B. Master Responses

Master Response 1: Urban Decay Analysis

This master response addresses the issues comments raise with respect to the Urban Decay Analysis. The Draft EIR addresses this topic in Chapter IV.P, Urban Decay. See especially Impact P-1 (the potential for the proposed project to result in urban decay in the greater Eureka area) and Impact P-2 (the potential for the proposed project, in conjunction with other development, to result in urban decay in the greater Eureka area). The Draft EIR also references analyses and findings of the following appendices:

- Appendix K: Eureka Balloon Track Retail Development Economic Impact and Urban Decay Analysis
- Appendix L: Peer Review of the Eureka Balloon Track Retail Development Economic Impact and Urban Decay Analysis done by CB Richard Ellis
- Appendix M: Response to Economic Research Associates' October 17, 2007 Peer Review of the Eureka Balloon Track Retail Development Economic Impact and Urban Decay Analysis done by CB Richard Ellis in November 2006
- Appendix N: Eureka Balloon Track Retail Development Economic Impact and Urban Decay Analysis—Current Economic Conditions Summary Analysis

This master response addresses all or part of the following comments: 3-27, 9-4, 9-27, 9-29, 9-30, 14-1, 14-2, 14-3, 14-4, 14-7, 16-3, 16-4, 16-10, 16-33, 16-56, 16-72, 16-79, 16-80, 16-87, 16-134, 16-178, 16-225, 16-238, 16-247, 16-261, 16-269, 16-275, 16-286, 17-2, 17-3, 17-6, 17-12, 24-10, 24-11, 24-12, 24-13, 24-15, 25-47, 30-1, 31-9, 31-10, 32-13, 32-14, 33-12, 34-2, 36-1, 38-1, 38-6, 40-6, 41-3, 42-1, 46-1, 46-2, 47-1, 47-3, 48-3, 48-4, 50-4, 51-1, 51-2, 51-3, 52-2, 52-3, 52-4, 52-5, 52-6, 52-7, 52-9, 52-12, 52-13, 52-14, 52-15, 56-1, 57-1, 61-2, 62-5, 63-1, 64-1, 64-2, 64-3, 65-2, 67-1, 67-2, 68-16, 71-1, 71-2, 72-1, 75-5, 76-1, 78-2, 79-2, 81-1, 83-2, 84-4, 84-10, 85-5, 87-7, 87-10, 88-12, 90-3, 92-1, 93-2, 94-1, 94-2, 95-19, 96-1, 98-3, 99-2, 99-3, 100-8, 101-2, 102-4, 102-8, 105-2, 105-3, 105-4, 109-7, 110-13, 110-14, 110-15, 113-3, 115-1, 115-3, 117-10, 117-11, 118-1, 122-13, 122-14, 122-15, 125-3, 125-7, 125-12, 126-13, 127-6, 128-1, 128-2, 129-1, 130-2, 132-1, 133-1, 134-1, 134-6, 134-7, 134-10, 137-2, 138-1, 142-2, 142-7, 142-13, 143-1, 146-1, 147-2, 147-3, 148-17, 148-18, 148-19, 148-21, 149-1, 149-2, 149-5, 150-2, 150-3, 152-2, 152-3, 154-1, 159-2, 159-6, 160-2, 161-1, 162-4, 163-3, 168-3, 168-4, 170-3, 173-1, 174-2, 175-2, 175-4, and 175-5.

Comments suggest that the urban decay analyses is inadequate and most disagree with the findings of Impacts P-1 and P-2, both of which conclude that the project would result in less-than-significant impacts to urban decay. Comments also disagree with the findings of the technical appendices containing urban decay analyses. Specifically, comments state that:

- The urban decay analyses fails to accurately account for all of the existing vacant commercial space in the city.

- The proposed development, the anchor tenant in particular, would have a destructive impact on the ability of locally owned businesses to attract customers, which would force existing businesses to close. Numerous comments state that the Bayshore Mall's opening in the 1980s provides an example of what happens to locally owned businesses when chain retail stores open in the same market. Other comments state that modern anchor tenants are known as "category killers," which expand into new markets and use aggressive sales and marketing tactics to drive competition out of business.

- The revenues and/or tax on the revenues earned by the anchor tenant would leave the City of Eureka, as opposed to the revenues and/or the tax on revenues earned by locally owned businesses.

- The employment opportunities offered by the anchor tenant would not be sufficient in number, salary, benefits, or ability of advancement beyond entry-level positions.

- The potential anchor tenant, the retail sector in general, and the overall economy have all significantly deteriorated since 2007, resulting in job losses, vacant storefronts, decreased sales, lower customer demand, and business closures. These comments state that demand and need for the proposed project's retail component is therefore insufficient, and implementation of the proposed project would put the area in jeopardy of losing the anchor tenant in the current or a future economic Downtown, resulting in the loss of hundreds of jobs, personal income, and tenants to fill the retail space.

Response

Upon reviewing all of the comments regarding the economic analysis, it was noted that many focused on the same, relatively small number of topics. Those comments have been grouped under two major topic headings, one relevant to the California Environmental Quality Act (CEQA), and one not. With regard to the CEQA-related comments, the economic analysis concluded that less-than-significant impacts to urban decay would result from the development of the proposed project. However, where available, further information is provided to best respond to the public comments. In addition, where information relevant to answering questions was already included in the economic analysis, this information is reiterated herein.

CEQA is specifically interested in any impacts that would result in a physical change in the environment. Comments have been considered not relevant to CEQA if they have no bearing on the project's likelihood of resulting in significant physical deterioration of properties or structures and, thereby, leading to urban decay. Changes to the City's General Fund and changes to the job and wage markets are not relevant to the physical environment. In addition, CEQA is not concerned with the type of store that may be impacted by a project, such as whether a store is a national big box chain or whether it is a locally owned small business. Given this focus, a master response was drafted for the following comment topics:

Fiscal Impacts to the City of Eureka and Other Jurisdictions

The following comments relate to this topic: 14-1, 16-4, 52-12, 52-13, 52-14, 90-3, 93-2, 125-12, 147-2, and 163-3.

These comments address concerns as to what extent sales tax gains from the proposed project would be offset by losses from impacted businesses, whether the sales tax revenues to Eureka would exceed the costs to the city to provide public services to the site, and whether the sales tax revenues of cities surrounding the City of Eureka would decrease due to the proposed project.

Chapter 10 in CBRE Consulting's November 2006 report "Eureka Balloon Track Retail Development: Economic Impact and Urban Decay Analysis, Eureka, California" addresses the bulk of these questions. It was estimated in the report that retail sales generated by the proposed project would total $122.3 million in 2010 dollars. Maximum store sales impacts of $30.5 million were estimated (i.e., the proposed project might draw as much as that amount away from existing retail in the City). Given these figures, the annual amount of retail sales generated would be a net gain of $91.8 million. In the past, Eureka's General Fund received 1.0 percent of taxable retail sales, which would result in a net revenue gain of $918,000 from increased retail sales. However, last November 2008, voters passed a .25 percent transaction and use tax that goes directly to the General Fund. Therefore, the net revenue gain is here re-estimated to be $1.1 million, in 2010 dollars.

Chapter 10 also estimates increased police and fire service costs to the City of Eureka. The Fire Chief of Eureka estimated that service costs would not change dramatically due to the proposed project. Currently the Eureka Fire Department responds to wild fires on the project site as well as medical emergencies with the homeless population. These risks would decrease with proposed project, but there would then be a new risk of structure fire. Given these factors, the Fire Department does not believe costs to service the site would change significantly. The Police Department estimated increased costs to servicing the site at $147,411 in 2006 dollars, or two new positions. Inflating that figure to 2010 dollars equals $167,018.[1] Netting out these costs from the estimated 2010 net sales revenues of $1.1 million results in $933,000 in new revenues for the City of Eureka's General Fund. The net sales tax revenues to the City of Eureka would clearly exceed the increased costs of providing fire and police services to the site. In addition to sales tax proceeds, there are estimated to be annual property taxes of $911,396 on an assessed value of $91.1 million in 2010 dollars.

