



The Public Advocate for the City of New York

Improving Access to City Services

Betsy Gotbaum
Public Advocate

May 1, 2009

James D. Sinegal
CEO
Costco Wholesale Corporation
999 Lake Drive
Issaquah, WA 98027

Via Facsimile and U.S. Mail

Dear Mr. Sinegal:

As the Public Advocate for the City of New York and as a member of the New York City Council, we are jointly requesting that Costco accept payment for food items from the Supplemental Nutrition Assistance Program (SNAP) (formerly referred to as the Federal Food Stamp program). As elected representatives of New York City, we are deeply concerned that Costco's refusal of SNAP benefits ill serves the more than 1.3 million New Yorkers receiving SNAP. To begin this process, we ask that you establish a six-month pilot program to accept SNAP payments in your new store in East Harlem.

The Public Advocate is the second highest-ranking elected official in New York City and presides over and works closely with the City Council on matters pertaining to the welfare of the residents of the City. More directly relevant to the operations of your firm, she serves as one of the Trustees to the New York City Employee's Retirement System (NYCERS), a significant Costco shareholder¹. As a member of its proxy shareholder sub-committee, the Public Advocate has looked for NYCERS to engage companies on a number of business and corporate practices. NYCERS has a long record of shareholder initiatives that have resulted in increased shareholder value.

In addition to the compelling social reasons to accept SNAP, it is our firm belief that this change would financially benefit Costco since any source of revenue to the company should not be discounted. Nationwide, participants in the SNAP program received in excess of \$34.6 billion in fiscal year 2008 to spend at retail locations. As of January 2009, nationally there were 32,204,859 enrollees and in New York City and State there were 1,366,942 and 2,211,935 enrollees respectively.

During this recent economic recession, more and more Americans are turning to SNAP to purchase food. Between February 2008 and February 2009, we saw an increase of 195,610 new enrollees in New York City alone. The spending power of this group is also dramatically growing.

¹ As of March 31st, 2009 the City of New York held 1,446,726 shares of Costco Wholesale Corporation Common Stock, with a market value of \$67,012,348.32, with NYCERS holding 567,907 shares with a market value of \$26,300,820.24 of the total City amount. In addition, the New York City pension funds as a whole held 2,030,000 shares of Costco Corporate Bonds with a market value of \$2,165,360.40. NYCERS' portion included 625,000 shares valued at \$666,675.00 on that date.



New York City residents received over \$181 million in SNAP benefits in January 2009 alone. With the recent passage of the American Recovery and Reinvestment Act (ARRA), SNAP recipients in New York City are expected to receive more than \$200 million monthly.

By not accepting SNAP payments, Costco is clearly missing an opportunity to expand its customer base and increase sales revenue and profits. Competitors such as Sam's Club and BJ's Wholesale Club recently announced plans to accept SNAP at all locations – underscoring the competitive disadvantage your current policy creates.

In fact, your recent 10-k securities filing cites "...strong competition from other retailers and warehouse club operators... which could negatively affect our financial performance..." as key risk factors. Moreover you state that "our inability to respond effectively to competitive pressures and changes in the retail markets could negatively affect our financial performance. Some competitors may [have] greater market penetration than we....". Further, you cite "...inflation, levels of unemployment... and other economic factors..." as concerns to your future financial performance.

The need to take actions to mitigate these economic challenges is clear, and we suggest that acceptance of SNAP payments would be one prudent step. At a minimum, it is in the best interest of the corporation to analyze these new facts and trends and report to the shareholders. To ignore this potential mass market and consumer base seems incompatible with the role of the Board of Directors to maximize shareholder value.

A six-month pilot program at your new East Harlem location, opening in November, affords the ideal opportunity to test the acceptance of SNAP and improve your standing with the community. Manhattan Community Board 11, which represents the East Harlem location, has already requested that Costco accept SNAP. By permitting SNAP to be used in this store, you would be doing a great service to the neighborhood by allowing families to stretch their dollars further and increasing access to fresh produce for a population that severely lacks such options. According to the New York City Department of Health and Mental Hygiene, East and Central Harlem have relatively few supermarkets, with bodegas being the most common food stores. Because of this and other factors, they concluded that healthy food options are limited in these areas. As a matter of public policy and a service to the community, the benefits of accepting food stamps are clear.

The pilot program would enable you to consider logistical issues and to quantify the positive effects of accepting SNAP payments. Given the number of SNAP recipients in the region and the fact that the store is new and therefore more readily able to integrate the processes necessary to accept SNAP, you have a unique opportunity to pilot accepting SNAP.

To the extent permissible we can be helpful in promoting the new store opening and conveying the fact that you were responsive to the needs of the residents, both in the community and in the media. The pilot program would undoubtedly underscore Costco's reputation as a good corporate citizen and stellar neighborhood partner, and thereby mitigate community dissension.

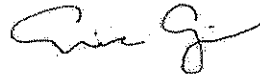
Costco generally has some of the better business, labor, and corporate governance practices in the retail industry. However we believe there may be reputational and financial risk for the firm in not considering changing this policy and practice.

We look forward to hearing from you to further discussing this matter. You may contact the Office of the Public Advocate (212) 669-7200 if you have any questions.

Sincerely,



Betsy Gotbaum
New York City Public Advocate



Eric Gioia
City Councilman,
City of New York (District 26)

cc: Jeffrey H. Brotman, Chairman of the Board
Richard D. DiCerchio,
Richard A. Galanti,
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