Memo January 31, 2009

To: The City of Eureka

From: Philip King, Ph. D.

Re: Comments on Balloon Track Retail Development in Eureka, California

I have been asked by Citizens for Real Economic Growth to review the EIR and subsequent memos for the Eureka Balloon Track Retail Development, planned at 586,000 sq. ft., including a 132,000 sq. ft Home Depot, 205,500 of additional retail, 104,000 sq. ft of office space, and 70,000 sq. ft of "industrial space." The last two items are significant but receive almost no attention in the EIR analysis, a serious deficiency.

First, the **EIR's estimate of sales taxes is grossly overstated for reasons I outline below**. Simply put, people will not spend more because there is a new shopping center and in the current economic downturn it is clear to everyone, except the consultants who prepared this EIR, that they will spend considerably less. The key issue is whether consumers will shift their spending to stores in Eureka as a result of the new Home Depot and other stores. As the EIR outlines, Eureka already serves as a magnet for retail and already has a number of hardware stores, a Borders bookstore, etc. Adding new retail to this mix will simply shift sales from one exiting store to another, in the process creating store closings and urban decay. The EIR attempts to get around this obvious point by assuming no sales leakage in any retail category throughout the county, which, as this memo shows, is completely unrealistic and inconsistent with all of the economic theory associated with this type of analysis. Moreover, there is already existing retail space to fill this leakage if the demand is there. The **EIR also extrapolates growth from the bubble years in 2000-2004 on to 2010.** Clearly **this assumption is ludicrous**—it is this type of thinking that landed the US economy in the fix that we are now in We need realistic, accurate projections if our economy is to succeed in the future, not dishonest reports which serve narrow self interests. **In my professional opinion, the costs to the City of Eureka, in terms of cleaning up the urban decay, will far exceed the relatively modest net sales tax revenues that will be generated by the project.**

This rest of this memo will focus on the urban decay analysis prepared by CBRE for Home Depot (November 2006—hereafter referred to as the CBRE report) as well as their recent (October 2008) "update" and material in the main body of the EIR. I would like to note at the outset that CBRE has prepared a number of reports for Home Depot and other Big Box firms. To my knowledge it has never found any evidence of urban decay anywhere nor did it offer any insights at all on the current economic downturn. CBRE is a large real estate consulting firm which, according to a recent annual report is determined to serve its clients with all of their real estate needs. There is a clear conflict of interest here since, apparently, one of CBRE's functions is to minimize any potential determination of urban decay impacts even where it is clear that urban decay is a real problem that should be recognized and mitigated.

The California Environmental Quality Act (CEQA) was created to ensure that environmental impacts created by new projects are identified and mitigated wherever possible, not be swept under the rug. Unfortunately in this case, the EIR overlooks clear evidence of urban decay in the City of Eureka. As I discuss below, the EIR also systematically overestimates the demand for retail in Humboldt County, violating the standards clearly set in the Bakersfield case and many other subsequent cases. Despite this overestimate, the EIR still concludes that in many categories it will take over ten years to mitigate the oversupply of retail created by this project. As I show, below the inevitable consequence of this oversupply of retail will be urban decay.

The EIR omits any discussion of Existing Urban Decay in Eureka and seriously underestimates existing Vacancies

The EIR briefly discusses the "historic downtown" and "historic old town" area (see CBRE report and map Exhibit 17)) but omits clear evidence of vacancies and existing urban decay in these areas as well as other existing vacancies in Eureka. The EIR focuses on the fact that a small part of this area has been developed for tourism, while ignoring the fact that the vacancy rate is extremely high. A 5% vacancy rate is considered healthy, but the vacancy rate in central Eureka is considerably higher—higher than 10% and growing—which is considered to be dangerously high.

Table 1 below documents the current vacancy rate in central Eureka (as of January 7, 2009) not including vacancies at the Bayshore mall (which is now mostly vacant in square footage terms) as well as vacancies at some other shopping centers. **Overall there are 127 vacancies, an extremely high number in a small city such as Eureka—and one that was ignored in the EIR.** The vast majority (85-90%) of these vacancies are former retail stores, but some offices and other vacancies are also included.(the proposed project also includes office space). A small number of these vacancies may be seasonal, but the vast majority of these spaces are "For Lease" or abandoned.

This is hardly a sign of a healthy downtown/central business district as the EIR claims. Clearly the EIR's failure to accurately assess vacancies in central Eureka is a key omission/flaw in the analysis. In my professional opinion, Table 1 and the Figures below provide substantial evidence that existing vacancies and urban decay were ignored or seriously underestimated in the EIR. The photos represent only a small sample, as indicated in Table 1, of total store closures and of existing or potential urban decay. The EIR's failure to accurately describe and discuss existing environmental setting (i.e., serious and significant existing urban decay) should be grounds for rejecting it.

In addition, although the Balloon Track development contains over 100,000 square feet of new office space and 70,000 square feet of industrial space. The EIR contains little or no discussion and no real analysis of, the demand for office/industrial space or existing office/industrial space vacancies. The EIR claims that many closed stores can be retenanted, despite clear evidence in their own EIR that retenanting will be a major issues. Many stores have been closed for years. Further, it is clear than one potential source of new tenants in vacated spaces downtown and elsewhere, are office and industrial space tenants. The creation of 174,000 square feet of new office/industrial space should also have been analyzed in the EIR, but wasn't.