To the extent that residents change their shopping patterns, the cities and unincorporated County areas surrounding Eureka may experience a loss of sales tax revenue due to the new competition of the proposed project. Fiscal impact analysis is not a required CEQA topic. Consequently, the issue of sales tax distribution by municipal jurisdiction and how it might be affected by the project is not addressed in this Final EIR. In any event, it would be speculative to determine whether a potential decrease in retail sales tax revenue would be large enough to lead to public service cuts and whether those cuts would lead directly to urban decay in those communities. Comment letter 147 from BrendaLou Scott of Eureka states that her household spends thousands of dollars each year at Home Depot stores located outside of Humboldt County.[2] If this is representative of the spending patterns of others, it would suggest that much of the fiscal impact resulting from the proposed Home Depot

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1 Using California consumer price index data from the California Department of Industrial Relations. Inflation from 2006 to 2007 was 3.29 percent; inflation from 2007 to 2008 was 3.40 percent. Inflation was assumed to be an average of 3.0 percent per year from 2008 to 2010.

2 See response to comment 16-286 that states that 4.3 million dollars in credit card sales were made by shoppers based in the Eureka trade area at the Crescent City Home Depot in 2008.

store at the proposed project may be to Home Depot and Lowe's stores outside of Humboldt County, indicating that the local communities just outside of Eureka may not experience much retail sales tax loss.

Another fiscal concern expressed by comments is that new shopping centers only draw retail sales from existing stores and do not generate new sales. The history of retail in Eureka illustrates that this is not the case. Figure 3-1, below, shows historical annual retail sales tax in the City of Eureka from 1986 to 2007. Actual total annual retail sales is shown as well as retail sales in constant 2007 dollars, which adjusts for inflation effects. Although total retail sales in Eureka has increased almost every year from 1986 to 2007, adjusting the figures for inflation shows the impacts of the early 1990s recession. From 1991 through 1993, inflation-adjusted retail sales decreased in Eureka. Decreases were also seen in 2001 and 2007.

The Bayshore Mall opened in 1987. Annual retail sales in current dollars grew from $303 million in the year before the mall opened to $364 million the year after the mall opened, reflecting a 20 percent increase. In constant 2007 dollars, sales grew from $588 million to $650 million, reflecting a 10 percent increase. The effects of the Bayshore Mall on existing retail will be discussed separately, but Figure 3-1 shows that even when adjusted for inflation, retail sales in Eureka grew after the mall was built. It is likely the new mall brought additional choices in retail that had not existed before, which spurred new spending.

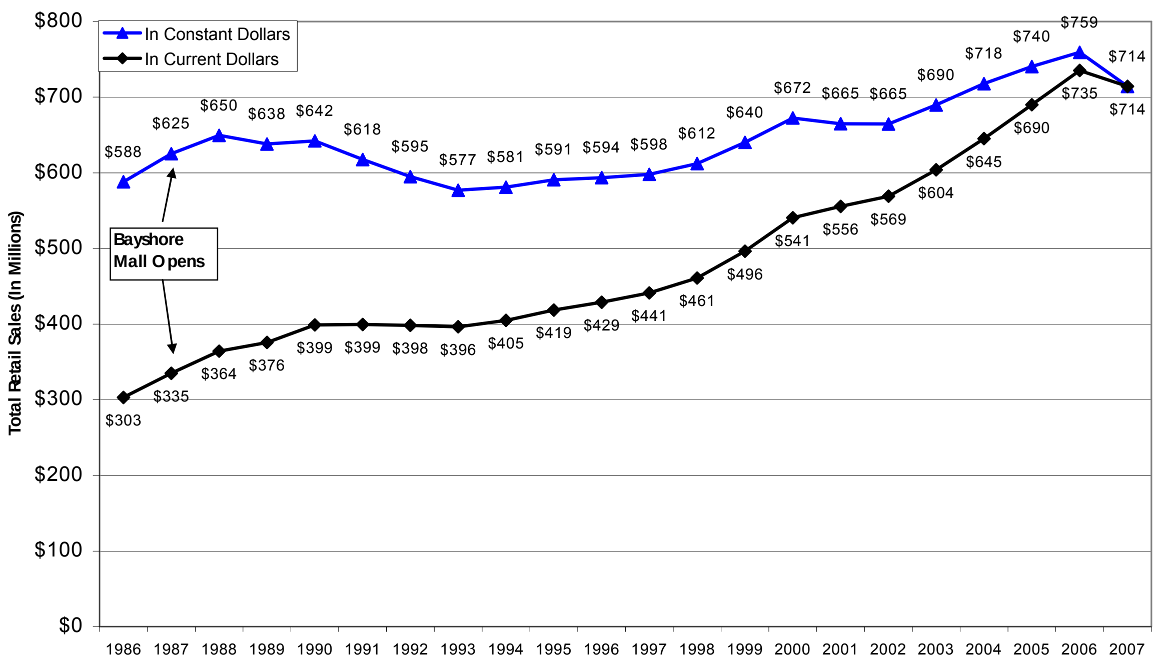

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Figure 3-1
Total Retail Sales for City of Eureka
1986 – 2007 (in millions)

While fiscal impacts are not a CEQA-required topic, a review of historical retail sales tax revenues suggests that net gains in Eureka's retail sales tax revenues could be expected as a result of the proposed project, even when accounting for impacts on existing businesses and increased police costs to service the site. Historical sales data for Eureka show that the last large shopping center built in the city coincided with increased total sales tax revenue. Sales data in Eureka also show that during recessionary periods, such as from 1990 through 1991 and from 2001 through 2003, sales data in constant dollars declined, but this is counterbalanced by strong subsequent growth in following years, such as in 1994 through 2000 and 2003 through 2006. Although surrounding cities may experience a decrease in sales tax revenue, this could be partially offset by the impacts to stores outside of Humboldt County. It is speculative to comment on whether possible sales tax revenue declines would lead to service cuts as well as whether any possible service cuts would lead to urban decay.

Jobs/Wages Impacts

The following comments relate to this topic: 36-1, 38-6, 48-3, 50-4, 52-3, 52-4, 56-1, 61-2, 67-1, 87-7, 93-2, 94-2, 100-8, 105-4, 110-14, 122-14, 127-6, 143-1, 146-1, 147-3, 175-2, and 175-4.

The viewpoints expressed in these comments are mixed, with some people expressing concerns that there would be no net increase in retail jobs or that new jobs would pay low wages, while others are confident that new jobs would result from the project.

Chapter 11 in CBRE Consulting's November 2006 report analyzed the impact that the proposed project would have on jobs. It was estimated that 1,246 jobs would be created at the project. This estimate comprises 264 jobs at Home Depot, 391 other retail jobs, 416 office jobs, 140 light industrial jobs, 13 museum jobs, and 22 property management jobs. The potential loss of retail jobs due to negative sales impacts was estimated to be 267 in Humboldt County, leaving a net gain of 979 jobs. In Eureka, the potential loss of jobs was estimated at 154; therefore, the net gain is 1,092 jobs in the City of Eureka. In addition to these gains, the Eureka Police Department estimated that two jobs would be created in order to service the proposed project.

One comment refers to a study published in January 2007 by the Institute for the Study of Labor entitled "The Effects of Wal-Mart on Local Labor Markets" (Neumark, et al., 2007). The study showed that retail employment growth was slower than it might have been without the Wal-Mart store, and examined the impacts of Wal-Mart stores specifically. It is not clear, however, how applicable the study would be to a mixed-use development, which includes a Home Depot store and other retail stores, such as proposed by the Marina Center project.

Two of the comment letters express confidence in the project's ability to generate jobs with good wages. Pastor Don Schatz of the Lutheran Church of Arcata, in particular, mentions a great need for new jobs and states that many local employers currently pay minimum wage. Chapter 11 in CBRE Consulting's November 2006 report also examines wages in Humboldt County, finding average retail wages of $9.96 per hour in 2004. In contrast, Home Depot's average hourly rate in 2004 was $12.57 per hour, or 26 percent higher than the average retail wage in Humboldt County, and 57 percent higher than the minimum wage in California. The current minimum wage in

California is $8.00 per hour. Home Depot also offers medical, dental, vision, disability, life insurance, paid vacation, holiday, and sick leave, and 401(k) retirement plans to all full-time and part-time employees.

