File No. 120829 Committee Item No. 1
Board Item No. _____

COMMITTEE/BOARD OF SUPERVISORS

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Completed by: Alisa Miller **Date** September 13, 2012
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CITY AND COUNTY OF SAN FRANCISCO
BOARD OF SUPERVISORS
BUDGET AND LEGISLATIVE ANALYST

1390 Market Street, Suite 1150, San Francisco, CA 94102
(415) 552-9292 FAX (415) 252-0461

LEGISLATIVE ANALYST REPORT

To: **Supervisor Mar**
From: **Budget and Legislative Analyst**
Date: **July 25, 2012**
Re: **Possible Impacts of Formula Retail on Fresh Food Businesses (Project 110150.1)**

SUMMARY OF REQUESTED ACTION

Pursuant to your request, the Budget and Legislative Analyst has analyzed the possible impact on local businesses of a large formula retail store[1] selling fresh food opening in the City. Specifically, you requested that this analysis address: 1) labor standards and prices among different segments of the retail grocery industry; and, 2) the impact of a fresh food formula retail business that controls 20 percent or more of market share on: a) small businesses and jobs; b) total square footage of fresh food retail space; c) supportive industries; d) cost of fresh produce available; and, e) health impacts on consumers and workers. You requested that similar studies conducted in other cities be reviewed and applied to this analysis, as appropriate, and that the results be presented by Supervisorial District, if possible.

EXECUTIVE SUMMARY

- Regarding variations in labor standards among the different segments of the fresh food industry, San Francisco has three labor laws with which all employers within San Francisco must comply: (a) the Health Care Security Ordinance, (b) the Paid Sick Leave Ordinance, and (c) the Minimum Wage Ordinance. These three laws would apply to any formula retail stores which are presently open or any new formula retail stores which may open.

- According to data provided by the San Francisco Department of Public Health (DPH), there are currently a total of 1,144 retail establishments that sell fresh food in the City. Retail food establishments comprise several different types of enterprises, including grocery stores, formula retail drug stores, small convenience stores and food specialty stores. The majority of establishments are small businesses, with 5,000 square feet or less and 1-4 employees each. A review of the retail food establishments by Supervisorial

[1] According to Planning Code Section 703.3(b), formula retail is defined as a type of retail sales activity or retail sales establishment, operating eleven or more retail sales establishments located in the United states, and which maintains two or more of the following characteristics: (a) a standardized array of merchandise in which 50 percent or more of in-stock merchandise is from a single distributor bearing uniform markings; (b) a standardized face or front of a building; (c) a standardized décor and color scheme; (d) a standardized uniform; (e) a standardized business sign; (f) a trademark which distinguishes the source of goods from one party from those of others; or, (g) a servicemark which distinguishes the source of a service from those of others.

District shows that Districts 3 and 6 have the largest number of small retail fresh food establishments in the City.

- In San Francisco, the approximately 8,298 employees who work in retail food establishments likely to carry fresh food have average annual wages varying between $16,476 at convenience stores to $29,178 at supermarkets and other grocery stores.

- Of the 1,144 reported retail food establishments currently operating in San Francisco, 952 are classified by the Budget and Legislative Analyst, using Planning Code definitions, as non-formula retail establishments with the other 192 classified as formula retail establishments. The 952 non-formula retail food establishments are primarily small operations, with an average of 3,007 square feet each. Larger retail food establishments, which have in excess of 10,000 square feet, are largely formula retail businesses.

- The Budget and Legislative Analyst's report and conclusions on the potential impact of the opening of a large formula retail store of at least 80,000 square feet in the City on the City's current retail food establishment infrastructure relies on methods initially employed by two previous studies. The first study, completed in December, 2009, assessed a new Walmart's impact on local businesses after its opening in the City of Chicago[2]. The second study[3], published in November 2011, assessed the impact on smaller non-formula retailers selling fresh food within a one-mile radius of a proposed Walmart site in New York City's Harlem district, using methodologies developed by the 2009 Chicago study.

- The Budget and Legislative Analyst cautions that the methods employed in this analysis replicate two previous studies that analyzed the impact of Walmart stores only. However, our report is not analyzing Walmart exclusively but is instead considering the impact of any large formula retail fresh food store opening within San Francisco. Given the varying marketing and pricing structures of different formula retail entities, the economic impact of a formula retail store other than Walmart may vary from the conclusions drawn in this report.

- The available data has limitations, including a lack of specificity on inventory at the existing retail food establishments (whether fresh food is sold). In addition, given the absence of a specific store site for this analysis, the resulting estimated reductions in square footage of existing small retail food establishments could not be geographically pinpointed and price and health impacts on consumers and employees could not be determined with available data. The estimated reduction in existing small retail food establishment square footage was determined for the City in aggregate. However, given the City's relatively small size (approximately seven miles by seven miles), the Budget

[2] "The Impact of an Urban Wal-Mart Store on Area Businesses: An Evaluation of One Chicago Neighborhood's Experience" by Julie Davis, David Merriman, Lucia Samayoa, Brian Flanagan, Ron Baiman, and Joe Persky, December 2009.

