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Bay Area Economics

ECONOMIC IMPACTS ASSESSMENT FOR NEW RETAIL DEVELOPMENT

EUREKA, CALIFORNIA

Prepared for:
City of Eureka

August 1999

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Bay Area Economics

August 11, 1999

Mr. David Tyson
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City of Eureka
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Dear Mr. Tyson:

We are pleased to submit the attached Economic Impacts Assessment for New Retail Development in Eureka. We have enjoyed working with you on this challenging assignment.

Sincerely,

Raymond Kennedy

Raymond Kennedy
Senior Associate

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TABLE OF CONTENTS

EXECUTIVE SUMMARY i
- Background and Study Purpose i
- Demographic Analysis i
- Trade Area Retail Conditions and Trends ii
- Profile of General Merchandise and Home Improvement Retail Segments ii
- Eureka's Existing Fiscal Conditions iii
- Impacts on Existing Retailers in Eureka iii
- Jobs and Employment Impacts iv
- Net Fiscal Effects of Proposed Projects iv
- Big-Box Utilization of Local Suppliers v
- Big-Box Charitable Contributions vi
- Market for Industrial Land and Buildings vi

INTRODUCTION 1
- Background 1
- Study Purpose 1
- Report Contents 1

DEMOGRAPHIC ANALYSIS 2
- Introduction 2
- Definition of Trade Area 2
- Population and Household Trends 2
- Employment Trends 3
- Summary of Demographic Analysis. 3

TRADE AREA RETAIL CONDITIONS AND TRENDS 11
- Existing Competitive Supply of Region-Serving Retail 11
- Other Retail Concentrations in Eureka and Surrounding Communities 13
- Planned and Proposed Retail Development 14
- Retail Sales in Eureka and Humboldt County 18
- Retail Leakage Analysis 27
- Summary of Retail Conditions in Eureka and Humboldt County 30

PROFILE OF GENERAL MERCHANDISE AND HOME IMPROVEMENT RETAIL SEGMENTS 31
- Profile of General Merchandise Retailing 31
- Profile of Home Improvement Retailing 34
- Strategies for Competing with Big-Box Retailers 39

EUREKA'S EXISTING FISCAL CONDITIONS 42

IMPACTS ON EXISTING RETAILERS IN EUREKA 44
- Interviews with Eureka Stakeholders 47
- Case Studies 50
- New Potential Shopping Alternatives Offered by Big-Box Retailers 57
- Estimated Impacts of Proposed Retail Projects on Existing Businesses 59

EMPLOYMENT AND WAGE IMPACTS 65
Baseline Scenario 65
Scenario 2: New Big-Box Store in Humboldt County (Location not Specified) 66
Summary of Job and Wage Impacts 67
NET FISCAL EFFECTS OF PROPOSED PROJECT 68
Introduction 68
Net Tax Revenues Generated by Project 73
Summary of Fiscal Impacts 73
BIG-BOX UTILIZATION OF LOCAL SUPPLIERS AND CHARITABLE CONTRIBUTIONS TO LOCAL COMMUNITIES 75
Big-Box Utilization of Local Suppliers 75
Big-Box Charitable Contributions 78
MARKET FOR INDUSTRIAL LAND AND BUILDINGS 80
APPENDIX: RETAIL LEAKAGE ANALYSIS METHODOLOGY 84

