

# **Shopping for Subsidies:**

## **How Wal-Mart Uses Taxpayer Money to Finance Its Never-Ending Growth**

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**with**  
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**May 2004**

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## **Executive Summary**

Over the past few decades, Wal-Mart Stores Inc. has grown from a regional discount store operator into the world's largest retailer. In fact, with annual revenues of \$256 billion, it is the world's largest corporation. It has more than 3,500 stores throughout the United States and another 1,600 abroad. Its profits last year were nearly \$9 billion.

What is not widely known is that this wealthy company's aggressive U.S. expansion has frequently been financed in part by taxpayers through economic development subsidies. This report, the first national study of the subject, documents more than \$1 billion in such subsidies from state and local governments to Wal-Mart; the actual total is certainly far higher, but the records are scattered in thousands of places and many subsidies are undisclosed.

The subsidies go not only to Wal-Mart's stores, but also to the network of nearly 100 distribution centers it has created to facilitate its rapid retail expansion. We found that more than 90 percent of the company's distribution centers have been subsidized.

Given the absence of any centralized information source on development subsidies, we began with the electronic archives of local newspapers to find cases of Wal-Mart stores that had received such assistance. We then contacted economic development officials in each area to confirm the facts and obtain additional details.

This method, which does not catch subsidy deals that failed to gain press coverage or those reported in papers whose archives are not available, brought to light 91 stores that have received public assistance. In total, these subsidies were worth about \$245 million to Wal-Mart and the developers of shopping centers in which a Wal-Mart store served as an anchor. Individual subsidy deals in those 91 stores ranged from less than \$1 million to about \$12 million, with an average of about \$2.8 million.

While it was not feasible to contact local officials in all 3,000-plus communities in which Wal-Mart's U.S. stores are located to find other subsidy deals, we did take this approach for all of the company's distribution centers that are in operation or are being developed. We found that 84 of the 91 centers have received subsidies totaling at least \$624 million. The deals, most of which involved a variety of subsidies, ranged as high as \$48 million, with an average of about \$7.4 million. As with the stores, a considerable amount of information on

the size of the subsidies is not available, so the real total is certainly much higher.

We supplemented the approaches described above with searches in a database covering the one type of subsidy—industrial revenue bonds—for which some centralized information is available. This enabled us to identify another 69 stores that received low-cost financing of approximately \$138 million. This brought the total number of subsidy deals we identified to 244. The total value of all the subsidies was \$1.008 billion.

The subsidies granted to Wal-Mart take many different forms, but the following are the most common:

*Free or reduced-price land.* Local officials can substantially reduce the cost of building new stores or distribution centers by providing land at no cost or at a reduced price. This type of subsidy, which is more common for Wal-Mart's distribution centers (some of which require more than 100 acres of land) than its stores, has been worth as much as \$10 million for a single project.

*Infrastructure assistance.* Apart from subsidizing land purchases, taxpayers may end up paying all or part of the costs necessary for making the land usable. This includes construction of access roads, water and sewer lines, and other forms of infrastructure. Many of the Wal-Mart stores on our list and a majority of the distribution centers have received infrastructure subsidies, ranging as high as \$22 million.

*Tax increment financing.* This is a popular way of subsidizing projects by diverting a portion of the increased property (and/or sales) tax expected to be generated by a new development. The "tax increment" may be transferred to the company as it is collected, or TIF bonds may be issued and then repaid with the revenue flow from the increment. In most cases, TIFs were originally intended to help revitalize blighted areas, but some states now have rules that are so loose that TIFs end up being used for projects involving big-box stores in newly-developing or even prosperous areas.

*Property tax breaks.* County and local governments frequently subsidize Wal-Mart projects by agreeing to forgo revenues that the company would be required to pay in property taxes. These abatements, which vary in percentages, often last for ten years. In numerous instances we found that Wal-Mart agreed to make a payment in lieu of taxes to make up for the portion of the revenue that would have gone to the school district. In some cases, Wal-Mart avoids property taxes

indefinitely by letting ownership of the facility remain with public authorities, thus making it tax-exempt.

*State corporate income tax credits.* This is one of the more common subsidies for larger projects, but it is also one of the most difficult to research. Apart from a handful of states that require disclosure of the credits, the only way to find out the extent to which a company uses the credits and how much they are worth is to see the firm's state income tax return, which, of course, is not a public document. In some cases, the value of the credits was estimated for us by state officials.