More than half the new jobs would be office and industrial jobs. In 2004, average wages were $12.31 per hour for office workers and $15.70 per hour for industrial workers in Humboldt County. Wages for the jobs created at the proposed project would vary depending on the type of job, but it is clear that many would likely pay well above the current minimum wage in California.

National Stores vs. Local Stores

The following comments relate to the question of whether having national stores is less desirable than having local stores: 16-79, 24-11, 30-1, 32-13, 33-12, 34-2, 36-1, 38-6, 40-6, 46-2, 52-2, 52-4, 52-6, 52-15, 61-2, 63-1, 78-2, 84-4, 85-5, 94-1, 94-2, 95-19, 98-3, 118-1, 132-1, 143-1, 148-17, 149-2, 175-2, 170-3, 175-2, 175-4, and 175-5.

Comments on this topic often refer to studies that state $1 spent at a local store contributes more money to the local economy than $1 spent at a national chain store. Looking at the share of revenues spent locally by firms overlooks the big picture of total economic impacts to the local region. None of the studies were named, but there are several that were prepared by Civic Economics on retail areas in San Francisco, Austin, and Chicago (2009). These areas are not comparable to Humboldt County, given their dense urban setting. However, one study identified by CBRE Consulting was prepared in Maine, which has a similar population base to Humboldt County. This study was written by the Institute for Local Self-Reliance in September 2003 and was called "The Economic Impact of Locally Owned Businesses vs. Chains: A Case Study in Midcoast Maine." This study analyzed the revenues and expenditure data for eight local firms and compared them to Target and Wal-Mart stores in Maine.

The 2003 study found that the local businesses spent about half of their revenues in the local area. These expenditures consisted of the following as a share of total revenues:

28.1 percent – wages and benefits to local employees
16.9 percent – inventory, supplies, and services from other local businesses
5.4 percent – profits accruing to local owners
2.4 percent – taxes to local and state government
0.4 percent – charitable contributions

The two national chain stores studied, Wal-Mart and Target, spent 14.1 percent of their revenue in the local area. Most of that spending went to payroll. In terms of charitable contributions, the local firms gave $24,000 to local charities, or 0.4 percent of their total revenue of $5.7 million.

It makes sense that national chain stores would take advantage of economies of scale in order to buy inventory and services for their whole company at a lower price than could be purchased locally. Consequently, as a share of total revenues, chain stores may purchase less from the local area than a small business. However, because big box stores have higher revenues than small stores, they have much greater economic impacts on local economies than small local firms. These impacts include a greater number of jobs provided, a greater amount of money spent locally (even if it's a smaller percentage of revenue generally), a greater amount of tax revenues, and a greater amount of charity given locally.

The eight firms surveyed in the Maine study employed 62 people total, or an average of eight persons per firm. In contrast, large stores run by national chains employ many more people. In 2002, the average Wal-Mart store had 313 employees (Wal-Mart, 2003). The Home Depot store planned for the proposed project is estimated to employ 264 workers. Although the share of revenues spent locally by national chains may seem low, their total expenditures are large. In order to match the data in the study, CBRE Consulting examined national chain data from 2002. The average Wal-Mart store in 2002 had annual revenue of $49.0 million. If 14.1 percent of that revenue on average is spent locally, then a Wal-Mart store would contribute $6.9 million locally. In 2002 the average Target store had revenue of $30.0 million (Target, 2003). If 14.1 percent were spent locally that would total $4.2 million. Given the figures cited in the study, one big box store would contribute 47 to 142 percent more dollars to the local economy than 8 local businesses combined. In terms of philanthropic giving, an average Wal-Mart store in 2002 gave $490,000 to the local community while an average Target store gave $600,000. This compares, in the study, to an average of $3,000 given by each local business. Consequently, large national chain stores have the potential to contribute to the local economy.

CEQA-Related Comments

New Recessionary Conditions

The following comments refer to the current recessionary economic climate and its relationship to the success of the proposed project: 3-27, 9-29, 14-1, 16-286, 17-2, 17-3, 41-3, 47-3, 51-1, 51-2, 51-3, 52-3, 52-9, 64-2, 95-19, 102-8, 105-3, 127-6, 134-1, 134-18, 134-10, 142-2, 142-7, 148-18, 149-5, 152-2, and 152-3.

Recent headlines were dire with claims that the current recession is the worst since the Great Depression. Although the economy is clearly in a downturn currently, it is important to take a long-term perspective. Given the approvals process and the time needed for construction, the proposed project is not likely to open until 2011 at the earliest. Subsequent to the Great Depression, the longest recessions have lasted 2 years each (1973-1975 and 1980-1982). The current recession started in December 2007 and has now lasted 20 months. Although it is not possible to predict the future, it is likely that by the time the proposed project opens, the current recession would be over.

Declining retail sales have become a reality in the current economy. This is also the case in Eureka, with the City Finance Department reporting a paired quarter decline in total retail sales tax of 3.7 percent from 3rd quarter 2007 to 3rd quarter 2008. Among retail categories, new and used auto sales fared the worst, with a 28.0 and 47.1 percent decline, respectively, during this time period, followed by more modest declines in categories more relevant to the proposed project, such as a 2.5 percent decline in hardware store sales and 5.5 percent decline in lumber/building materials.

Given the declining trend in retail sales, it is reasonable to expect that some retailers would be able to weather the decline in sales, while others would not. Regardless of whether the proposed project is constructed, there are likely to be some store closures in the market area and, because of depressed economic conditions, the resulting vacancies would likely take longer to re-tenant (i.e., find replacement tenants) than would be the case under more normal economic conditions.

In reconsidering the Draft EIR's analysis and conclusions, it is important to reiterate how urban decay relates to CEQA. The leading court case on the subject, *Bakersfield Citizens for Local Control v. City of Bakersfield* (2004) 124 Cal.App.4th 1184, 1204, described the phenomenon as "a chain reaction of store closures and long-term vacancies, ultimately destroying existing neighborhoods and leaving decaying shells in their wake." This is the limited circumstance under which economic impacts result in physical changes to the environment subject to CEQA (Section 15131 of the CEQA Guidelines). Thus, not all vacancies constitute urban decay. An example of this at the Bayshore Mall in Eureka is the currently vacant Mervyn's store, which has not resulted in any adverse physical changes to the surrounding environment.

Given the state of the economy, with reduced retail spending, the economic projections included in the November 2006 report may not prevail in the short term. However, the EIR's economic consultant, CBRE Consulting, concludes that the economic conditions evident since the preparation of the Draft EIR would not alter or change the conclusion of the analysis with respect to urban decay. The economy is expected to rebound after some period of disequilibrium (Izzo, 2009).

There have been past periods of slow growth in Eureka, characterized by declining or flat retail sales on a per capita basis. These declines were counterbalanced by strong subsequent growth, with per capita inflation-adjusted taxable retail sales increasing annually in Eureka (illustrated in Figure 3-2, below). Despite these irregular periods of decline, per capita retail sales in Eureka have increased on a real basis over time.