Table 1: Vacancies in Central Eureka

01, 02, 03	Next to 3360 Jacobs Avenue	Former industrial supply
04	4th St. North	Former Spadoni's Mkt.
05	4th St. North	Former Udder Place coffee
06	427 V St.	Former Mexican restaurant
07	2006 4th St.	Storefront
08, 09	1930 4th St.	Former cardroom
10	3rd St.	Former Goldrush Coffee
11	2212 2nd St.	Service/auto
12	321 X St.	Auto sales
13	5th & hwy 255	Former Pizza Hut
14	435 5th St.	Former Arctic Circle
15	1515 5th St.	The Rental Market
16	923 3rd St.	Office for lease
17, 18	835 3rd St.	Professional office
19	310 2nd St.	Dental office – ½ Empty
20	124 2nd St.	Vacant building
21	2nd & D Sts.	Former 'Consider the Alternatives'
22	2nd and D Sts.	Former 'Jimmy Dunne's'
23	333 1st St.	Former Cop Bldg.
24	322 1st St.	office building
25	1st St	Eureka Ice & Cold Storage
26	91 1st St.	Former GoFish Café
27	2nd St	Imperiale Place
28	foot of F St.	Bayfront 1 restaurant

Table 1: Vacancies in Central Eureka (Continued)		
29, 30, 31	between D & E on 2nd St.	Former Restoration Hardware
32	311 E St.	Storefront
33	235 4th St.	Empty office
34, 35, 36	215 4th	Former Eureka Reporter
37	4th & B St.	Former Joe's Smoke Shop
38,39	400 Broadway	Former East Bay Machine
40	300 Broadway	Former All about the Dogs
41	122 W. 4th St.	Empty shop
42	3rd and I	McMahans Furniture
43	W. 6th St.	Former OH's Townhouse
44	105 W. 5th St.	Empty store
45	117 W. 5th St.	Empty store
46	F & 5th Sts.	Former Moon's toystore
47	520 5th St.	Empty store
48	524 5th St.	Empty store
49	532 5th St.	Empty store
50	423 F St.	Empty store
51	4th & F St.	Former Bank of America
52	2297 Harrison St.	Former Duck's Market
53	511 H St.	Empty store
54	F St. next to Eureka Theater	Empty store
55, 56	6th & b St.	Empty car lot
57	7th & A St.	Former Rental Helpers

Table 1: Vacancies in Central Eureka (Continued)		
58, 59	120 7th St.	Former auto sales
60	133 7th St.	Former auto parts store
61	301 7th St.	Former VW auto sales
62, 63	7th & F St.	Eureka Inn
065	Broadway & Grant	Former muffler shop
066	1630 Broadway	Empty store
067	1626 Broadway	Empty store
068,69	Wabash & Broadway	Former Channel 6 TV
070	2029 Broadway	Former Napa auto parts
071	2616 Broadway	Former truck stop
072	2710 Broadway	Former café
073	Boardwalk Mall, Broadway	Former Wise Flooring
074	Boardwalk Mall, Broadway	Empty office
075	#10 Victoria Place, Broadway	Empty Beauty Supply store
076	#12 Victoria Place, Broadway	Empty Women's Gym
77 – 106	3000 Broadway, Bayshore Mall	31 Empty stores + 2 signs
107	3990 Broadway	Former Nader auto
107 108	Elk River Tallow Works	Vacant
0109	S. Broadway, east side	Vacant lot
110	Eureka Mall, Henderson side	Empty store
111	Eureka Mall, Henderson side	Former 6 Rivers Bank
112	311 Harris	Former pain clinic
113	Henderson between F & G	Former Sun, Rain, Time

Table 1: Vacancies in Central Eureka (Continued)		
114	437 Henderson	Former Thrift Store
115	2858 E St.	Empty realty office
116	next to 2912 E St.	Empty store
117	2607 Harris	Empty office suites
118	2761 Hubbard lane	Former trailer rental lot
119	Myrtle Avenue	Former Redwood Pharmacy
120	Myrtle & Park St.	Former gas station
121	23rd & Harrison Ave.	Former Planned Parenthood
122	2456 Buhne	Empty Med. Office building
123	Walnut & Hemlock	New bldg for lease
124	101 Wabash	Empty gas station
125	Wabash & Union	Empty shop bldg
126	Wabash & Union	Empty church
127	2816 F St.	Former Roberts gift store

Similarly, the EIR also ignored existing urban decay in central Eureka. A number of stores are boarded up and in a poor state of repair. As vacancies linger, routine maintenance of properties will suffer and urban decay will increase significantly. Given the poor state of the overall economy and the downturn in the timber industry, some urban decay is inevitable, but the proposed project will significantly exacerbate the situation, leading to serious urban decay in central Eureka.