[3] "Food For Thought: A Case Study of Walmart's Impact on Harlem's Healthy Food Retail Landscape", Office of the Manhattan Borough President, Scott M. Stringer, November, 2011.

and Legislative Analyst concludes, based on the results of previous studies on this topic in Chicago and New York, that some impact would be felt in most areas of the City should a large formula retail store open anywhere within the City's geographic boundaries.

- Using the calculation of square footage reduction employed in the Chicago and New York studies, if a large formula retail store opened in a central location in San Francisco, an estimated 195 small non-formula retail food establishments, averaging 2,500 square feet each, would be closed after one year of the opening of a new large formula retail food establishment. The closing of an estimated 195 small non-formula retail food establishments would result in the estimated reduction of between 195 and 780 jobs in the first year after the new large formula retail food establishment's opening. Two years after the opening of a large formula retail food establishment, the cumulative impact would be the closure of an estimated 321 small non-formula retail food establishments of 2,500 square feet each, representing an estimated reduction of between 321 and 1,284 jobs. The Budget and Legislative Analyst did not estimate the number of new jobs that would be created if a large formula retail food establishment opened in the City or how many of those jobs would likely be filled by employees of the current smaller establishments.

- As a policy option for consideration, the Board of Supervisors could amend the City's Planning Code to require an assessment by the Planning Department or the Controller's Office of Economic Analysis of the economic impact of large formula retail establishments locating in the City, as part of the criteria by which retail formula uses are considered in the discretionary review process. Currently, the review criteria specified in the Planning Code requires consideration of the following factors for proposed formula retail uses in Neighborhood Commercial Districts: existing concentration of formula retail uses; availability of other similar retail uses; compatibility with existing architectural and aesthetic character; retail vacancy rates; and, the existing mix of Citywide-serving retail uses and neighborhood-serving uses.

SAN FRANCISCO LABOR AND EMPLOYEE HEALTH STANDARDS

Pursuant to your request regarding data on labor standards among different segments of the grocery industry, below is a summary of San Francisco labor and employee health standards. The labor standards which currently exist in the City would likely help shield employees from potential wage and health care impacts if a new formula retailer with relatively lower wage and health care coverage were to locate in San Francisco. San Francisco has three labor laws which apply to all employers performing work within San Francisco: (a) the Health Care Security Ordinance, (b) the Paid Sick Leave Ordinance, and (c) the Minimum Wage Ordinance. These three laws also apply to any formula retail store in business within the City or any new establishments that may open.

The Health Care Security Ordinance[4] mandates that all for-profit employers[5,6] which average 20 or more employees during a quarter must spend a minimum amount of money each quarter on their employees' health care by whatever avenue the employer chooses, including by providing private health insurance or through participation in the City's Healthy San Francisco program. These mandated expenditures vary by the size of the employer, with small employers of less than 20 employees exempt from the ordinance. As shown in Table 1 below, large employers (100 or more employees) are required to contribute $2.20 for every hour of work per employee and medium employers (20-99 employers) are required to contribute $1.46 for every hour of work per employee.

Table 1: Health Care Security Ordinance Expenditure Rates from 2010-2012

Business Size	2010	2011	2012
Large (100+ employees)	$1.96 per hour	$2.06 per hour	$2.20 per hour
Medium (20-99 employees)	$1.17 per hour	$1.37 per hour	$1.46 per hour
Small (1-19 employees)	Employers with less than 20 employees are exempt from the Health Care Security Ordinance.		

Source: Office of Labor Standards Enforcement

The Minimum Wage Ordinance[7] requires that all employees who work in San Francisco more than two hours per week, including part-time and temporary employees, are entitled to receive the San Francisco minimum wage. The City adjusts the minimum wage annually based on increases in the regional Consumer Price Index (CPI). As shown in Table 2, below, the current minimum wage in San Francisco is $10.24 per hour.

Table 2: San Francisco Minimum Wage Hourly Rates From 2010-2012

Year	Minimum Wage Hourly Rate
2010	$9.79 per hour
2011	$9.92 per hour
2012	$10.24 per hour

Source: Office of Labor Standards Enforcement

The Paid Sick Leave Ordinance[8] requires that all employees who work in the City are entitled to paid time off from work when they are sick or in need of medical care, and to take care of family members or significant others when sick or in need of medical care. For every 30 hours worked, an employee accrues one hour of paid sick leave. Paid sick leave began to accrue on February 5,

[4] San Francisco Administrative Code, Chapter 14.
[5] Employers located in federal enclaves such as the Presidio, Fort Mason and the entire Golden Gate National Recreation Area are exempt from the Health Care Security Ordinance.
[6] Non-profit organizations with fewer than fifty employees are exempt from the Health Care Security Ordinance.
[7] San Francisco Administrative Code Chapter 12R.
[8] San Francisco Administrative Code Chapter 12W.

2007 for employees working for an employer on or before that date. For employees hired after February 5, 2007, paid sick leave begins to accrue 90 calendar days after commencement of employment. Accrued paid sick leave carries over from year to year. As shown in Table 3 below, the maximum number of hours of paid sick leave an employee may accrue varies by size of the business which employs them.

