribute to poverty by creating low-wage jobs without health benefits.**

Redevelopment law and the City of San Diego Community and Economic Development Department include poverty alleviation and economic growth, including increasing median wage rates as goals. These broader policies should be included as part of Redevelopment Plan Area goals. Publicly assisted projects should include goals for employment outcomes.

## **2. Implement local hiring programs to ensure local residents have access to jobs created at projects.**

Local hiring programs have been implemented in other cities, ensuring that local residents have access to jobs created with public assistance.

## **3. Adopt and implement Community Impact Reports (CIRs).**

One of the ways to address elements of the first two policy recommendations is to adopt a Community Impact Report policy. A Community Impact Report is an objective analysis of project's impact, conducted prior to adopting a project, including the impact on job quality, fiscal impact, affordable housing, smart growth, and neighborhood services.

## **4. Adopt and implement Community Benefits Agreements (CBAs)**

Community Benefits Agreements are legally binding agreements between developers and community groups that delineate specific project benefits that the developer will provide as part of the project. Such agreements are mechanisms for communities to ensure that they receive the full benefit of a large project—or can be assured of mitigations of negative impacts. Other cities in California have already completed CBAs on large development projects, ensuring that a range of community needs are met.

## **5. Reform the Development Review Process**

The City of Los Angeles requires a discretionary review of major developments defined by size over 50,000 square feet. This review enables staff to determine if a public hearing is necessary. In the case of College Grove, Wal-Mart used a 1987 development permit to claim that it had a vested right to remodel the center without environmental or any other review. The City of San Diego should change the development review process regarding discretionary staff review of major projects to ensure that public hearings are required for large projects. Development permits should also have a blanket expiration date with renewal requests subject to public appeal to ensure that older projects that are remodeled are not exempt from such a review.