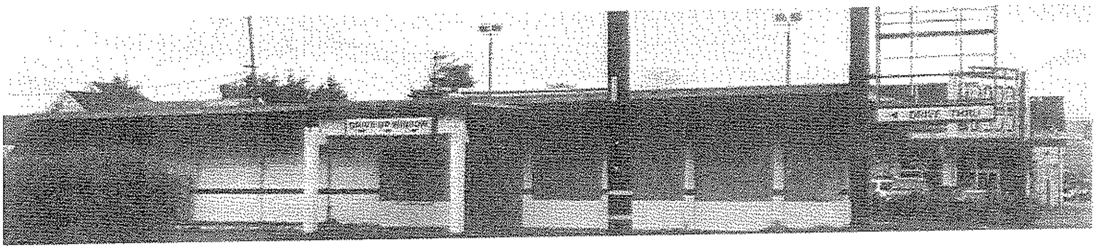

Figure 1: This store on 15th Street is boarded up and starting to deteriorate.

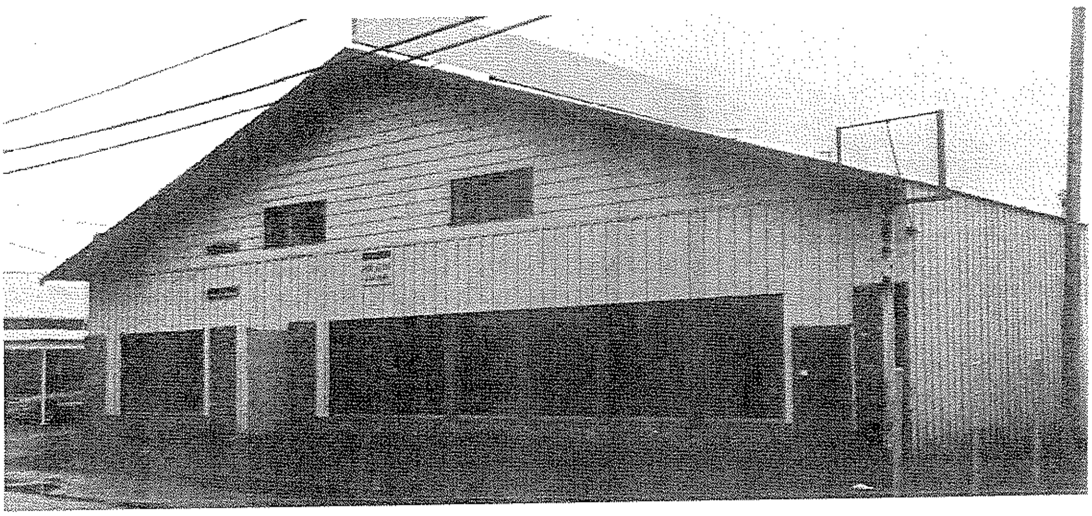

Figure 2: This store at 3d and Jacobs is vacant and suffering from lack of maintenance.

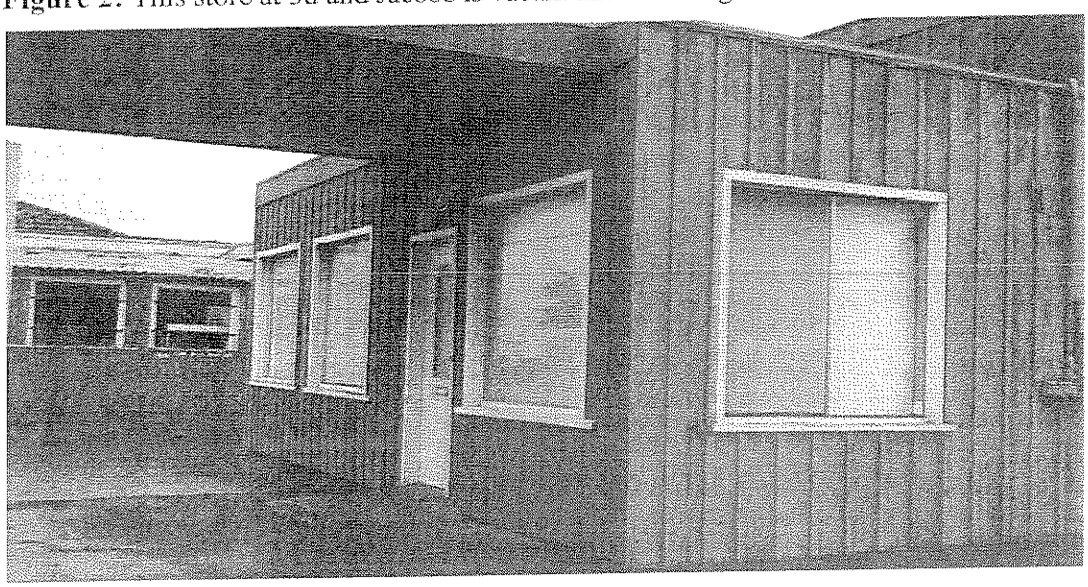

Figure 3: This building on 4th Street is deteriorating.

Figures 4 and 5: Empty storefronts on 5th Street showing signs of lack of maintenance—without tenants and with few prospects of future, landlords have little incentive to upkeep property.