Table 3: San Francisco Paid Sick Leave Accrual Limits

Business Size	Maximum Number of Hours of Accrued Paid Sick Leave Allowed
Employers with 10 or more employees	72
Employers with less than 10 employees	40

Source: Office of Labor Standards Enforcement

SAN FRANCISCO RETAIL FOOD ESTABLISHMENTS

According to data provided by the San Francisco Department of Public Health (DPH)[9], there are currently a total of 1,144 retail establishments that sell fresh food in the City. This excludes establishments that prepare food for consumption on premises such as restaurants and cafes but includes formula retail[10] and independent grocery stores and drug stores, small convenience stores (both chain stores and single establishment businesses) and food specialty stores such as meat and fish markets. Grocery stores and liquor stores that sell prepared food are included in this count.

These retail food establishments are categorized by DPH according to the individual establishment's square footage and whether or not food is prepared on site. For this analysis, the Budget and Legislative Analyst retained DPH's stratification by square footage but did not distinguish establishments based on whether or not food was prepared on site.

While this report is focused on retail establishments that carry fresh food (e.g., fruits and vegetables), given the data limitations and lack of available data on each establishment's specific inventory, there may be some establishments included within this data source that don't actually carry fresh food or some establishments excluded that do sell fresh food. Table 4 below summarizes these retail establishments by square footage using data obtained from the Department of Elections to simultaneously categorize retail food establishments' locations by Supervisorial District.

[9] The data provided by DPH was extracted from DPH's Environmental Health database which tracks and manages activities related to environmental health. Activities tracked in the Environmental Health database include housing, tattoo parlors, and food establishment reporting and violations. DPH's Retail Food Safety Program monitors compliance of local and state food safety regulations in restaurants, food markets, and other retail food operations.

[10] According to Planning Code Section 703.3(b), formula retail is defined as a type of retail sales activity or retail sales establishment with eleven or more retail sales establishments located in the United states, which maintains two or more of the following characteristics: (a) a standardized array of merchandise in which 50 percent or more of in-stock merchandise is from a single distributor bearing uniform markings; (b) a standardized face or front of a building; (c) a standardized décor and color scheme; (d) a standardized uniform; (e) a standardized business sign; (f) a trademark which distinguishes the source of goods from one party from those of others; or, (g) a servicemark which distinguishes the source of a service from those of others.

Though there are some variations between Supervisorial Districts, Table 4 shows a fairly similar mix of retail fresh food establishments in each District. The majority of establishments are small businesses, with 5,000 or fewer square feet. Districts 3 and 6 have the largest number of small retail fresh food establishments of that size. All Supervisorial Districts have a mix of establishments greater than 5,000 square feet, including at least one large establishment of 20,000 square feet or more in each District. The greatest concentration of these larger establishments is in District 6. Only 31 retail food establishments in the City are larger than 20,000 square feet.

Table 4: San Francisco Retail Fresh Food Establishments by Size and Supervisorial District, 2012

Supervisorial District	Less than 5,000 square feet	5,001 to 10,000 square feet	10,001 to 20,000 square feet	Greater than 20,000 square feet	Total
1	78	2	3	2	85
2	53	4	2	3	62
3	291	7	12	4	314
4	43	4	1	1	49
5	77	8	5	3	93
6	175	9	13	9	206
7	39	4	5	4	52
8	47	7	1	2	57
9	84	8	5	1	98
10	61	4	4	1	70
11	50	3	4	1	58
	998	60	55	31	1,144

Source: Department of Public Health and Department of Elections

SAN FRANCISCO FORMULA RETAIL FRESH FOOD ESTABLISHMENTS

Table 5 below summarizes just formula retail fresh food establishments located within the City, a subset of the retail fresh food establishments summarized above in Table 4. Similar to the larger retail fresh food establishment data described above in aggregate, there is a mix of all sized establishments in most Supervisorial Districts. Mirroring the pattern for all retail food establishments in the City, the majority of formula retail establishments are 5,000 square feet or less, and the greatest number of establishments are found in Supervisorial Districts 3 and 6.

The data in Table 5 also shows that formula retail establishments comprise only 16.8 percent of all retail food establishments in the City. However, the distribution of formula retail establishments by size shows that the majority of the larger establishments (those greater than

10,000 square feet) are formula retail whereas most of the smaller establishments (those up to 10,000 square feet) are not formula retail.

Table 5: San Francisco Formula Retail Fresh Food Establishments by Size and Supervisorial District, 2012

Supervisorial District	Less than 5,000 square feet	5,001 to 10,000 square feet	10,001 to 20,000 square feet	Greater than 20,000 square feet	Total
1	7	2	2	2	13
2	12	4	2	2	20
3	18	1	12	4	35
4	4	2	0	1	7
5	5	4	1	3	13
6	27	6	10	5	48
7	12	2	4	3	21
8	3	4	1	2	10
9	4	3	2	1	10
10	5	0	4	1	10
11	2	0	2	1	5
Total Formula	99	28	40	25	192
Total All	998	60	55	31	1,144
% Formula	9.9%	46.7%	72.7%	80.7%	16.8%

Source: Department of Public Health and Department of Elections

SAN FRANCISCO RETAIL FOOD ESTABLISHMENT EMPLOYMENT

The City's retail food establishments can be broken up into several categories. Since employment data for just San Francisco was not available through a City department source or federal statistics[11], data was obtained from the California Employment Development Department (EDD) to provide an overall profile of the labor market for retail food establishments which carry fresh food within the City. In order to best approximate employment in retail establishments that carry fresh food, the Budget and Legislative Analyst chose the following industry categories available through EDD that are assumed to be most likely to carry fresh food:

[11] The Federal Bureau of Labor Statistics does report number of jobs by classification and industry but for the San Francisco region only and not just for the City and County of San Francisco. On that basis, the Budget and Legislative Analyst chose to use California Employment Development Department (EDD) data, which does report jobs by industry for the City and County of San Francisco. EDD wages are aggregated by industry segment and do not distinguish between individual job classifications within the segment.