LIST OF TABLES AND FIGURES

Table 1: Population and Household Trends 5
Table 2: Estimated 1998 Household Income Distribution 6
Table 3: Median Household Income Trends 7
Table 4: Age Distribution 8
Table 5: Population Projections 9
Table 6: Annual Average Employment by Industry Sector 1988-1998 10
Figure 1: Regional Retail Destinations in Eureka 16
Table 7: Regional Shopping Destinations in Eureka 17
Table 8: California Taxable Retail Sales Trends 22
Table 9: Humboldt County Taxable Retail Sales Trends 23
Table 10: Eureka Taxable Retail Sales Trends 24
Table 11: Taxable Retail Sales Trends in Other Humboldt County Cities 25
Table 12: Comparison of Annual Taxable Retail Sales 26
Table 13: Humboldt County Retail Sales Leakage by Major Store Category 29
Table 14: Eureka General Fund 43
Table 15: Ukiah Taxable Retail Sales Trends 53
Table 16: Mendocino County Taxable Retail Sales Trends 54
Table 17: Chico Taxable Retail Sales Trends 55
Table 18: Butte County Taxable Retail Sales Trends 56
Table 19: Merchandise Categories Available at Wal-Mart Compared to Existing Eureka Retailers 58
Table 20: Projected Humboldt County Taxable Retail Sales 64
Table 21: Comparable Public Service Costs 72
Table 22: Net Fiscal Effects of New Retail Development 74
Table 23: 1998 Wal-Mart In-State Suppliers 77
Table 24: 1998 Wal-Mart Community Involvement 79
Table 25: Currently Leasing/Selling Industrial Buildings 82
Table 26: Vacant Industrial Land 83

EXECUTIVE SUMMARY

Background and Study Purpose

Recently, a proposal was submitted to the City of Eureka for development of a Wal-Mart on a site near downtown Eureka known as the Balloon Track. This proposal has proven to be very controversial in the City and Humboldt County, as proposals for new big-box retail, especially Wal-Mart, often are. In addition to the general concerns about Wal-Mart's impact on the local economy, there is considerable community concern about the reuse of the Balloon Track itself for retail rather than preserving it for future industrial use or public use, especially since the site is located near the waterfront.

Bay Area Economics (BAE) has been retained by the City to address many of the issues raised by this proposal. The scope of the study has been broadened to consider impacts of big-box retail in a more general way rather than just this specific proposal, because the City is likely to receive more proposals for this type of retail project in the future. This study evaluates scenarios including an unspecified major value-oriented general merchandise outlet (such as Wal-Mart, Target, or Kmart) and an unspecified major home improvement center (such as Home Depot or HomeBase). This study does not evaluate impacts specifically related to the Balloon Track site, such as possible impacts on or linkages with Old Town and Downtown retail due to the store's proximity.

Demographic Analysis

The demographic profile for Eureka and Humboldt County suggests a trade area with households that are smaller in size, older in age, and less affluent than California. Population growth in Eureka and Humboldt County has been relatively stagnant, and is not expected to increase significantly in the foreseeable future. Both Eureka and Humboldt County have small household sizes when compared to California as a whole. Median household income for both Eureka and Humboldt County is below that of California and has fallen further behind since 1980.

Data for employment by place of work in Humboldt County shows that the total number of employees in the County has increased at a rate of 1.3 percent per year from 1988 to 1998. The majority of workers in the County are employed in the service sector, followed by government and retail trade. Sectors such as manufacturing, transportation/public utilities, and wholesale trade experienced an absolute decline in employment between 1988 and 1998.

The slow population growth in Eureka and Humboldt County, combined with relatively low median income levels and sluggish employment growth, may limit the ability of the trade area to support new retail development.

Trade Area Retail Conditions and Trends

The retail environment in Eureka and Humboldt County is extremely competitive, with a number of major region-serving centers and free-standing stores as well as older retail districts. The 1990s have brought new challenges, including a cycle of decline and recovery in the state economy, major new retailers entering the market, high vacancies, repositioning of existing centers, and consumers who have become more cost conscious and accustomed to value retail shopping . While the major stores and chains compete to capture consumer expenditures, older retail districts have out of necessity repositioned themselves in niches less competitive with the big stores. Past trends of limited regional growth in population and income (and thus spending potential) will continue to impact retail sales trends into the foreseeable future.