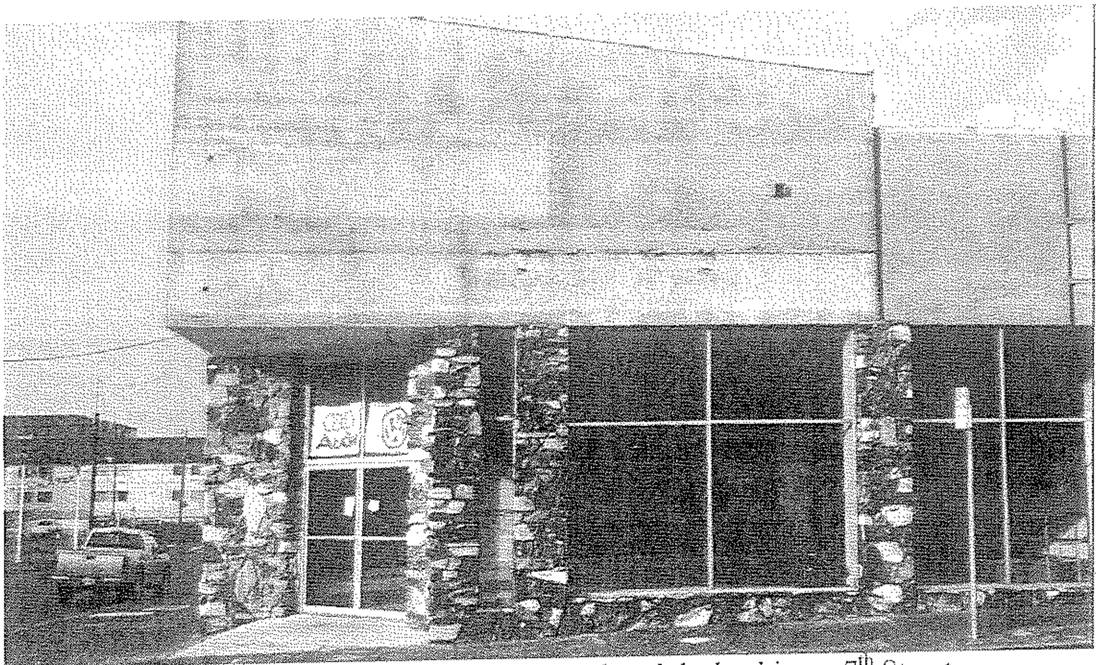

Figure 6: Downturn in Auto Industry including closed dealership on 7th Street

Vacancies at Bayshore Mall

The EIR briefly discusses the Bayshore mall and discusses some of the major vacancies, but the entire discussion serves to dismiss what is clearly a failed shopping center where conditions are going from bad to worse.

The Bayshore mall has lost most of its anchor tenants and prime draws—Old Navy, the Gap, Mervyns and now Gottschalks has declared bankruptcy and will leave Bayshore as well. This leaves very few anchor tenants and the remaining ones such as Sears and Borders have also been experiencing difficulty and may very well close. If the Balloon Track development includes a 25,000 square foot bookstore (most likely a Barnes and Nobles) as planned, the Borders will almost certainly close.

The smaller storefronts inside the Bayshore mall are also closing and the vacancy rate here is well over 20% --considered to be dangerous. A *very* partial list of store closings includes the following stores:

1. Arbys
2. Sweet River Grill.
3. Campost Casual
4. Old Navy.
5. JC Penney outlet.
6. Site for Sore Eyes.
7. Vitamin World.
8. Suncoast movies.
9. Rocxco furniture.
10. Hot dog on a stick.
11. Gottschalks other store outlet they own in the mall.

12. Bayshore mall cinema
13. KB toys.
14. Candy factory
15. Wilson's Leather

Indeed, people have described the mall as a "ghost town." The Balloon Track development will kill this mall and lead to urban decay.

Figure 8: One of many storefronts closed in the Bayshore Mall

Other shopping centers in the area are also experiencing difficulties, but the Bayshore mall is most exposed.

Despite these Omissions, the EIR concludes that in many retail categories it will take more than 10 years to "mitigate" impacts. Table 2 below reproduces the data in Table 11 from the urban decay analysis prepared by CBRE in the EIR. As one can see, most retail categories will take more than ten years to be "mitigated." AS discussed below, the somewhat more optimistic projections in a few categories rely on overly optimistic growth projections as well as an assumption that the Primary Trade area for Eureka includes all of Humboldt County, and that no leakage will occur, despite the fact that rural areas always experience some leakage, especially in categories such as apparel. The fact that the GAP and Old Navy closed does not indicate that a robust demand for new apparel retail exists in Humboldt County—if these large retailers cannot operate in

Eureka, it is unlikely that the EIR's assumption that no leakage in apparel will exist, is realistic.