1) Supermarkets and grocery stores; 2) Convenience stores; 3) Specialty food stores; and, 4) Fruit and vegetable markets.

According to the California Employment Development Department, there were 39,969 employees in 2010 (the most recent year for which this data is available) who worked in retail establishments in the City. Of those 39,969 employees, as shown in Table 6 below, 8,298 employees, or 20.8 percent of all retail establishment employees in the City, worked in retail establishments likely to carry fresh food. The average annual wages for those employees ranged from $16,476 at convenience stores to $29,178 at supermarkets and other grocery stores. While number of hours worked and average hourly wage by industry was not available by type of establishment from EDD, the State agency reports that the median hourly rate of salespersons in all types of retail businesses in the City was $11.71 per hour in 2011 and the median hourly rate of cashiers in all types of retail businesses in 2011 was $11.30 per hour. Both hourly rates are over $1 per hour above the current minimum wage of $10.24 per hour.

Table 6: Average Number of Employees and Average Annual Wages, San Francisco Retail Food Establishments, 2010

Industry Segment	Average Employment	Total Wages	Average Annual Wages
Supermarkets and Other Grocery (except Convenience) Stores	6,484	$189,189,241	$29,178
Convenience Stores	217	3,575,192	16,476
Specialty Food Stores	1,347	34,354,290	25,171
Fruit and Vegetable Markets	250	5,843,688	$23,375
Total	**8,298**	**$232,962,411**	

Source: State of California Employment Development Department

RETAIL FOOD ESTABLISHMENTS' PAYROLL TAX PAYMENTS

To gauge the size of San Francisco's retail food industry, and since sales tax data for these establishments is not readily available, the Budget and Legislative Analyst requested payroll tax payment data from the Treasurer and Tax Collector for the retail food establishment businesses identified in the DPH database. Table 7 below summarizes the Treasurer and Tax Collector's Office's payroll tax data collected from retail food establishments identified in the data set obtained from DPH. While there are a number of limitations to the Treasurer and Tax Collector's Office's data, as discussed below, the available information shows that the majority of retail food establishments in San Francisco for which data were available from the Treasurer and Tax

Collector's Office have annual payrolls of between $67 and $666,666[12], or can be classified as small businesses.

It should be noted that the Treasurer and Tax Collector's Office data does not provide a full picture of the retail food industry in San Francisco as the Treasurer and Tax Collector's Office was not able to obtain data for 570, or nearly half, of the retail food establishments identified in the DPH database because the Treasurer and Tax Collector's Office was not able to find matching business license names in their database. The Treasurer and Tax Collector's Office has indicated that, based on their review, it is likely that these 570 retail food establishments have less than $666,666 in annual payroll expenses and therefore have a payroll tax liability which ranges from $1 to $10,000. However, since that represents an undocumented assumption by the Treasurer and Tax Collector's Office, the Budget and Legislative Analyst did not include those 570 businesses in the summary statistics presented in Table 7. The Budget and Legislative Analyst also notes that only 986 out of the 1,144 retail food establishments identified in the DPH database are included in Table 7 because 149 of those locations are chain stores and therefore are only registered once with the Treasurer and Tax Collector's Office. In addition, nine retail food establishments were excluded by the Treasurer and Tax Collector's Office in order to preserve taxpayer confidentiality.

Table 7: 2012 Payroll Tax Expenses for Retail Food Establishments in San Francisco

Annual Payroll Expense [1]	Annual Payroll Expense Tax Liability	Less than 5,000 square feet	5,001 to 10,000 square feet	10,001 to 20,000 square feet	Greater than 20,001 square feet	Total
Less than $67	Greater than $1	95	7	3		**105**
$67 to $666,666	$1 to $10,000	231	14	3	2	**250**
$666,667 to $3,333,333	$10,000 to $50,000	25	7	2	3	**37**
$3,333,334 and up	$50,000 and up	10	2	2	5	**19**
None	None	5				**5**
Not Found [2]		570				**570**
Total		**936**	**30**	**10**	**10**	**986**

Source: Treasurer and Tax Collector's Office using Department of Public Health retail food establishment database.

[1] Payroll tax liability is determined by where a company's annual payroll expense falls within ranges shown in Table 7, established by the Treasurer and Tax Collector.

[2] No match was found for these establishments using business names in the DPH database.

[12] Payroll tax liability is determined by where a company's annual payroll expense falls within ranges established by the Treasurer-Tax Collector; $67 – 666,666 is one of four such ranges.