The leakage analysis indicates that actual total retail sales in Humboldt County are only slightly below potential expenditures. General merchandise stores show net injections of sales, but this is counterbalanced by the leakage in the apparel and food categories, perhaps indicating that County residents are buying apparel and food items at general merchandise stores instead, a long-term trend throughout the state. Although County retail sales in the building materials/farm implements categories appear to be below expectations, some of the expected sales in this store category may be going to building materials dealers categorized as wholesale outlets rather than retail stores. The higher than expected sales at restaurants and service stations are probably linked to tourism, which may also account for some of the injections in the general merchandise store category. The apparent leakage in the other retail store category may actually be due to the relatively narrow economic base of the County, leading to limited sales in certain subcategories such as office supply stores. Furthermore, the small population and economic base of the County may limit local buying opportunities for specialized goods (e.g., high end apparel) and lead to some leakage for the store categories carrying specialized items.

Profile of General Merchandise and Home Improvement Retail Segments

The steady ascendance of discount merchandising in the U.S. retail market over the past decade has occurred during a period when region-serving shopping centers with large discount anchor stores are supplanting many shopping malls with traditional department stores. Today, big-box retailers such as Wal-Mart and Target, and category killers (large specialist discounters) such as Toys "R" Us and Office Depot, are among the most vital and profitable of retail formats. A major reason for their success is the price consciousness of consumers that intensified during the recession of the early 1990s that has persisted since that time, in spite of many years of economic growth.

Over the last 20 years the home improvement retail industry has undergone a dramatic shift away from small independent paint, hardware, and lumber stores toward national chain retailers with big-box formats and a wide variety of merchandise under one roof. Home Depot, HomeBase, and Orchard Supply are among the top 10 home improvement retailers in the U.S. As consumers purchase larger homes with more amenities, and as the “cocooning” trend continues (i.e., consumers spending more time at home and more money on home furnishings and décor), retailers such as Home Depot, Home Base, and Orchard Supply expect home renovation and repair expenditures to reach record levels. In spite of the rise of these big-box centers, home improvement retailing still remains fragmented, with only eight percent of the U.S. market captured by the industry leader (i.e., Home Depot).

Eureka's Existing Fiscal Conditions

For fiscal year 1999-2000, the City of Eureka has a proposed budget of $41,149,919. The General Fund (the fund likely to be impacted by new development) comprises approximately 35.6 percent of the total budget, or $14.7 million. Tax revenues are the largest source of revenue, comprising approximately 69.5 percent of the General Fund revenue base. In fiscal year 1999-2000, property tax revenues are expected to account for seven percent of General Fund revenues. Sales taxes in Eureka are expected to account for 46 percent of General Fund revenues. This contrasts sharply with Humboldt County where sales taxes are expected to account for only 12.4 percent of the 1999-2000 General Fund revenue.

Like many other California cities, General Fund expenditures are largely dominated by police services costs. For fiscal year 1999-2000, these costs are estimated to be $10.7 million, which represents 58 percent of total General Fund expenditures. Public works and general government services represent the other two significant General Fund expenditures, comprising 21 percent and 15 percent of the General Fund budget respectively.

Impacts on Existing Retailers in Eureka

The best scenario for existing retail sales outlets would be a "no build scenario," with no new competition from either a discount general merchandise store or home improvement center, and increasing retail sales due to increases in population and per capita disposable income. However, the retail environment in the County, particularly for general merchandise stores and other stores selling similar items, is already fiercely competitive. As shown by the data on individual outlets for Bayshore Mall, Downtown, and Henderson Center, there is already a great deal of turnover.

A new big-box general merchandise store located within Eureka could capture most of the projected increase in countywide taxable retail sales in its category, but would also capture some sales now going to existing general merchandise outlets both within and outside the City. Any capture from other categories could come from the projected increase in sales rather than a shift of existing sales. The greatest impacts would likely be on existing major general merchandise outlets in the City and County rather than smaller stores that have already been affected by the opening of Bayshore Mall and other big retail stores in the area. Much of the projected increase in general merchandise sales captured by a new store would occur in Eureka even without the new store, since the City already is so dominant in this category.

A new big-box home improvement center in Eureka would likely have a greater impact on existing stores in both the City and other parts of the County, since they have not previously faced this kind of competition, and the relative proportion of total building materials/farm implements sales going to this single outlet would be greater than for a general merchandise store. Furthermore, the projected increases in sales in this category are not nearly as great as for general merchandise, meaning that more sales would be captured from existing outlets rather than future increases in this category.