Table 2: EIR's analysis of time to Mitigate Vacancies[1]

Retail Category	EIR est. of "Years to Mitigate"	Comments
Apparel	N/A	Unrealitically sssumes no leakage
Eating/Drinking	3 years	Assumes high growth rate
Home Furnishings	N/A	Assumes high growth rate
Building Materials	10+ years	
Specialty Stores	10+ years	
Garden Supplies	10+ years	
Other Retail	10+ years	

It is especially clear that in the areas of building materials, specialty stores, garden supplies and "other retail" existing stores such as the numerous hardware stores in Eureka and Arcata will close. It is impossible to predict which stores will close, but the addition of a big box home improvement and other stores will clearly take sales away from existing businesses, some of which are already struggling. One can expect that over 300,000 square feet of retail would displace a substantial amount of other retail, exacerbating existing urban decay in an already weak economy. In addition the office and industrial space will take away demand for such space elsewhere in Eureka, further exacerbating urban decay. This is a very significant environmental impact and the omissions in the EIR lead directly to a faulty analysis of this issue. **In my professional opinion, the Balloon Track project will significant add to already existing urban decay in Eureka creating a serious environmental impact that has not been properly evaluated in this EIR.**

The EIR Systematically Overestimates Demand for Retail in Eureka

The picture painted above is already bleak. However, it is clear that the EIR has used non-standard techniques and faulty economic analysis to systematically overestimate the demand for retail in several key ways:

1. It assumes that the primary market area (PMA) is *all* of Humboldt County which contradicts the basic theory of trade areas. It omits the fact that many people in Humboldt County live closer to Crescent City and Fort Bragg which also offer significant retail, and Redding, which is a day trip away for everyone in Humboldt County, has far more retail.
2. It assumes no retail leakage in all retail categories despite the fact that Humboldt County is rural and economic theory as well as empirical evidence, indicates that rural counties always have substantial leakage in many retail categories.

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[1] From CBRE report (Nov. 2006) contained in the EIR, Table 11, p.32.

3. It extrapolates the growth in retail demand from 2000-2004, during the boom years in what we now know was a real estate and consumer credit bubble, and assumes that this growth would continue to 2010, when it is now clear (and was when CBRE updated its report last November) that this growth was unsustainable, even after the current recession abates.

As the name implies, a primary market represents where people do most of their shopping. It is clear that the Eureka/Arcata area does represent a primary market area for about half of Humboldt County residents. However for the roughly 50% of Humboldt County's population who live outside of the greater Eureka/Arcata area, Eureka and Arcata, represent a secondary market area and it should have been designated as such. In this secondary area, consumers still spend much, but certainly not 100%, of their retail dollars in Humboldt County, as the EIR assumes. One would expect some sales in outlying areas will be siphoned off to other areas. In particular, significant parts of Humboldt County are closer to Crescent City and Fort Bragg, which also contains significant retail opportunities, and Redding, which contains far more retail opportunities not available anywhere in Humboldt County, is also available for day trips to all residents of Humboldt County.

Indeed, the standard economic theory of trade areas predicts that relatively rural areas will have some leakage to areas with denser populations which provide more retail opportunities. This very phenomenon was mentioned in a peer review by another consultant contained in the EIR, who suggested that a gravity model (which views the demand for retail in Eureka as a function of distance and retail opportunities) and was ignored by CBRE. A gravity model, properly applied, would be an excellent way to model demand. However, an acceptable way would be to assume that the parts of Humboldt County outside the Eureka/Arcata metropolitan area constitute a secondary market with a lower demand (assuming some leakage outside the County).

The Bakersfield Case and several other subsequent cases have also clearly pointed out that an EIR needs to examine overlapping trade areas, which, in this case would include the pull of retail in Crescent City, Fort Bragg and Redding. No such analysis was performed in this EIR.

Indeed, on should assume some leakage even in Eureka and Arcata, since it is a relatively rural area which cannot provide a full array of retail opportunities. For example, in apparel and department store retail, Humboldt County does not have the population density to provide even one outlet for a number of very popular retailers such as Abercrombie and Fitch, Ann Taylor, The Men's Wearhouse, Macys, Nordstrom, etc. Indeed, even the Gap and Old Navy stores in Eureka closed and remain vacant due to insufficient demand. Creating new, unneeded retail space will not create this demand and customers in Humboldt County who want these items will have to travel outside the County or order online, creating retail sales leakage.

The observation that sales leakage is higher in rural areas is not just theoretical, it has been observed by a number of academic studies. For example, in the State of Nevada, Thomas Harris of the University of Nevada Reno, finds[2] that in Nevada, rural counties

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[2] See Commercial Sector Development in Rural Communities: Trade Area Analysis, by Thomas Harriss, University of Nevada Reno, Western Regional Development Center, Oregon State University,

has a "pull factor" (actual retail sales as a percentage of demand in the area) significantly less than one. Similar studies in Iowa, Mississippi and Minnesota have reached similar conclusions.