While conditions now are more difficult than previous recessions, the rebounds in the 1990s, early 2000s, and even earlier periods demonstrate that with time, growth prevails, which bodes well for the future retail spending at the proposed project and other Eureka retailers. Moreover, while population growth may also be lower than historical rates, this is likely to be temporary, as home foreclosures and ultimate resales are proving to make home ownership accessible to households that previously could not gain access to the homeownership market. For example, the Humboldt Association of Realtors reported that the median home price in the City of Eureka was $254,500 in February 2009, which reflects a 36 percent decrease from the peak of $345,000 in February 2006. The median home price throughout all of Humboldt County declined 31 percent from its peak of $349,500 in March 2006. As a result, housing affordability for first-time home buyers has increased substantially in Humboldt County. According to the Humboldt Association of Realtors' most recent available data for February 2009, 23 percent of households in the county have income levels sufficient enough to afford a single-family home. Although this is still much lower than the share in

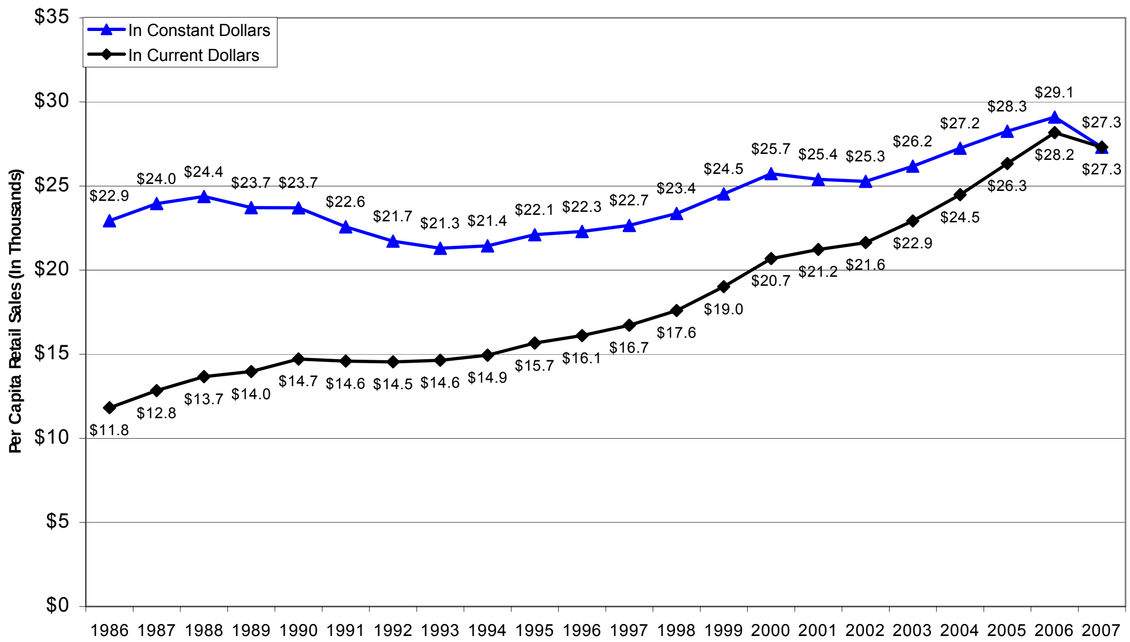

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Figure 3-2
Per Capita Sales in City of Eureka
1996 – 2007 (in thousands)

the late 1990s, when almost half of all households could afford the median-priced home, it is much higher than the most recent low of only 10 percent in February 2006. Thus, homeownership opportunities are becoming available for a population base previously locked out of the housing market, which bodes well for sustaining the local population base and ultimately contributing to future growth and a corresponding growth in retail customer base.

As of April 2009, the vacancy rate in Downtown and Old Town districts is greater than 10 percent (see “Vacancy in the City of Eureka,” below), which is more than the 5.0- to 10.0-percent vacancy rate threshold many industry representatives believe is indicative of a healthy retail market. The Bayshore Mall has vacancy rate of more than 20 percent. Other shopping centers and business districts have a healthy rate of vacancy near or below 5 percent. Several commercial real estate brokers indicated that this rate would likely increase in the coming months as the recession drags on, but that the vacancy rate would be unlikely to surpass 20 percent overall. Generally, increase in vacancies during market downturns increase the risk of urban decay, but it does not necessarily mean that urban decay would result.

Retail market conditions, as discussed in “Vacancy in the City of Eureka,” below, indicate that despite existing vacancy, including above-market equilibrium levels, the market is not currently characterized by urban decay. Properties characterized by vacancy generally do not have visible signs of neglect, abandonment, or poor maintenance. While only a few of the hundreds of buildings in Eureka are suffering from a lack of maintenance and some graffiti, loitering is not evident, the parking lots are free of trash, and cars are not parked with "For Sale" signs—all typical signs of declining property. Therefore, it is not a foregone conclusion that increased vacancy attributable to the proposed project would become a trigger for urban decay.

The degree to which urban decay may occur would be dependent upon many factors, including the degree to which property owners cannot adequately maintain their properties. The degree to which individual property owners can sustain a decline in revenue associated with increased vacancy would also be a factor in the potential emergence of urban decay, if they do not have the financial wherewithal to provide proper maintenance. In the short term, i.e. the next 6 to 12 months, the Eureka retail market is likely to continue to suffer due to the current recession and vacancy is likely to increase as more businesses close. However, the economy is likely to recover within the next two years and before the proposed project would likely open (please see updated information on project phasing plans in Master Response 4). By then, most of the weak businesses would have closed and the remaining ones would benefit from less competition. Many of the vacant spaces would have been retenanted or converted to new uses. There may be store closures due to the increase in competition from the proposed project, but given the current lack of urban decay in the market in the face of economic recession and high vacancy, CBRE Consulting maintains its original conclusion that the proposed project would not contribute to or cause urban decay.

Vacancy in the City of Eureka

The following comments refer to current vacancies in the City of Eureka that are not presented in the November 2006 Economic Impact Study or in the response to the peer review of this study dated December 13, 2007: 9-30, 14-2, 14-3, 14-4, 16-3, 16-72, 16-87, 16-225, 16-269, 16-286, 32-13, 38-1, 42-1, 48-4, 52-5, 64-1, 64-3, 72-1, 99-2, 101-2, 102-8, 105-2, 125-3, 125-7, 126-13, 127-6, 129-1, 148-17, 159-6, 161-1, 168-3, 173-1, and 174-2.

Original fieldwork for the November 2006 report was done in October 2005. At the time few vacancies were observed in the market. Brokers indicated that vacancy rate in the Old Town and Downtown shopping districts ranged between 5 and 10 percent. Bayshore Mall at the time had a 7 percent vacancy rate. An updated analysis reflecting changes in the economic conditions was completed in October 2008; however, no fieldwork was done at that time.

Follow-up fieldwork was done on April 23 and 24, 2009, to determine the current conditions. The fieldwork found that overall vacancies have increased, although vacancy rates vary based on shopping center or district. Some smaller shopping centers are fully occupied or have healthy vacancy rates near 5 percent. Vacancy rates in the Old Town and Downtown shopping districts, according to broker's estimates and from observation, ranges from 10 to 15 percent. The Bayshore Mall currently has a relatively high vacancy rate at more than 20 percent. The following is a summary by major shopping center or district with information current as of late April 2009.

Bayshore Mall. The largest center, Bayshore Mall, has four anchor spaces, two of which are undergoing transition. Sears and Ray's Food Place, a grocery store, are occupied. Mervyn's, which liquidated its merchandise and closed in late 2008, is currently vacant. However, Kohl's is moving into the space, with a planned opening in September 2009. Gottschalk's, which filed for bankruptcy in January 2009, announced in late March that the entire chain will be closing. The Gottschalk's store at Bayshore Mall is currently liquidating. A new tenant has not been announced. Bayshore Mall also has six other large spaces that are all occupied: the movie theatre; Borders Books & Music; Pier 1 Imports; PetCo; Ross Dress for Less; and Bed, Bath & Beyond. There are about 90 smaller stores inside the mall, 25 of which are vacant. Leasing officials at the center would not verify the vacancy rate, but given information from Claritas about the size of the anchors and large stores, and the average size of a smaller store, the vacancy rate appears to be about 23 percent.[3] The Gottschalk's store accounts for more than half the current vacant space. The owner of the mall, General Growth Properties, is struggling with debt and going through bankruptcy court, but may emerge from bankruptcy as a stronger operator due to restructured debt servicing or potential acquisition by a better capitalized shopping center operator. Either of these scenarios could allow more capital to be invested in the property to secure new tenants or simply maintain the property in the future. Despite the high vacancy rate, however, the center is in good condition. Many of the vacancies are disguised by having displays for other stores in their windows. There were no signs of urban decay.

