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February 3, 2011
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**Oversight: When Wal-Mart Comes to Town: The Effect on Small Businesses and Communities: A Historical and Prospective View**

Dear Council Members. Thank you for the invitation to submit comments for today's hearing. Good Jobs New York is a project of Good Jobs First based in Washington, DC and the Fiscal Policy Institute, with offices in Albany and New York City. Good Jobs New York promotes accountability to taxpayers in the use of economic development subsidies

Wal-mart's motto of "Save Money. Live Better" doesn't always ring true for communities. Wal-Mart has been accused of aggressively challenging property tax assessments; not providing good paying, full-time jobs; relying on taxpayer subsidized health insurance programs for its employees; and being an unfair actor in negotiations with suppliers.

To be sure, Wal-Mart is not the only bad actor in the world of big box retailers. Many of our neighborhoods have already experienced the proliferation of these big box stores and it shows; mom and pop businesses are drying up, our neighborhoods are losing their distinctiveness and profits from these companies return to headquarters out of state. But because Wal-Mart is the largest and one of the most profitable companies in the world it garnishes the most attention and must be held to a higher standard.<sup>1</sup>

Big box stores like Wal-Mart have a devastating impact on businesses in New York City. Fewer businesses owned by New Yorkers can afford to compete with products sold by these retailers. And if the retailers receive special tax-breaks it means less revenue generated for the city and the burden of maintaining city services is shifted to small companies and individual taxpayers.

I hope this testimony serves as a warning and a lesson on the retailer's history of demanding that state and local governments provide tax breaks and other incentives for its

operations. Subsidizing big box retail developments is a disturbing trend in New York City as evidenced in recent examples such as the Gateway Mall in the Bronx and CityPoint (formerly Albee Square Mall) in Brooklyn.<sup>2</sup>

## **Wal-Mart's Subsidy History**

Conservative estimates show that Wal-Mart has garnered over \$1.2 billion in subsidies nationwide.<sup>3</sup> In addition, Wal-Mart is notorious for questioning assessments of its property in an effort to lower its taxes. Public subsidies that Wal-Mart and its developers have received range from infrastructure assistance and tax breaks to government grants. Most of these subsidies can be allocated without a public hearing or city council input. A list of potential subsidies for a Wal-Mart store is below.

*Free or reduced-price land.* Would require a Request for Proposal, but not necessarily a public hearing.

*Infrastructure assistance.* This benefit includes construction of access roads, water and sewer lines, and other forms of infrastructure.

*Tax increment financing (TIF).* TIFs, originally intended to help revitalize blighted areas, have been used in many states for projects involving big-box stores in newly-developing or even prosperous areas. TIFs have yet to take hold in New York City.

*Property tax breaks.* Wal-Mart (and many other companies) has been known to avoid property taxes indefinitely by letting ownership of the facility remain with or be placed with a public authority, thus making it tax-exempt. This process could take place through the New York City Industrial Development Agency or the Empire State Development Corporation, for example, where the firm could also apply for various sales and use tax breaks and would require a public hearing.

Depending on location of the store, companies are eligible for the city's Industrial Commercial Abatement Program (ICAP), a break on property taxes. ICAP is an as-of-right benefit meaning a firm is eligible based solely on its location and business type. There are no public hearings before this benefit is allocated.

*State corporate income tax credits.* The value of this credit is nearly impossible to clarify as the only way to know the amount of credits is to review firms' tax returns, which are not public.

*Sales tax rebates.* Many states allow retailers to retain some of the sales tax it collects from customers on behalf of local government as compensation. This has become a

major issue in many states but less so in New York State – called the Vendor Collection Credit – where there is a ceiling of \$200 per quarter per outlet This means retailers (not just Wal-Mart) kept \$54 million in collected sales taxes in 2007 it collects.<sup>4</sup> However, it’s worth noting that this subsidy, especially for big box retailers, could be considered antiquated.

*Excelsior (formerly Empire Zone) benefits.* Like ICAP (mentioned above), the Excelsior Program is an as-of-right program that is dependant on a developer’s location and provides a variety of subsidies, such as property tax abatements, state tax credits, sales tax exemptions, and reduced utility rates.