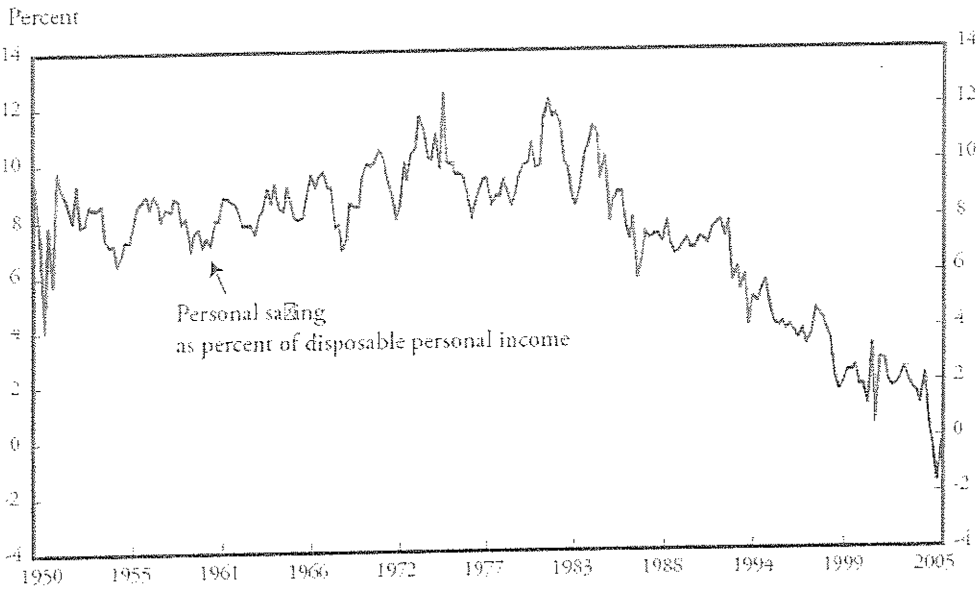
However, the EIR assumes that Humboldt County, despite lacking many types of retail stores, will satisfy 100% of all retail demand. This assumption makes no sense empirically or theoretically and is in complete opposition to the literature in this area. **Thus CBRE has completely ignored what is accepted practice and empirical reality and essentially assumed whatever it needed to justify this project**.

The assumption that Humboldt County will provide 100% sales in all retail categories the EIR examined is nonsense. A far lower estimate should have been applied depending upon the trade area (as mentioned above a primary and secondary area should have been used) and the retail category. (Typically larger purchases or purchases of specialty items are more likely to take place far away.) Had this been done properly, the analysis in the EIR would have estimated a demand for retail several hundred millions of dollars less than estimated in the EIR, implying and even greater overcapacity in retail (and far lower sales taxes for the City). Indeed, if CBRE's estimates are correct, why are stores like the GAP and Old Navy closing? The GAP (which also owns Old Navy) is not going out of business and is ubiquitous across the U.S.

The second shortcoming of the model is that the EIR extrapolates the growth rate in retail from 2000-2004 forward. As we now know, in the years 2000-2004, consumers went on a spending spree, spending more money than they had, largely due to the bubble in real estate and credit markets in general. We are in a serious recession, of the type we have not experienced in decades. Most economists refer to this downturn as the "worst in the post–war (WWII) era" or the most serious economic crisis since the great depression. This downturn is not similar to the more predictable cyclic real estate slow downs and recoveries of the 1980s and 1990s or even the 1970s. Further, it is clear from analyzing long term trends that the low savings (and correspondingly high spending) rates of the last ten to fifteen years are over, implying a 5-10% permanent reduction in consumption as a percentage of income, even after the economy recovers. That reduction in consumption will hurt retail businesses, locally and nationally.

The EIR, as well as CBRE's memo from a few months ago, fails to adequately address the current economic downturn and its ramifications. During the period, 2000-2004, when which the EIR uses as a baseline to extrapolate sales growth, Americans went on a spending spree. Savings as a percentage of income declined to its lowest point in U.S. history and by late last year (2008) the personal savings rate was actually negative for a time. The reason for this decline in savings and corresponding increase in consumption are not hard to ascertain. Credit was cheap and easy. In particular, mortgage equity withdrawals rose dramatically and other forms of consumer credit (credit cards, auto loans, etc.) were easily available until a year or two ago.

The result of this easy credit is shown in Figure 1 below. The U.S. personal savings rate averaged around 8% until the mid-1980s and then began a precipitous decline. The decline is US savings was financed by easy credit and borrowing from abroad.



Source: U.S. Department of Commerce

Figure 9: U.S. Personal Savings Rate 1950-2005[3]

This era of easy credit is over—this is not a controversial statement, since there is a wide consensus among economists of differing ideologies. Even the mainstream media is reporting this trend. For example, *Newsweek* recently reported:

> "The shift to thrift is of course natural in hard times, as consumers worry about their jobs and shut their wallets amid the deepening gloom. This time, however, the clampdown on spending appears to be more than a sharp but temporary downturn of the economic cycle. In Britain, the U.S. and other consumer-driven economies, including Spain and Ireland, it seems to herald a much broader shift: the end of a way of life based on freewheeling consumption fueled by easy credit and the wealth effect of ever-rising asset values. Already, once spendthrift Americans have hiked their personal saving rate from near zero, where it's hovered for several years, to almost 3 percent in November. Merrill Lynch chief economist David Rosenberg expects the rate will soon rise to 8 percent and beyond, levels last seen 20 years ago. Just like overleveraged and undercapitalized banks, Rosenberg says, private households are now repairing their own balance sheets by spending less, saving more and paying off their debt. And just as in the financial industry, this is beginning to look less and less like a quick fix—and increasingly like a long-term change of habits.
>
> Rosenberg and other economists who believe that thrift will be the new normal say long-term change will come on three fronts. First, the wealth