Eureka Mall. The Eureka Mall is a 222,300-square-foot community-serving shopping center located at the intersection of West Harris Street and Central Avenue. It is anchored by Safeway, Michael's, Staples, and Long's Drug store. An 82,500-square-foot WinCo Foods store is also located in the mall. There were two vacant spaces in this center: a 3,000-square-foot space in the front (Harris Street) and a 10,000-square-foot space in the back (Henderson Street). This indicates a center vacancy rate of 6 percent. The center is in good condition and is clearly popular as evidenced by a crowded parking lot, and there are no signs of urban decay.

Henderson Center. The Henderson Center is a business and shopping district located approximately between D, G, Harris, and Henderson Streets. It is a mix of office and retail spaces surrounded by a residential neighborhood. The anchor retail tenants are Rite Aid Pharmacy, Shafer's Ace Hardware store, and Joann Fabrics. Six vacant spaces were observed, including two storefronts, a former realtor's office, counseling space, a former attorney's space, and an office space located in residential building. The Greater Eureka Visitor's Guide, published by the Chamber of Commerce, states that there are more than 100 retail, service, and professional businesses located in Henderson Center. This implies a vacancy rate of 6 percent, which is fairly healthy, and there are no signs of urban decay.

Old Town. This shopping district is located approximately along First, Second, and Third Streets between C and P Streets. The east end of the district is largely residential, with picturesque Victorian buildings that are being used as hotels or office spaces, as well as the Humboldt County Library. The west end of the district borders a light industrial area. The north end borders the waterfront, and the south end borders the Downtown shopping district. The core of the district is oriented towards tourists, with museums, art galleries, cafes and restaurants, and specialty shops. Many small offices are also located here. A close examination found more than 170 office or

3 This figure does not include the vacant Mervyn's space, as plans for retenanting this space by Kohl's have been announced. The figure does include the Gottschalk's space, even though it is currently occupied, because there are plans to close the store.

retail spaces, 17 of which were vacant. Assuming the vacant spaces are on average the same size as the typical space in the district, this implies a vacancy rate of 10 percent. Several brokers familiar with the area felt the vacancy rate was closer to 15 percent. Overall, vacant spaces were generally in good condition. However, two of the larger vacancies located on the north and west ends of the district did have signs of being close to urban decay, with graffiti and deteriorating facades. The first building is at 401 Waterfront Drive (a.k.a. 333 First Street), known as both the "Feuerwerker building" and the "the old Co-Op building." This building has a current code case through the Building Department, which has determined that the building is a public nuisance. The Building Department received a response from the owner on July 27, 2009 stating that the owner would hire an engineer to determine structural stability. The second building is at 207 3rd Street, and it is known as the "Schooner Saloon" The building is currently occupied by a bar and upstairs residences. Although there are no current code cases, the building does not appear to be well maintained.

A recent article in the North Coast Journal discussed retailers in Old Town (Walters, 2009). The article stated that from October 2008 through March 2009, 15 businesses have closed, but 27 businesses have opened. According to the article, the recession was not a factor in all of the closures. Some stores, such as Restoration Hardware, were closed because of a decision by their corporate headquarters. Other stores, such as Geppetto's and Cotton Works, closed for personal reasons. The vacancies have also been good opportunities for some businesses to lease better space. The article stated that North Soles, which has been located in a less visible portion of the F Street Plaza, is moving into part of the former Restoration Hardware space and Humboldt Herbals has had increased business since it moved in February 2009 from an upstairs space to a first floor corner space on Second Street.

Downtown. The Downtown shopping district is located just south of Old Town along Fourth, Fifth, and Sixth Streets from C Street to K Street. The Downtown district is more diverse than Old Town in its uses, with theatres, government buildings, hotels, health clinics, churches, auto repair shops, and some warehouse/light industrial space. A close examination found more than 200 office and/or retail spaces, 21 of which were vacant. Three of the vacant spaces were large: the former McMahan's Furniture store, the former Bank of America building, and a large retail space (prior tenant unknown). The number of stores vacant would imply an 11 percent vacancy rate, but the few larger spaces, as well as an opinion from local brokers, indicate that vacancy rate is closer to 15 percent. For the most part, vacant spaces were in good condition, but one building on the south end of the district, part of the former Nader Automotive dealership at 304 Sixth Street, looked to be poorly maintained, and could be construed to be close to urban decay. The Nader dealership went out of business last fall and so this building has been vacant for less than a year. The building is slated to be occupied by "Picky Picky Picky Surplus," and the new occupancy will include façade rehabilitation.

Other Smaller Centers in Eureka. There are several other smaller centers in Eureka. A strip center, Victoria Place, anchored by a Big 5 Sporting Goods store is located adjacent to Bayshore Mall. This center is service-oriented with a nail salon, hair salon, dentist, insurance and financial services firms, check-cashing store, UPS store, and military recruitment center. At the time of the recent vacancy survey, the shopping center had no vacancies and was in good condition. Next door is a small center called Boardwalk Mall, containing a Curves gym, arcade, clothing store, and flooring store. There are several vacant spaces. This center is an older style of shopping center and could use refurbishing, but there were no signs of urban decay.

Burre Center is a 63,000-square-foot shopping center located south of U.S. 101 on Myrtle Avenue and West Street. Neighborhood-oriented stores predominate this center, which contains a dry cleaner, café, flower shop, video store, realtor, dentist, and Kentucky Fried Chicken chain. Built in 1987, the center looks dated, but there were no vacancies. Adjacent to this center is a newer-looking center with a Long's Drugs, Dollar Tree, Starbucks, Radio Shack, Subway, and nail salon. This center had no vacancies, as well, and no signs of urban decay.

Other Vacancy Indicators. CoStar is another resource for retail vacancy information. Table 3-1 shows a survey of retail spaces in the City of Eureka. Data from CoStar are from brokers listing spaces for lease. Only properties available for lease through brokers are listed, so this table does not represent a comprehensive inventory of all existing retail. The data are likely skewed towards larger spaces more likely to be listed with a broker versus smaller spaces directly marketed by property owners. Nevertheless, Table 3-1 demonstrates a wide range of available vacancies in Eureka, ranging from less than 1,000 square feet suitable for small, start-up retailers to larger tenant spaces, such as those located in the Bayshore Mall. The list represents the CoStar data supplemented with other market knowledge. In some cases more information was known about the spaces, either from interviews with brokers, or from Claritas, and that was added. The last time this list was generated was in November 2007 in the response to the ERA peer review of the November 2006 report. At that time the vacancy rate in Humboldt County, according to the CoStar data, was 2.4 percent. The vacancy rate in just the City of Eureka was higher, at 3.6 percent. The updated list shows only space in the City of Eureka and is sorted by rentable building area, so that the largest spaces are listed first. Vacancy as of March 2009 based upon CoStar's data resources was 9.0 percent, up by 5.4 percentage points since November 2007. This figure is calculated assuming that the Mervyn's space would be retenanted by Kohl's and that Gottschalk's would soon be vacant.

TABLE 3-1
SUMMARY OF VACANCY IN THE CITY OF EUREKA

Center/Area	Vacancy Rate
Bayshore Mall[1]	23%
Eureka Mall	6%
Henderson Center	6%
Old Town	10 – 15%
Downtown	11 – 15%
Burre & Adjacent Center	0%

1 Vacancy rate excludes the former Mervyn's space, but includes the Gottschalk's space.

SOURCES: Leasing brokers; and CBRE Consulting.

The recession, which began in December 2007, and associated decrease in consumer demand, has affected the retail market in Eureka, increasing vacancies. The most severely affected retail has been the Bayshore Mall, where several corporate bankruptcies have led to large store closures. Numerous small retailers at the Bayshore Mall have also closed. However, there are positive signs, as well. The Mervyn's space will be re-tenanted by the end of summer 2009 by a Kohl's store. One new tenant occupying a large space in the interior of the Bayshore Mall is Bounce-A-Palooza, a store providing entertainment for young children. During this period of low consumer spending, store spaces may need to be retenanted by non-retail uses. The largest vacancy in Downtown Eureka is the 45,000-square-foot former McMahan's Furniture store. The leasing broker indicated that several office users are interested in the space, indicating a respective lack of supply of larger spaces in the office market. One possible future vacancy is a 25,000-square-foot Safeway store at Harris Street and Harrison Avenue. The store is planning to expand into a larger space across the street. One broker opined that the existing space may be reused for medical use because the nearby hospital is looking for a space to open a regional cancer center.