*Job training and worker recruitment funds.* Given the low skilled nature of some of the position at retailers, it’s not surprising this subsidy is available to companies like Wal-Mart based on who they hire.

*Tax-exempt bond financing.* This benefit is available through the New York City Industrial Development Agency and the Empire State Development Corporation or other Local Development Corporation. Thanks to the Tax Reform Act of 1986, a public hearing would be required prior to the allocation of bonds.

*General grants.* For example, in Johnstown, New York a Wal-Mart distribution center received a \$650,000 Jobs Now Grant.<sup>5</sup>

Examples of Subsidies to Wal-Mart in New York State<sup>6</sup>:

| <u>County</u>  | <u>Facility</u>     | <u>Amount of subsidy</u> |
|----------------|---------------------|--------------------------|
| Herkimer       | Supercenter         | \$1.4 million            |
| Johnstown      | distribution center | more than \$1.9 million  |
| Marcy          | distribution center | \$2.2 million            |
| Oneida         | Supercenter         | about \$850,000          |
| Sharon Springs | distribution center | estimated \$46 million   |

**Response from Wal-Mart**

Wal-Mart has responded to its immense subsidy tally by taking credit for its customers’ tax payments: “In the last 10 years....Wal-Mart has collected more than \$52 billion in sales taxes, paid \$4 billion in local property taxes, and paid \$192 million in income and unemployment taxes to local governments”<sup>7</sup> And “In 2010 alone, we collected more than \$364.6 million in sales taxes across the state of New York...”<sup>8</sup>

For Wal-Mart to take credit for its customers paying sales tax revenue is like a meteorologist taking credit for the sun rising.

### **Bad Example for Health Care Costs**

As New York State politicians attempt to clamp down on Medicaid expenses it should be noted that in 2005 over 7,500 employees and their dependents at Wal-Marts in New York State cost \$61.5 million in taxpayer subsidized health coverage.<sup>9</sup> This is an estimate as New York State has not released data on which companies have the highest Medicaid enrollment. But in many states, including Texas, Ohio and Florida, Wal-Mart employees and their dependents are the number one customers of the state's health care plans.

The retailer claims it has adjusted its policy and offers benefits for as low as \$35 a month. However, critics have responded that half of its employees still have no employer paid coverage, individual deductibles are high and family coverage is mostly unaffordable.

In conclusion, we are pleased the city council is concerned about Wal-Mart's potential expansion into New York City but urge equal scrutiny on other large retail projects.

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<sup>1</sup> According to Fortune Magazine, "Global 500 2010", Wal-Mart is the world's largest company and the seventh most profitable.

<sup>2</sup> GJNY estimates the Gateway Mall in the Bronx benefited from at least \$2 million in infrastructure improvements, \$8.7 million in IDA tax breaks, and a special agreement to lease the property from the City. City Point, formerly Albee Square Mall in Brooklyn received benefits worth approximately \$20 million in tax-exempt Recovery Zone Facility Bond financing, after the City helped displace previous tenants from Albee Square Mall.

<sup>3</sup> Good Jobs First estimated in 2004 that Wal-Mart benefitting from \$1 billion in subsidies.

<sup>4</sup> "Skimming the Sales Tax", November 2008, Good Jobs First.

<sup>5</sup> Good Jobs First, "Wal-mart Subsidy Watch" database [www.Wal-Martsubsidywatch.org](http://www.Wal-Martsubsidywatch.org)

<sup>6</sup> Good Jobs First, "Wal-mart Subsidy Watch" database [www.Wal-Martsubsidywatch.org](http://www.Wal-Martsubsidywatch.org)

<sup>7</sup> Wal-Mart's Expansion Aided by Many Taxpayer Subsidies, Barnaby J. Feder, The New York Times, May 24, 2004.

<sup>8</sup> Website: <http://www.Wal-Martnyc.com/whats-at-stake/>

<sup>9</sup> <http://wakeupWal-Mart.com/feature/healthcrisis/map.html#NY>