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[3] Data from Federal Deposit Insurance Corporation, Bureau of Research and Statistics, Working Paper 98-2, The Rising Long Term Trend in Foreclosure Rates, by Peter Elmer and Steven Selig,

destroyed in this recession looks likely to be so vast that it will force a change in behavior, much as World War II rationing or the Depression seared fears of scarcity into an entire generation. The second change is the death of a risky financial-sector business model that saw banks hand out ever more loans and pass them on to other investors as "assets." This in turn created huge floods of credit to pump into mortgages and other consumer debt, which bloated spending and real-estate values, but won't in the future. Third, because neither governments nor investors will tolerate a return to risky bubble-era practices, banks will have to relink credit to deposits and look more carefully where they lend. Bob McKee, analyst at Independent Strategy, a London investment consultancy, says this will slow down credit growth and funnel loans to companies that produce and invest, instead of to whiz-kid financial operations. All this is conducive to slow and steady growth—but not the huge run-up in asset prices of the credit-bubble era. It is therefore unlikely, says McKee, that asset values will return to their old levels and erase current wealth destruction any time soon.[4]" [Emphasis added.]

The analogue of higher savings (from almost zero) is lower consumer spending as a percentage of income. Figure 10 below indicates that as savings has fallen, consumption as a percentage of income has risen. Last year consumption as a percentage of GDP hit an all time high of 72%, far higher than the long term average, which is (depending on the time frame) is between 63% and 67%.

Consequently, a reduction in consumer spending as a percentage of their income to long term trends implies a 5-10% long term reduction in consumption as a percentage of income, after the economy recovers. This CBRE's contention that retail will continue the trend of the late 1990s and early 2000s after the recession ends is not based on sound, substantial evidence or analysis (indeed they provide none). The long term trends clearly indicate a trend towards less consumption.

The housing/home improvement market which Home Depot caters to is particularly vulnerable to this trend as housing prices drop and home equity lines of credit become more difficult to obtain.

In terms of urban decay, this reduction in consumer spending reduces the demand for retail and thus the demand for retail space, significantly exacerbating the already negative impacts of the Home Depot store that I have outlined above and earlier.

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[4] See "Tight-Fisted Is Back In Style: Economic frugality surges into fashion as the global recession ushers in an Age of Thrift," by Stefan Theil, NEWSWEEK , Jan 26, 2009.

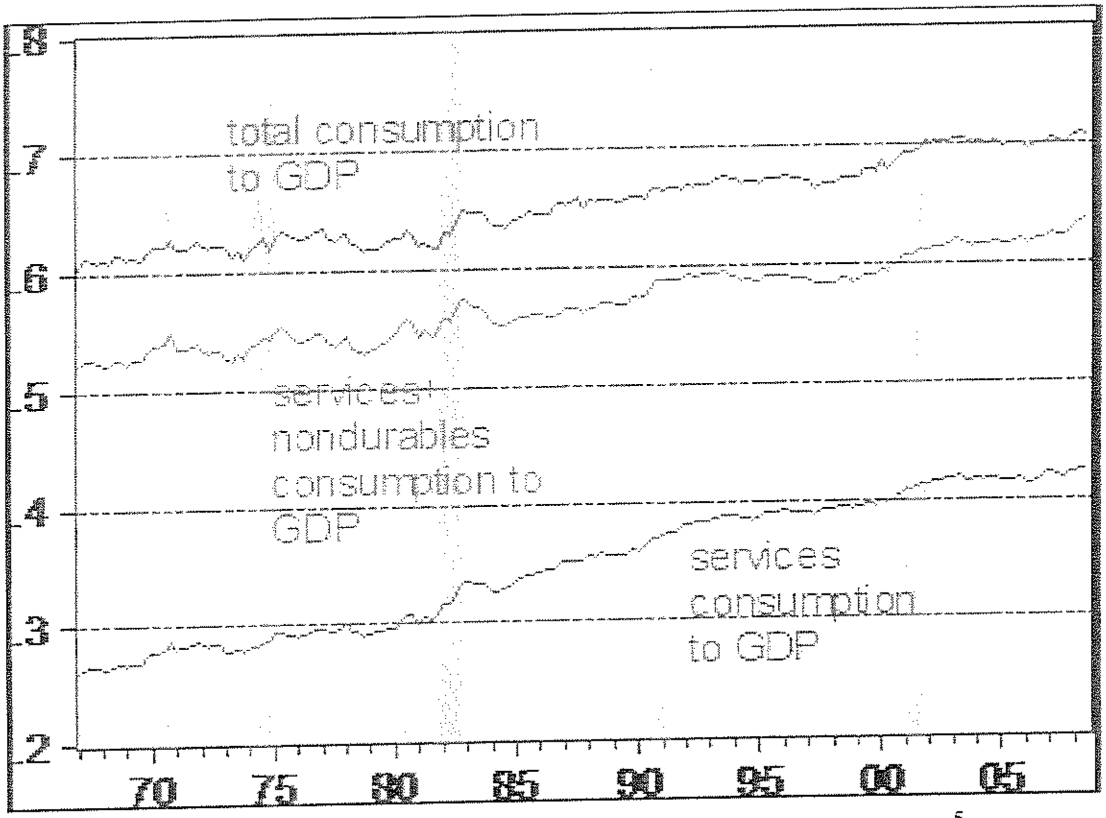

Figure 10: Consumption Expenditures as percentage of GDP: 1965-2008[5]