The location of a new store either type outside the City but in the County would result in the remainder of the County capturing the projected increases in retail sales in each category as well as reducing current sales within the City. Smaller stores within the City might be less impacted depending on how far away the new store was located. From an overall retail sales revenue viewpoint, this scenario would be the worst for the City of Eureka, and the best for whatever other jurisdiction(s) received the benefit of the increased sales revenues.

Jobs and Employment Impacts

As retail sales follow projected growth trends, the total number of jobs would increase over time regardless of whether a new store enters the market. The opening of a new big-box general merchandiser or home improvement center in Humboldt County would likely lead to a replacement of some current positions at existing retailers with positions at the new retail outlets. For a new general merchandise store, most of the replacement jobs would be similar to those lost in terms of wages and benefits, and would replace positions in similar types of stores (i.e., large retail chain stores). While the proportion of retail sales in some other sectors including the high-paying food sector would decline as consumers shift purchases to the new general merchandise store, this shift would come from growth in sales and would not lead to the replacement of existing high-paying positions with new lower-paying ones. For a new home improvement center, it is not clear how the wages and benefits would compare to existing outlets; the existing jobs lost may come from a variety of store types, and this retail sector currently has high wages relative to retail in general.

Net Fiscal Effects of Proposed Projects

Net tax revenues to the City of Eureka General Fund were estimated for the Scenario 2, where the store would be built inside Eureka, and Scenario 3, where the new store would be built outside but near Eureka. Scenario 1 is the Baseline Scenario, with no new big-box general merchandise store or home improvement center. As a result, there are no fiscal impacts associated with the scenario. Estimates of tax revenues (including net retail tax revenues and the increase in property tax revenues) were completed for a "stabilized year" based on current (1999) population and for the year 2005. These estimates are based on existing tax allocations. Alternate scenarios based on a tax-sharing agreement between jurisdictions in Humboldt County is beyond the scope of this analysis.

Baseline Scenario: No Project. As noted above, since no new project would be built, this scenario would result in no direct change in fiscal impact.

Scenario 2: New Retail Outlet in Eureka. This scenario would result in a positive fiscal impact for the City in 1999 which would increase in future years as overall retail sales grow. The current positive impact of a home improvement center would be greater than for a general merchandise store, since the ability to capture sales from outside the City is greater, but this relationship reverses by 2005, since the overall growth in general merchandise sales is greater and allows existing stores the ability to recover sales previously lost. In 2005, the net fiscal surplus for the general merchandise alternative is estimated at $189,000 annually, and the surplus for a home improvement center is estimated at $149,000.

Scenario 3: New Retail Outlet Outside of Eureka. In this scenario, an new outlet for either store type results in a loss of taxable sales revenues for the City. The immediate impact would be a net annual fiscal loss for the City of an estimated $230,000 for the general merchandise alternative and $150,000 for the home improvement center alternative. By 2005, this would decrease to $90,000 for the general merchandise alternative and $130,000 for the home improvement alternative.

Big-Box Utilization of Local Suppliers

While there is a perception that local merchants and business owners utilize local suppliers to a greater extent than competing big-box retailers, investigations for this report did not discover any studies conducted by either the retail industry or academic researchers that focus on this issue.

Wal-Mart, the largest of the big-box retailers, has a stated policy promoting the use of local vendors, but the data available are at the state level for the entire company; spending by individual stores in local communities and regions is not available. In California, Wal-Mart reports using 5,650 in-state suppliers, for a total of $3.6 billion, or 5.84 percent of the total spent on suppliers in the United States.

Interviews with a local hardware store, sporting goods store, music retailer, and auto parts supplier indicate that purchases from local suppliers (i.e., Northern California) range from 20 percent (hardware store) to 75 percent (music retailer). The sporting goods store interviewed estimated that 34 percent of its inventory comes from suppliers within a six hour travel time radius (extending from the San Francisco Bay Area to Portland), while the auto parts supplier estimated that 35 percent of its inventory is purchased from local suppliers.