EFFECT OF A NEW FORMULA RETAIL STORE ON EXISTING FRESH FOOD RETAIL ESTABLISHMENTS

The Budget and Legislative Analyst's conclusions on the potential impact of large formula retail stores on the current retail food establishment infrastructure rely on methods employed by a previous study[13], completed in December, 2009, which assessed the impact on local businesses of a new Walmart Supercenter[14] opening in the city of Chicago in 2006. The Chicago study results were based on a series of three surveys of local retail businesses within a four-mile radius of the Walmart store in 2006 (prior to the Walmart store opening), 2007, and 2008 to assess the impacts of the Walmart on those local businesses. As seen in Table 8 below, the authors found that 25 percent of local retail businesses in the immediate vicinity of the Walmart store closed in the first year that the Walmart was open, with that percent decreasing by four percent for every one-mile increment from the store location. In the second year, local businesses had a 40 percent chance of closing, with that chance decreasing by six percent for every one-mile increment from the store.

Table 8: Percentage of Local Businesses that Closed in Chicago after a Walmart Store Opening as Reported in a 2009 Study

Distance From Walmart	One Year after Walmart Opening	Two Years Cumulative after Walmart Opening
< 1 mile	25%	40%
1 mile	21%	34%
2 miles	17%	28%
3 miles	13%	22%
4 miles	9%	16%

Source: "The Impact of an Urban Wal-Mart Store on Area Businesses: An Evaluation of One Chicago Neighborhood's Experience" by Julie Davis, David Merriman, Lucia Samayoa, Brian Flanagan, Ron Baiman, and Joe Persky, December 2009.

This Budget and Legislative Analyst's report also relies on a second study,[15] completed in November, 2011, that assessed the potential impact on only smaller, non-formula food retail businesses within a one-mile radius of one of Walmart's larger stores[16] opening at a specific site in the Harlem neighborhood of New York City. That study used the methodologies developed by the 2009 Chicago study and applied the less than one mile distance closures to the area surrounding the potential Walmart store site to calculate the potential square footage loss of only non-formula retail fresh food businesses if a Walmart opened at that specific Harlem site.

[13] "The Impact of an Urban Wal-Mart Store on Area Businesses: An Evaluation of One Chicago Neighborhood's Experience" by Julie Davis, David Merriman, Lucia Samayoa, Brian Flanagan, Ron Baiman, and Joe Persky, December 2009.

[14] According to Walmart's website, a Walmart Supercenter averages 185,000 square feet in size. See: http://www.walmartstores.com/AboutUs/7606.aspx

[15] "Food For Thought: A Case Study of Walmart's Impact on Harlem's Healthy Food Retail Landscape", Office of the Manhattan Borough President, Scott M. Stringer, November, 2011.

[16] The Harlem study assumed that the Walmart store would be similar to other Walmart stores opening in other urban areas, or between 80,000 and 120,000 square feet.

Your request of the Budget and Legislative Analyst for this analysis included an assessment of the impact on small, locally owned business retailers of the opening of a large fresh food formula retail business in San Francisco that controls 20 percent or more of the market share. To address this request, the Budget and Legislative Analyst replicated elements of the two studies cited above, using the Chicago study's midpoint probabilities, shown in Table 8 above, of business establishment reductions and applying those to non-formula retail food establishment square footage in San Francisco, assuming a large formula retail food establishment opened at a central location in San Francisco. The New York City study's probability for square foot reductions of non-formula retail food establishments was used to determine the impact on each Supervisorial District of a large formula retail food establishment opening in that District[17]. The data being utilized to determine the square footage loss is the DPH data previously described, with all formula retail businesses removed, assuming they are not locally owned.

Chief limitations of this approach are that the DPH data lacks specificity on inventory at some establishments (whether fresh food is definitely sold) and the analysis was conducted without a specific site for the hypothetical new formula retail establishment so the square footage loss could not be geographically pinpointed. However, to estimate the aggregate Citywide impact, a centralized City location was assumed for this analysis, which allowed for estimating all impacts within the boundaries of San Francisco. If a new formula retail store were located near the San Mateo County border, some of the impacts assumed for San Francisco would instead be experienced in San Mateo County. Given the City's relatively small size (approximately seven miles by seven miles), the Budget and Legislative Analyst concludes that some impact would be felt in most areas of the City should a large formula retail store open within its geographic boundaries. However, no substantiated probabilities beyond a four-mile radius have been established by other studies previously done and therefore no conclusions have been made beyond that distance in this report.

The Budget and Legislative Analyst also notes that formula retail stores selling fresh food can vary in size. While the largest formatted stores can average from 174,000[18] square feet to 185,000 square feet or more[19], there is a current trend emerging among formula retailers to construct significantly smaller new formula retail stores in urban centers. For example, Walmart's smallest store, which is currently being tested in Northwest Arkansas, averages 15,000 square feet and its second smallest store, with approximately 199 stores of this size nationwide, averages 80,000 square feet. A 33,000 Walmart store is also currently under construction in the Chinatown neighborhood of Los Angeles. For the purposes of this report, the Budget and Legislative Analyst assumed a large formatted store of at least 80,000 square feet, equivalent to the size of the formula retail stores which were the basis of the previous two studies conducted.

[17] The Budget and Legislative Analyst notes that this analysis is not being done to determine the impact of Walmart specifically but of large formula retail stores generally. However, the methods employed were Walmart-specific because Walmart is one of the largest formula retail stores in the United States and has been studied extensively.