Table 3-1 summarizes vacancy by center or area in the City of Eureka. Brokers interviewed stated that the current vacancy rate in Eureka is likely to increase due to the continued weak retail environment and that the vacancy rate would likely peak at 20 percent.

It should be noted that when tenants vacate prior to lease expiration, they continue to be responsible for rent and their share of building operating expenses. While not all tenants would have the finances to continue these payments, national retailers are more likely to have this capability than local retailers. This is an important consideration because landlords would continue to receive income on these vacated spaces, which means they would have available financial resources to continue to maintain their properties. More importantly, city ordinances, such as the City of Eureka Municipal Code Chapters 131 and 150, require property owners to maintain their properties so as not to create a nuisance by creating a health and safety problem. Enforcement of these ordinances can help prevent physical deterioration due to any long-term closures of retail spaces. One other possible outcome of retail store closures and prolonged vacancies is that existing property owners, or buyers, might decide to redevelop these spaces with other uses, thereby preventing physical deterioration and the threat of urban decay. While the poor economic conditions may in turn limit the rate of growth of these alternate uses, nonetheless the potential would exist, with properties positioned for alternate use when market demands pick up concurrent with the return of economic growth. Based upon these findings, CBRE Consulting concludes that the increased retail vacancy rate picture in the City of Eureka does not change the conclusions of the November 2006 report.

The Effect of the Bayshore Mall on Local Businesses

The following comments refer to local business closures occurring in response to the new competition after the Bayshore Mall opened: 14-4, 16-286, 32-13, 51-1, 64-3, 78-2, 102-8,105-2, 126-13, 129-1, 134-1, 148-17, 150-2, 159-2, 162-4, and 168-4.

These comments generally refer to the history of retail in Eureka and store closures after the opening of the Bayshore Mall. Opinions varied on which parts of the city were impacted and how long these impacts lasted. This topic is mentioned in the November 2006 report in Chapter 9, Urban Decay Determination, under the characterization of the market. This topic is also discussed above, under “Fiscal Impacts to the City of Eureka and Other Jurisdictions,” where data show that total sales in Eureka increased after the mall opened. This increase indicates that sales were not just redistributed from existing retailers to new retailers at the mall, but that the mall generated new sales. These new sales could have come from the introduction of products not previously available in Humboldt County at existing stores.

In order to become more familiar with the retail history in Eureka, CBRE Consulting interviewed city officials who have lived in the area since before the Bayshore Mall opened in 1987. According to the interviews, after the Mall opened some stores in the Downtown closed. These stores were largely department stores that had been there since the 1950s and were dated in design and function. Retail is a dynamic industry with numerous changes in how and where people prefer to shop. In the United States the Downtown department store model has generally been overtaken by the suburban auto-oriented center. More recently, indoor malls have gone out of fashion and more outdoor lifestyle malls, with a mix of restaurants and entertainment, are being built. As cited in a November 2008 Newsweek article, “Last year was the first in half a century that a new indoor mall didn’t open somewhere in the country—a precipitous decline since the mid-1990s when they rose at a rate of 140 a year.” Eureka’s Downtown shopping district has recovered from its loss of department stores and transitioned into a government and office district with some supporting retail. According to city officials, there was no urban decay in the stock of Downtown buildings during this transition.

The Bayshore Mall affected the Eureka Mall directly because it took one of its anchors. Sears originally had a store at the Eureka Mall, but moved to Bayshore Mall, leaving a vacant space at the Eureka Mall. However, this space was vacant for less than one year and did not take on any signs of urban decay while it was vacant.

Officials interviewed did not believe that the Bayshore Mall caused store closures in the Old Town shopping district because this area specializes in stores oriented towards tourists. Officials also felt that the Costco and Target stores did not lead to any retail closures in the city. The Target store is discussed further under “The 1999 Bay Area Economics Report,” below.

The history of retail in Eureka, and of the Bayshore Mall in particular, shows the changing nature of shopping and the resiliency of Eureka’s business districts. This bodes well for the reuse of buildings currently vacant or potentially becoming vacant due to impacts from the proposed project.

Potential Local Store Closures

The following comments share the concern that the proposed project, and in particular the Home Depot store, would have a strong negative impact on smaller locally owned stores and that this negative impact would lead to store closures: 9-30, 16-3, 16-79, 16-87, 25-47, 31-9, 31-10, 32-13, 46-2, 48-3, 51-3, 52-7, 52-15, 56-1, 71-2, 72-1, 75-5, 76-1, 81-1, 83-2, 84-10, 85-5, 87-7, 92-1, 95-19, 96-1, 99-3, 100-8, 101-2, 102-8, 105-4, 113-3, 115-1, 115-3, 117-10, 118-1, 126-13, 132-1, 133-1, 134-7, 142-2, 143-1, 148-17, 149-1, 150-2, 152-2, 154-1, 159-2, 159-6, 160-2, 173-1, and 174-2.

CBRE Consulting's November 2006 study examined this issue of impacts on existing businesses in depth. The results determined that existing businesses in Eureka and Humboldt County may experience diverted sales due to new competition from the proposed project and that some store closures could occur. Any existing store that sells products in the relevant retail categories could be impacted. These include small, locally-owned businesses, as well as larger regional and national chain stores. The results in terms of maximum sales diversions in 2010 dollars and potential square feet affected are summarized in Table 3-2, below. The retail categories determined to be affected are restaurants, building materials, books and electronic specialty stores, garden supplies, and other retail stores, which is a broad category encompassing some general merchandise.

TABLE 3-2
SUMMARY OF EXISTING STORE IMPACTS IN HUMBOLDT COUNTY DUE TO THE PROPOSED PROJECT ONLY, 2010 ESTIMATE

Retail Type	Maximum Sales Diversions (Millions)	Maximum Square Feet Affected
Restaurants	$2.5	6,800
Building Materials	$11.9	32,300
Specialty Stores (Books & Electronics)	$6.7	18,000
Garden Supplies	$5.7	15,500
Other retail stores[1]	$22.5	60,800

[1] Includes general merchandise, liquor stores, second-hand merchandise, farm implement dealers, fuel and ice dealers, mobile homes, trailers, campers, boat, motorcycle, and plane dealers. Excludes drug stores.

SOURCES: Exhibit 28 of November 2006 report; and CBRE Consulting.

There are many factors that influence whether stores impacted would close. One response of existing stores to new competition is business repositioning. This strategy can include providing strong customer service, providing specialty niche products and services, carrying different product lines or changing product mixes, and enhanced marketing. These types of strategies have been successfully employed by many small businesses dealing with competitive influences, especially from high volume retailers like Home Depot. These kinds of strategies are well documented in industry literature, exemplified in the article "Staying One Step Ahead of the Boxes," published August 2008 in *Hardware Retailing*. This article discusses strategies used by the president of a local hardware chain in Florida to compete against big box retailers like Home Depot and Lowe's.

As explained above under, "The Effect of the Bayshore Mall on Local Businesses," the history in Eureka shows that many businesses have been able to adapt when new competition enters the region. However, some stores may close leaving vacant spaces. CEQA is most concerned with whether these vacant spaces are likely to devolve into urban decay. The existing retail market in

Eureka is weak, with some areas and shopping centers experiencing high vacancy rates. In the short term, these weak conditions are likely to worsen, but over the next two years it is expected that the economy will revive (Izzo, 2009). By the time the proposed project opens in 2011, at the earliest, vacancy is likely to be returning to market equilibrium.

Even now there are several signs that retenanting is possible. The Mervyn's space at the Bayshore Mall will be retenanted by Kohl's, and McMahan's Furniture store in Downtown Eureka is likely to be retenanted by office users. As discussed above under "Vacancy in the City of Eureka," despite the high vacancy rate prevailing in April 2009, there are very few signs of urban decay. Only three buildings were observed in Downtown and Old Town that were suffering from a lack of maintenance and some graffiti. Given the recessionary conditions, drop in consumer spending, and many vacant storefronts, this is a fairly strong performance for the hundreds of buildings located in the shopping districts. No signs of urban decay were observed at any of the other business districts and shopping centers in Eureka. Given the history of resiliency in Eureka and its prevailing performance during difficult times, CBRE Consulting concludes that the proposed project would result in a less-than-significant impact to urban decay.