The EIR uses their extrapolation, based on a significant error in the analysis, to justify a $74 million dollar increase in sales by 2010. Indeed, we know now that that assumption is flawed. They compound the error by reiterating this extrapolation in the October 2008 memo. Clearly this significant error, which leads to a gross overestimation in the demand for new retail needs to be corrected. Indeed, as my data above shows, one should assume a loss in sales based on the fact that consumption as a share of income was artificially high in the 2000-2004 period. When compounded with the other errors overestimating demand in the EIR, this problem is even more serious and leads one to conclude that the potential for further urban decay, already significant, is even worse.

Case Studies in the EIR

The EIR also uses case studies of Home Depots in Ukiah, San Rafael and Woodland, California as examples of successful Home Depot development. I have a couple of brief comments here. First, it often takes several years for stores to close as businesses struggle to survive, though with credit becoming much harder to obtain and the economy decelerating, one should see an increase in store closings nationwide. For example, an Ace Hardware store in Lodi California remained open for several years after a Lowe's store was built nearby several years ago, but the ACE store is now closed. Second, San

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[5] Source: US Dept of Commerce Bureau of Economic Analysis.

Rafael is located in one of the most affluent areas of the country, Marin County, where retail development has been severely limited.

Third, I live quite close to Woodland (within ten miles) and am extremely familiar with the retail climate there. The statements made in the EIR about the health of Woodland retail are inaccurate. Woodland has experienced a huge increase in retail over the last five years along with growth in residential development which has now slowed to a crawl. In addition to the Home Depot, a new Wal-Mart, a new Costco, and a new Target (replacing an existing store) have been built and other stores are planned.

The downtown in Woodland is not thriving, as stated in the EIR, but has continued to stagnate even in the boom years of 2000-2004. The "antique stores" that the EIR mentioned are in fact, second hand stores which have very low sales per square feet and operate in low rent buildings which have continued to deteriorate over the past ten years. Other retail in Woodland has also stagnated and many stores are now stagnating.

Most significant, the County Fair mall in Woodland, which before the recent developments, was the main regional shopping mall in Woodland, has many similarities to the Bayshore mall in Eureka and it is likely this mall will close. One anchor store, Mervyns, has closed and another anchor store, the old Target has now closed with since the new Target was opened. Even before these closures, the mall struggled and had many vacancies and marginal stores. Not all of these closures can be attributed to the Home Depot, but the cumulative impact of all of these new stores opening has lead to the preconditions for urban decay in Woodland. The City of Eureka is in far worse shape than Woodland, which is in a much more urban area (the greater Sacramento area) and serves as a bedroom community for people whom work in Sacramento and Davis as well as Woodland.

Conclusion

In sum, the analysis in the EIR contains many omissions and errors. Experts can and do disagree, but the consultants who prepared the EIR clearly ignored/omitted a great deal of data that would harm their case and also twisted their assumptions in a way which completely contradicts all excepted theory and empirical studies in order to generate a false demand for this development. The EIR ignores/omits many vacancies in Eureka and existing urban decay. The EIR also omits any true analysis of the significant amount of office space or industrial space (174,000 sq. ft.) contained in the project and its impacts on urban decay, which will also be significant..

Despite these errors and omissions, the EIR still concludes that in several retail categories it will take more than ten years to mitigate retail oversupply. The EIR argues that stores will simply suffer lower sales and survive (and it provides no evidence for this assertion), but it is clear that many retailers in Eureka are already struggling and will continue to struggle, especially through the current recession. The Balloon track development will exacerbate this oversupply and will lead to further urban decay in Eureka. Correcting these omissions and errors leads one to a completely different conclusion. The EIR has clearly not met the requirements of CEQA and should be rejected.

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Books:

International Economics and International Economic Policy, 5th Edition, McGraw-Hill, 2009.

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"The Economic and Fiscal Impact of Beach Recreation in San Clemente," presented as part of Hearings on Congressional Appropriations for California Coastal Projects, US House of Representatives, April 2002. Also completed similar projects for Cities of Carlsbad, Carpinteria, Encinitas, and Solana Beach.

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"The Economic Impact of California's Ports and Harbors," prepared for the *Public Research Institute*, San Francisco State University, Spring, 1997 (with Ted Rust).

Public Testimony:

Testified to Stockton City Council on a proposed Big Box Ordinance, May 2007

Testified and prepared report to the California Coastal Commission in San Diego on the economic loss due to a proposed seawall at Las Brisas, Solana Beach, California.