[18] According to Target's website, its largest size SuperTarget store averages 174,000 square feet. See: http://pressroom.target.com/pr/news/fastfacts.aspx

[19] A Walmart Supercenter, Walmart's largest store, averages 185,000 square feet in size. See: http://www.walmartstores.com/AboutUs/7606.aspx

The Budget and Legislative Analyst cautions that the methods employed in this analysis were previously used to analyze the impact of Walmart stores only in two other cities. However, this report is not analyzing Walmart exclusively but is instead looking at the impact of one or more large formula retail stores opening within San Francisco. Given the varying marketing, pricing structures and labor standards and practices of different formula retail entities, the economic impact of a formula retail store other than Walmart may vary from the conclusions drawn in this report. Further, gross job losses were estimated but offsetting new jobs that would be created by the large formula retailer were not prepared as part of this analysis.

RESULTS OF ANALYSIS

All formula retail food establishments currently located within the City were removed from the DPH database in order to isolate the impacts of a large formula fresh food retailer locating in San Francisco on locally owned, non-formula retail food establishments. As shown in Table 9 below, 952 retail food establishments are estimated to exist within the City after removing the 192 formula retail establishments from the DPH database, leaving only six retail food markets in the City over 20,000 square feet.

Table 9: Non-Formula Retail Food Establishments in San Francisco

Supervisorial District	Less than 5,000 square feet	5,001 to 10,000 square feet	10,001 to 20,000 square feet	Greater than 20,000 square feet	Total
1	71	0	1	0	72
2	41	0	0	1	42
3	273	6	0	0	279
4	39	2	1	0	42
5	72	4	4	0	80
6	148	3	3	4	158
7	27	2	1	1	31
8	44	3	0	0	47
9	80	5	3	0	88
10	56	4	0	0	60
11	48	3	2	0	53
Total	**899**	**32**	**15**	**6**	**952**

Source: Department of Public Health

The total square footage estimated from the 952 non-formula retail food markets included in the analysis is 2,862,500 square feet. Given the lack of precise data for square footage for individual establishments in the DPH and other available databases, the total square footage for each establishment was calculated by taking the mid-point for each range of square feet, as categorized by the data from DPH, and applying that midpoint to each retail food market located within that range. The square footage estimates were then summed, resulting in the total of

2,862,500 square feet. Due to the necessity of estimating the square footage, the Budget and Legislative Analyst cautions that the following calculation of potential square footage reduction due to the introduction of a large formula retail store into the retail food market and the other calculations made based on that result are imprecise and may not reflect the actual potential reduction in square footage. In addition, the lack of a specific site for the new store makes applying the square foot reduction to the available data an approximation which would require more detailed analysis after a specific site is selected to determine more precise potential impacts.

The Chicago study identified reductions in retail establishments within a four mile radius of a new Walmart, with a lower percentage of reduction identified for each one mile increment. Since data on the distances between retail food establishments and the hypothetical new large formula retail food establishment(s) assumed for this analysis are not readily available, the Budget and Legislative Analyst applied the midpoint percentage reduction in retail square footage found in the Chicago study to determine estimated aggregate reductions in non-formula retail food establishments in San Francisco. As shown in Table 8 above, the midpoint reductions in the Chicago study are 17 percent within one year after Walmart's opening and an additional 11 percent the second year, for a cumulative two year reduction of 28 percent of existing retail establishments that were more than 1 mile but less than two miles from the new store.

The estimated impact in District 6 the first year after the opening of a large formula retailer would be a 17 percent reduction of 91,375 square feet of fresh food retail space, equivalent to 37 retail establishments of 2,500 square feet each, and representing between 37 and 148 jobs[20]. The aggregate 17 percent first year impact in all other Supervisorial Districts would be a reduction of 395,250 square feet of fresh food retail space, equivalent to 158 retail food establishments of 2,500 square feet each, and a potential loss of between 158 – 632 jobs.[21] Altogether, this would represent a reduction of 195 2,500 square feet establishments and a gross loss of between 195 – 780 jobs. Consistent with the approach in the Chicago and New York studies, the second year impact would be an 11 percent reduction, or 6 percent less than the first year impact. Table 10 summarizes the impact for both years.

[20] According to EDD, the majority of retail establishments in the data provided by DPH have between 1-4 employees. Therefore, the closing of 301 retail food establishments could potentially result in the loss of between 301 and 1,204 jobs.

[21] The total square footage of retail food establishments in the rest of the City, after subtracting District 6's square footage, is 2,325,000 square feet. The square footage loss was calculated by using the midpoint percentage loss documented in the Chicago study to arrive at an approximate City-wide loss of 17 percent in the first year and 9 percent in the second year, for a cumulative loss of 28 percent in retail food establishment square footage.