The 1999 Bay Area Economics (BAE) Report: *Economic Impacts Assessment for New Retail Development Regarding a Proposed Wal-Mart Store in Eureka*

The following comments refer to this BAE report and state that the report should have been considered in the EIR for the proposed project: 14-7, 16-275, 16-286, 46-1, 51-1, 51-2, 51-3, 52-3, 102-8, 105-3, and 152-2.

In August 1999, Bay Area Economics (BAE) prepared a report for the City of Eureka titled "Economic Impacts Assessment for New Retail Development" (BAE Report). At the time, there was an outstanding proposal to build a Wal-Mart at the project site. The BAE Report examined the potential impacts of a big box store such as Wal-Mart or Target, as well as the potential impacts of a home improvement warehouse, such as Home Depot. The zoning initiative that would have enabled the proposed Wal-Mart eventually was rejected. A Target store opened at the former Montgomery Ward site in 2004.

Comments suggest that the 1999 BAE Report should have been considered. Although the BAE Report was considered, it was prepared 10 years ago and relied on data that is now obsolete. The BAE Report also studied a different proposal—a stand-alone, big box store versus a mixed-use development with Home Depot as the anchor tenant.

Underestimation of Taxable Sales Increases

In the BAE Report, taxable retail sales in Humboldt County are projected from 1998 to 2005. The BAE projection was done in constant 1998 dollars. In order to compare the projection to actual sales, an adjustment must be made for inflation. In Table 3-3 (Exhibit 3 of the BAE Report), the BAE projection is adjusted for actual inflation and then compared to actual sales. The BAE Report projected that Humboldt County would have sales of $899 million in 2005. After adjusting for inflation, the projection is $1.1 billion. Actual sales in 2005 were $1.2 billion, 5.7 percent higher than the BAE forecast. Thus, BAE modestly underestimated sales growth in Humboldt County.

Although the BAE total sales projection was lower than actual sales by only 5.7 percent, the variation by category ranged from a 28.7 percent underestimate of the home furnishings and appliances category to a 15.0 percent overestimate of the food stores category. The two categories most relevant to a Home Depot store are: 1) home furnishings and appliances; and 2) building materials. For these two categories, the BAE projection greatly underestimated taxable sales. The underestimation in home furnishings and appliances was 28.7 percent and the underestimation in building materials was 26.8 percent. The category most relevant to a Wal-Mart or Target is general merchandise. That category was underestimated by 4.5 percent.

Table 3-3 also shows actual 2005 retail sales in 1998 dollars and the actual sales growth in 1998 dollars. The BAE Report estimated that a typical Wal-Mart store generates $30 million in annual sales. The BAE Report projected that taxable sales in the general merchandise category would grow from $157 million in 1998 to $176 million in 2005. Given the BAE forecast increase of $19 million in the general merchandise category, the BAE Report states that sales at a potential Wal-Mart would likely be cannibalized from existing general merchandise stores. The implied impact would be the difference between Wal-Mart sales and the projected increase in general merchandise sales, or $11 million (i.e. $30 million Wal-Mart sales less $19 million growth in sales). However, actual sales growth for the period 1998 to 2005 in 1998 dollars totaled $27 million, 42 percent higher than the BAE projection, implying impacts of only $3 million. The underestimation of future taxable sales resulted in an overestimation of the impact of a Wal-Mart store on local retailers. The same type of overestimation would apply to the Target store if analyzed by BAE, although no such analysis is included in the BAE Report.

The BAE Report implies that impacts from a Home Depot store would be $30 million. These impacts are based on a Home Depot sales estimate of $40 million and a forecast sales increase of $10 million in the building materials and farm implement dealer's categories. However, actual sales increases were $35.1 million in the building materials and farm implement dealer's categories. If BAE were to redo their analysis with the actual sales growth, the estimated impact would be smaller, at $4.9 million.

Potential Sales Impacts of Home Depot

Table 3-3 shows BAE's Home Depot sales estimate distributed by the sales categories assumed by CBRE Consulting. The BAE Report assumed that all impacts from a Home Depot store would be in the building materials category. The CBRE Consulting Report distributes Home Depot sales into three categories based on typical Home Depot store sales data historically provided to CBRE Consulting by Home Depot. Approximately 20 percent of Home Depot sales are products in the home furnishings and appliances category, 63 percent are in building materials, and 17 percent are in "other retail," mostly garden supplies. In the table, the BAE forecasted increase in sales is distributed to the categories deemed relevant by CBRE Consulting. Then actual sales increases are displayed. The difference between the BAE forecast and actual sales, all in 1998 dollars, is $59.4 million for categories relevant to Home Depot. The possible impacts in the home furnishings and appliances category are the difference between actual sales and the BAE estimate of Home Depot sales, or $300,000. The other two categories, building materials and other retail,

TABLE 3-3
ESTIMATED HOME DEPOT STORE SALES BY CATEGORY VS. FORECAST SALES AND ACTUAL SALES IN MILLIONS, IN 1998 DOLLARS

Category	BAE Home Depot Sales Estimate	Share of Sales	BAE Forecast Increase	Actual Sales Increase	Difference Between Forecast and Actual	Implied Impacts
Home Furnishings and Appliances	$8.0	20.0%	$2.1	$7.7	$5.6	$0.3
Building Materials	25.2	63.0%	10.2	35.1	24.9	0.0
Other Retail	6.8	17.0%	14.6	43.5	28.9	0.0
Total	$40.0	100.0%	$26.9	$86.3	$59.4	$0.3

SOURCE: Exhibit 3 of BAE Report; and CBRE Consulting.

both had actual increases in sales that could have accommodated a Home Depot store without negative impacts to local retailers.

The CBRE Consulting Report, using a retail sales leakage model, found that the proposed project would have no sales impact on the home furnishings category. CBRE Consulting also estimated that the building materials category could have an $11.9 million sales impact in 2010 and the “other retail” category could have a $22.5 million sales impact in 2010. These estimates are higher than BAE’s implied estimates because the proposed project is a larger project, the estimates are in 2010 and not 1998 dollars, and the size and composition of Eureka’s retail base has changed. In addition, the CBRE Consulting Report includes a more detailed analysis of these prospective impacts.

The BAE Report examines retail leakage in Humboldt County, but it does not take it into account when estimating impacts. In fact, the BAE Report found $9.8 million in retail sales leakage from the home furnishings category in Humboldt County. That amount would be enough to absorb the $8.0 million in new Home Depot sales in that category, according to BAE’s sales estimate distributed by category. The BAE Report also found $16.6 million of retail sales leakage in the building materials and farm implements category and $35.8 million of retail sales leakage in the “other retail stores” category, but it did not take this leakage into consideration when examining potential impacts. This contributed to the overestimation of sales impacts by overlooking current retail sales leakage in the market area.

Effects on the City’s General Fund

The BAE Report found that a new home improvement or big box store in Eureka would result in a net positive effect on the City’s General Fund. Specifically, if a home improvement store were built, BAE estimated that the net fiscal effect after increased municipal costs would be $149,000 in 2005. That estimate is in 1998 dollars. The inflation-adjusted estimate would be $184,000 for 2005. The CBRE Consulting Report also found that retail development in Eureka would result in a net positive effect on the City’s General Fund. CBRE Consulting estimated that in 2010, the proposed project would have a net positive effect of $947,000 on the City of Eureka's General Fund. This positive effect would be $813,000 in 2005 dollars.

CBRE Consulting's estimate is larger than the BAE Report's estimate for two reasons. First, the BAE Report was examining the impact of one large home improvement or big box store, whereas plans for the proposed project include a Home Depot store as well as 195,500 square feet of additional retail. Second, as stated above, the BAE Report underestimated taxable sales, especially in the (1) home furnishings and appliances and (2) building materials categories. Still, even though the two estimates are different, it is useful to note that both reports find that new retail development in Eureka would affect the City's General Fund in a net positive manner.