*Sales tax rebates.* Apart from relief a company may get from paying some of its own tax liabilities, this subsidy allows a retailer to retain some of the sales tax it collects from customers on behalf of local government.

*Enterprise zone (and other zone) status.* Enterprise zones are special economic districts in which governments seek to encourage investment by providing a variety of subsidies, such as property tax abatements, state tax credits, sales tax exemptions, reduced utility rates, low-interest financing and/or job training grants.

*Job training and worker recruitment funds.* To facilitate the hiring of new workers on projects receiving development subsidies, states may provide grants to help a company pay for recruitment of workers and for training. We found such grants in connection with 15 distribution center deals but none for stores. This is not surprising, given the low-skill nature of most retail work.

*Tax-exempt bond financing.* The Internal Revenue Code enables state and local governments to issue tax-exempt industrial revenue bonds (IRBs) in their name to help finance private activities such as certain forms of commercial development. The fact that the interest on the bonds is tax-exempt for investors means that it can carry a lower interest rate. In the 1980s Wal-Mart received low-cost IRB financing for several of its distribution centers and several dozen of its stores. Federal restrictions later limited the use of such bonds for retail outlets. In some cases, the bonds are issued and then purchased by Wal-Mart itself as part of an arrangement that lets the company avoid paying property taxes by placing ownership of the facility in the hands of a public entity. In those cases, which are identified in the deal profiles in Appendix B, we calculate the value of the subsidy as the property tax savings rather than the face value of the bonds.

*General grants.* In cases where specific subsidies such as property tax abatements may not be permissible or desirable, economic development officials can simply arrange for an outright grant of public money to the company. Virginia, for example, has provided grants to several Wal-Mart distribution centers from the Governor's Opportunity Fund.

It is not unusual for companies to receive state and local economic development subsidies in the United States. Public officials justify them as necessary incentives to lure investment and thereby create jobs that will benefit local residents. In some cases they go through almost automatically, while in other instances they are the subject of local debate. The subsidies to Wal-Mart are especially controversial for several reasons:

**Wal-Mart is in an economic class by itself.** Given its size, the company has enormous economic power. It is forcing changes throughout the retail sector as competitors try desperately to survive; it is often accused of squeezing suppliers and thereby changing the dynamics of the manufacturing sector. As the country's largest private employer, Wal-Mart has great influence over labor practices throughout the economy. Any policies that enrich or strengthen Wal-Mart intensify its role as a standard-setter.

**Wal-Mart is an exceptionally controversial company.** Every week seems to bring another report about investigations, lawsuits or general allegations about the company's labor practices, its lobbying activities, or its impact on the small communities where it sites most of its stores.

**Big-box retailing does not boost economic growth.** A key justification for using taxpayer dollars for corporate subsidies is the idea that a large project will expand overall business activity in an area. Many analysts argue, however, that new retail stores do little more than take revenues away from existing merchants and may put them out of business and leave their workers unemployed. It's quite possible that a new Wal-Mart store will destroy as many (or more) jobs than it creates—and the Wal-Mart jobs may pay less, meaning that they do less to stimulate the local economy.

**Big-box retailing is bad for the environment.** Critics of big-box stores point to their impact on the environment and on the quality of life. Such stores are seen as contributing to suburban sprawl, which increases traffic problems and worsens air quality. Big retailers such as Wal-Mart are accused of causing the decline of downtown business districts and weakening the unique identity of small towns.

These arguments are at the heart of efforts to block the growth of big-box stores, whether subsidized or not. One of the centers of this battle is California, where various counties and cities have been taking steps to stop the spread of giant retail outlets. Wal-Mart is fighting back, both through ballot initiatives and in the courts.

For all these reasons, the question of whether large sums of taxpayer funds should be used to subsidize the expansion of a company such as Wal-Mart is a serious public policy issue. While it was not feasible for us to study the economic impact of the many subsidized facilities we found, we do believe there is enough evidence about the general impact of Wal-Mart and other large chains to justify significant limitations on the use of subsidies for big-box retailing.

We argue that public assistance to retailers should be limited to projects designed for low-income areas that suffer from a demonstrable shortage of stores for necessities such as food and clothing. Subsidies should be barred to companies that have abandoned other retail sites in the area and left them vacant. We also believe that any retail subsidies should carry a requirement that the company provide a living wage to its workers. As with all other subsidies, we argue that there must be full disclosure of the costs and benefits.