Table 10: Estimated Citywide Impact of a Formula Retail Store Opening in a Central Location in District 6 in San Francisco[18]

	Establishments Closed	Gross Job Loss
First Year		
Impact within district of new store	37	37-148
Impact; rest of City	158	158-632
Total: First Year	195	195-780
Second Year		
Impact within district of new store	24	24-96
Impact; rest of City	102	102-408
Total: Second Year	126	126-504
Total: First and Second Year	321	321-1,284

IMPACTS OF NEW LARGE FORMULA RETAIL STORE ON INDIVIDUAL SUPERVISORIAL DISTRICTS

Table 11 below details the potential retail food establishment closures and job losses, by Supervisorial District, resulting from a new large formula retail store selling fresh food locating in each District one year after the new store's opening. It was assumed for this analysis that the location of the new store in each District would be such that it would have the maximum impact on existing businesses (a 25 percent reduction in the first year after the new store opens).

As shown in Table 11 below, District 3, which currently houses the greatest number of retail food establishments, would be likely to suffer the greatest retail food establishment and job loss should a large formula retail store open within its boundaries, with the potential closing of 73 2,500 square foot retail food markets and 73 - 292 potential gross job losses. Although there are likely few retail spaces within District 3 sufficiently large to accommodate the opening of a large formula retail store, such a store could be located in an adjacent district and still affect many of the District 3 retail establishments. These potential losses are therefore hypothetical and unlikely to result in the exact job loss predicted above. The second largest potential job loss would be in District 6,[22] which is more likely to be able to accommodate a large formula retail store within its borders. The third large potential job loss would be felt in District 9.

[22] A central location for the hypothetical new formula retail store was assumed for District 6, which comprises part of the Union Square, the Tenderloin, Civic Center, Mid-Market, Cathedral Hill, South of Market, South Beach, Mission Bay, North Mission, Treasure Island, Yerba Buena Island, Alcatraz, and part of Hayes Valley neighborhoods.

Table 11: Estimated First Year Impacts on Non-formula Retail Food Establishments in each Supervisorial District of a Large Formula Retail Store Locating in that District

Supervisorial District Location of New Store	Current Non-formula Retail Food Establishment Square Footage	Estimated Square Footage Reduction within One Year after Opening	Current Number of Non-formula Retail Food Establishments	Estimated Number of Non-formula Retail Food Establishments that would Close within One Year after Opening	Potential Number of Jobs Lost within One Year of New Store Opening
1	192,500	48,125	72	19	19-76
2	127,500	31,875	42	13	13-52
3	727,500	181,875	279	73	73-292
4	127,500	31,875	42	13	13-52
5	270,000	67,500	80	27	27-108
6	537,500	134,375	158	54	54-216
7	122,500	30,625	31	12	12-48
8	132,500	33,125	47	13	13-52
9	282,500	70,625	88	28	28-112
10	170,000	42,500	60	17	17-68
11	172,500	43,125	53	17	17-68

Source: Budget and Legislative Analyst
Note: The estimates for each Supervisorial District should be viewed independent of the estimated impacts on other Districts and not aggregated since each District estimate assumes the location of a large formula retailer in that District. The impact on other Districts could be less than the amounts in Table 12 above depending on the distance the new large formula retail establishment is located from other Districts. For the estimated aggregate Citywide impact of a hypothetical large formula retail food establishment assumed to be located centrally in Supervisorial District 6, see the results in Table 10.

Table 12 below details the total potential cumulative retail food market closures and gross job losses two years after one or more large formula retail stores open in any given Supervisorial District within the City.

If a large formula retailer were to locate in the City, the impacts would vary depending on the specific location but would continue to be greater than the amounts shown in Tables 11 and 12, assuming the impact methods used in the Chicago and Harlem studies cited above.

The retail food establishment closures and resulting job losses predicted in the scenarios presented in Tables 10-12 are clearly significant. However, the Budget and Legislative Analyst notes that the job losses would likely be at least partially offset by the formula retail store's hiring employees in the new store(s) being opened in the City. These new hires may or may not be the same individuals as those currently employed in retail food establishments. Differences in wages and benefits between current retail food establishments and a large formula retail store were not available or analyzed for this report and would vary depending on which specific large formula retail establishment actually located in San Francisco.

Table 12: Estimated Cumulative Second Year Impacts on Non-formula Retail Food Establishments in each Supervisorial District of a Large Formula Retail Store Locating in that District

Supervisorial District	Current Retail Food Establishment Square Footage	Estimated Square Footage Reduction Two Years after Opening	Current Number of Non-formula Retail Food Establishments	Estimated Number of Retail Food Establishments that would Close Two Years after Opening	Potential Number of Jobs Lost After Two Years of New Store Opening
1	192,500	77,000	72	31	31-124
2	127,500	51,000	42	20	20-80
3	727,500	291,000	279	116	116-464
4	127,500	51,000	42	20	20-80
5	270,000	108,000	80	43	43-172
6	537,500	215,000	158	86	86-344
7	122,500	49,000	31	20	20-80
8	132,500	53,000	47	21	21-84
9	282,500	113,000	88	45	45-180
10	170,000	68,000	60	27	27-108
11	172,500	69,000	53	28	28-112

Source: Budget and Legislative Analyst

Note: The estimates for each Supervisorial District should be viewed independent of the estimated impacts on other Districts and not aggregated since each District estimate assumes the location of a large formula retailer in that District. The impact on other Districts could be less than the amounts in Table 12 above depending on the distance the new large formula retail establishment is located from other Districts. For the estimated aggregate Citywide impact of a hypothetical large formula retail food establishment assumed to be located centrally in Supervisorial District 6, see the results in Table 10.