Case Studies

The results of the two case studies in the BAE Report reflect similar findings to the CBRE Consulting Report case studies. The BAE Report examined economic impacts in Ukiah and Chico after Wal-Mart stores were built. In both cases there were no significant impacts on the local retailers or Downtown shopping districts. In fact, the BAE Report found some positive impacts on the communities. The CBRE Consulting Report investigated the economic impacts in Ukiah, San Rafael, and Woodland after Home Depot stores were built. In all three cases there were no identified negative economic impacts on local retailers or Downtown shopping districts.

In Ukiah, the BAE Report found that subsequent to the opening of Wal-Mart's new store, which was built near the freeway, the City of Ukiah Planning Department rezoned the area to incorporate mixed-use development. That area has since seen numerous retail developments, including a Friedman Brothers hardware store. The experience in Chico was similar, with numerous big box retailers following the development of the Wal-Mart store. In both Chico and Ukiah, the Downtown shopping areas have thrived by carving out a unique niche of specialty products that do not compete with big box stores.

Job Impacts

The BAE Report and CBRE Consulting Report both estimate job impacts, but each report uses different methods. The reports examined different scenarios, with the BAE Report looking at a Wal-Mart or Home Depot store and the CBRE Consulting Report looking at the proposed project. Still, both reports found that there would be a net gain of jobs or at least no net job losses for the City of Eureka.

The BAE Report estimates jobs impacts with the assumption that a new type of store would not attract new sales to the county, but would capture the projected increase in countywide retail sales. If a new store has more sales than the expected increase in countywide retail sales, then the store would cannibalize sales from existing stores. Even without a new store, the BAE Report states that the projected increase in taxable sales would result in 650 to 675 new jobs in Humboldt County by 2005. Given that BAE underestimated future taxable sales, this new jobs estimate is low. The BAE Report finds that if a Wal-Mart store were built in Eureka, some current jobs would be lost, but they would be replaced by new jobs at Wal-Mart. In other words, there would be no net loss of jobs. If a home improvement store were built, the BAE Report concludes that there would be a net gain of jobs, albeit a small gain of less than 10 jobs. This gain is attributed to new sales coming from Del Norte County, which did not have a major home improvement store when the BAE Report was written. Currently, there is a Home Depot store in Del Norte County in Crescent City.

The CBRE Consulting Report estimates jobs created at the proposed project using industry-accepted assumptions about how many employees per square foot there are on average for different types of space. There are estimated to be 1,246 new jobs created at the proposed project, including 655 retail jobs, 416 office jobs, 140 light industrial jobs, 22 property management jobs, and 13 other jobs. Job losses are calculated by taking the estimated maximum sales impact divided by the average sales per square foot to calculate square feet impacted. This estimate is then divided by an assumed 500 square feet per employee to reach a worst-case scenario of 267 jobs impacted in Humboldt County. This estimate is multiplied by the City of Eureka's percent share of county sales to reach the 154 impacted jobs in Eureka. This leaves a net gain of 1,092 jobs for the City of Eureka.

Since the two reports used different methods to calculate job impacts, it is difficult to compare the results directly. However, both reports show that new retail development in Eureka would not result in a net loss of jobs.

Impacts if Retail Is Built Outside Eureka

The BAE Report states that the worst case for the City of Eureka is if a big box store were built outside of the City, but within Humboldt County. In Table 22 of the BAE Report, the fiscal losses from a general merchandise store built outside Eureka are estimated at $80,000 in 2005. Fiscal losses from a major home improvement store built outside Eureka are estimated at $90,000 in 2005. Both estimates are expressed in 1998 dollars.

The CBRE Consulting Report does not estimate fiscal impacts of a store built outside of Eureka, but it does estimate potential diverted sales from a proposed development in the City of Fortuna. This specific development, which is still in the preliminary stages, is located on the former Pacific Lumber Company Sawmill site and is likely to have big box stores and other retail. CBRE Consulting estimated potential diverted sales in Eureka alone at $126.8 million in 2010, or 14 percent of Eureka's retail base. These diverted sales are equal to $1.3 million in sales tax revenue that would go to the City of Fortuna. There would be no mitigating effects of the sales impacts since all the new jobs, new property tax, and new sales tax would accrue to the City of Fortuna. If a smaller development similar to the proposed project were built outside Eureka, the sales impacts would be $30.5 million and the lost sales tax would be $305,000. Given that sales from the Home Depot store would comprise about 34 percent of the total proposed project's sales taxes, sales impacts for just the Home Depot store would be approximately $10.4 million and lost sales tax for just the Home Depot store would be approximately $104,000. This estimate is similar to the BAE Report's estimate for fiscal impacts from a home improvement warehouse.

Actual Impacts of the Eureka Target Store

A Target store opened in 2004 in the City of Eureka. The space had previously been occupied by a Montgomery Ward store that closed in 2001. The typical size of a Target is 123,000 square feet (TradeDimensions, 2006) and the average sales per square foot in 2005 was $298 (Retail Maxim, 2006), so the annual sales expected were approximately $36.7 million in 2005. Sales tax data are available for 2005; therefore, analysis can be conducted to assess the possible effects of the new store on retail sales tax collected in Eureka.

Target's 2005 annual report states that 95 percent of the goods it sold were consumables and commodities, electronics, entertainment, sporting goods and toys, apparel, and home furnishings. The most relevant Board of Equalization categories are apparel, general merchandise, food stores, home furnishings and appliances, and "other retail stores."

Even though Target sells goods in several categories, all sales at the store are recorded under the general merchandise category. Actual growth in the general merchandise category was $35.9 million from 2003 to 2005. This is similar to the estimate for Target's annual sales. However, all of the categories had sales growth, although the most dramatic was in general merchandise. This growth strongly suggests that Target sales were a net addition to the city, with no diversions from existing retailers. The trend in number of outlets was mixed, with a net decrease of six stores in the home furnishings and appliances category and a net loss of one general merchandise store. However, there was no net loss of apparel stores, and there was a net gain of two food stores and 18 "other retail stores." These trends do not determine causation, but are still useful to examine for possible effects of the new store.

An interview with a Department of Finance official at the City of Eureka reveals that there has been no clear impact either negative or positive from the new Target store. The city official states that it is not clear if any stores have closed due to the Target, nor has there been any major subsequent development near the Target store. There also has been no noticeable impact on the Old Town and Downtown shopping districts. This interview suggests that the BAE Report overstated potential impacts of a big box general merchandiser on local retailers. Also, the store that is most competitive with Target, the K-Mart store in Eureka, has not closed due to the new competition.

Conclusion

A review of the 1999 BAE Report using actual sales achieved reveals that forecasted sales growth is underestimated, especially in categories relevant to a Home Depot store. In addition, existing retail sales leakage is not taken into consideration when estimating sales impacts of new retail. Therefore, potential impacts on existing home improvement retailers are overestimated in the BAE Report.

The BAE Report and the CBRE Consulting Report have similar conclusions in most areas. Both find that retail development would have a net positive effect on the City of Eureka's General Fund. Through case studies of other California cities, both reports also find that new Wal-Mart and Home Depot stores in the case study cities do not necessarily lead to local retailer store closures. They also find that new retail is not expected to produce a net loss of jobs. Both reports examine the issue of potential impacts to Eureka if retail is built elsewhere in Humboldt County, and both reports find that the City of Eureka General Fund and Eureka retailers would likely be negatively impacted if this occurs.

Finally, CBRE Consulting's analysis of sales trends in Eureka before and after the Target store was built finds that there was a possible negative impact on home furnishings and appliances retailers because there was a net loss of six stores. However, sales tax rose in all relevant categories, and an interview with a City of Eureka official reveals that there is no clear evidence of negative impacts, such as store closures, due to the new Target store. The store that is most competitive with Target, the K-Mart store in Eureka, has not closed due to the new competition. The city official also says that there has been no noticeable impact on the Old Town and Downtown shopping districts. These results indicate that the BAE Report overstates potential impacts on local retailers from a big box general merchandiser.