Many small retail food establishments in the City are owner operated and therefore the store closure would be highly impactful for those owners because the store closure would have broader implications than merely the need to seek a job elsewhere. The Budget and Legislative Analyst also cautions that the data used to calculate the potential job loss has limitations and a more detailed and thorough analysis of the potential jobs impact is necessary to determine a more precise estimate.

The fresh produce distributors[23] for retail food establishments in the City would also likely experience a drop in sales if the scenario in Table 11 and 12 were to take place. It's not clear exactly where the formula retail store would be sourcing its produce or, if it were to open its own distribution center, where its distribution center would be located but large formula retail centers,

[23] The major fresh produce distribution hub in the City is San Francisco Wholesale Produce Market. San Francisco Wholesale Produce Market houses several fresh produce distributors of different sizes and inventories. No data on the amount of sales which are made through San Francisco Wholesale Produce Market was available at the time of the writing of this report.

such as Walmart, typically utilize their own sourcing chains. Therefore, any large increase of formula retail stores that carry fresh food replacing the existing web of retail food establishments currently located in the City would likely result in decreased reliance on existing distribution infrastructure and therefore could result in distribution closures and/or job loss within that infrastructure.

POLICY OPTION

The definition and location of formula retail establishments in San Francisco is governed largely by the City's Planning Code. The Planning Code controls formula retail business locations in one of three ways: 1) prohibiting them entirely in certain commercial areas; 2) requiring conditional use authorization in all other commercial areas; and, 3) subjecting all building permits for formula retail uses in neighborhood commercial districts to notification and design review procedures specified in the Planning Code. The Planning Code also requires that the Planning Commission adopt guidelines to use in considering discretionary review requests pertaining to formula retail uses. The guidelines are to include:

1. Existing concentrations of formula retail uses within the subject Neighborhood Commercial District.
2. Availability of other similar retail uses within the Neighborhood Commercial District.
3. Compatibility of the proposed formula retail use with the existing architectural and aesthetic character of the Neighborhood Commercial District.
4. Existing retail vacancy rates within the Neighborhood Commercial District.
5. Existing mix of Citywide-serving retail uses and neighborhood-serving retail uses within the Neighborhood Commercial District.

As can be seen, the guidelines, or project review criteria, do not presently include economic impacts of the proposed formula retail use such as those discussed in this report. Since this analysis was not based on an actual proposal to locate a large formula retail food establishment at a specific site in the City, but rather on the hypothetical location of such an establishment in a central location in Supervisorial District 6, the estimated impacts could vary if an establishment proposed locating elsewhere in the City. However, what is certain is that economic impacts would be felt.

A study[24], completed in March, 2012, conducted a detailed economic impact analysis of a Walmart store opening in South Seattle. An economic model was employed to determine shifts in consumption patterns, shifts in payroll value, and both direct and indirect effects of the Walmart opening in the South Seattle neighborhood. Such a study would be replicable within San Francisco if there were a specific potential store site and sufficient time to gather the necessary data to conduct the analysis. Therefore, a legislative option for the Board of Supervisors to consider is inclusion of economic analysis among the project review criteria used in considering new formula retail uses. Such analyses could be required if and when a formula retail store development is proposed in order to determine (a) the economic and fiscal impact of the formula retail development and (b) that a standard be developed to ensure that any proposed development not have an undue adverse impact, economic or otherwise, on the surrounding

[24] "The Economic Impact of a Walmart Store in the Skyway Neighborhood of South Seattle" by Christopher S. Fowler PhD of C.S. Fowler Consulting LLC, March 8, 2012.

community. Such analyses could potentially be conducted by, or on behalf of, the Planning Department, or possibly by the independent Office of Economic Analysis within the Controller's Office.

Print Form

Introduction Form

By a Member of the Board of Supervisors or the Mayor

Time stamp
or meeting date

I hereby submit the following item for introduction (select only one):

☐ 1. For reference to Committee: _____

An ordinance, resolution, motion, or charter amendment.

☐ 2. Request for next printed agenda without reference to Committee.

☒ 3. Request for hearing on a subject matter at Committee: Land Use and Economic Development

☐ 4. Request for letter beginning "Supervisor _____ inquires"

☐ 5. City Attorney request.

☐ 6. Call File No. _____ from Committee.

☐ 7. Budget Analyst request (attach written motion).

☐ 8. Substitute Legislation File No. _____

☐ 9. Request for Closed Session (attach written motion).

☐ 10. Board to Sit as A Committee of the Whole.

☐ 11. Question(s) submitted for Mayoral Appearance before the BOS on _____

Please check the appropriate boxes. The proposed legislation should be forwarded to the following:

☐ Small Business Commission ☐ Youth Commission ☐ Ethics Commission

☐ Planning Commission ☐ Building Inspection Commission

Note: For the Imperative Agenda (a resolution not on the printed agenda), use a different form.

Sponsor(s):

Mar Olague

Subject:

Hearing On The Budget and Legislative Analyst's Report On The Possible Impacts of Formula Retail On Fresh Food Businesses

The text is listed below or attached:

Signature of Sponsoring Supervisor: _____

For Clerk's Use Only:

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