Based on the above analysis, it is difficult to say with any certainty what the impacts of a new big box retailer would be on supplier networks in Humboldt County and nearby areas. It should be noted that the businesses likely to sustain the greatest impacts from such a store are its direct competitors, which are for the most part outlets of large national and regional retail chains, with similar regional and national supplier networks, rather than small local stores (see discussion above).

Big-Box Charitable Contributions

Conversations with local merchant organizations indicate that national chains operating in Eureka are not necessarily making significant philanthropic donations to the local community, usually because their corporate policy does not give store managers the flexibility to make discretionary charitable contributions. For example, the majority of the cost for the annual July 4th fireworks display is paid for by small, locally owned businesses. The same is true about support for youth soccer teams, and a new baseball field that was recently constructed.

According to the Wal-Mart web site, Wal-Mart's community involvement ranged from $190,557 in Vermont to $10,300,000 in Texas. On average, Wal-Mart has charitable contributions equal to $34,036 per store, an amount equal to approximately 0.07 percent of estimated store revenues.

It is not clear how the level of Wal-Mart's community involvement is calculated, and whether the dollar amount published reflects actual dollars contributed, or if it includes the value of goods or services provided, or amounts raised and contributed by Wal-Mart employees.

Market for Industrial Land and Buildings

The City of Eureka itself has very little remaining developable land within City limits, and most industrial sites within the City are located west of Highway 101. The demand source for industrial land and buildings in Eureka and the areas surrounding the City has in the past principally come from users in the lumber, milling, and fishing industries. As the area's traditional economic base has declined, the demand for industrial sites has also changed. Conversations with real estate agents and brokers familiar with industrial land and buildings in Eureka and nearby communities indicated that currently there is little activity in this market sector. This means that there is little product (land or vacant buildings for sale or for lease) being actively promoted, and very few sizable users are seeking land or building space.

General comments about the market for industrial land and buildings in Eureka and surrounding communities by real estate brokers and leasing agents indicate that the market is more or less stagnant. There is very little supply, and in terms of buildings, the properties that are available are not modern and have not seen much investment from property owners. On the demand side, most tenants are small users and are willing to lease space "as is" and to make improvements themselves if necessary. For users requiring sites of two or three acres (considered a large user in the current market), nothing is available in Eureka and it is very difficult to find adequate space in surrounding communities.

In spite of these issues, brokers and agents indicated a greater concern with the lack of supply of modern, suitable light industrial, commercial, and small office space. With respect to the Balloon Track, many felt that it could developed with a mix of uses including light industrial, commercial, and flex space (i.e., adapted for both shop and small office).

INTRODUCTION

Background

Recently, a proposal was submitted to the City of Eureka for development of a Wal-Mart on a site near downtown Eureka known as the Balloon Track. This proposal has proven to be very controversial in the City and Humboldt County, as proposals for new big-box retail[1], especially Wal-Mart, often are. In addition to the general concerns about Wal-Mart's impact on the local economy, there is considerable community concern about the reuse of the Balloon Track itself for retail rather than preserving it for future industrial use or public use, especially since the site is located near the waterfront.

Study Purpose

Bay Area Economics (BAE) has been retained by the City to address many of the issues raised by this proposal. The scope of the study has been broadened to consider impacts of big-box retail in a more general way rather than just this specific proposal, because the City is likely to receive more proposals for this type of retail project in the future. This study evaluates scenarios including an unspecified major value-oriented general merchandise outlet (such as Wal-Mart, Target, or Kmart) and an unspecified major home improvement center (such as Home Depot or HomeBase). This study does not evaluate impacts specifically related to the Balloon Track site, such as possible impacts on or linkages with Old Town and Downtown retail due to the store's proximity.

Report Contents

This report contains the following sections, providing background information and addressing issues of concern: an Executive Summary; this Introduction; Demographic Analysis; Trade Area Retail Conditions and Trends; Profile of General Merchandise and Home Improvement Retail Segments; Eureka's Existing Fiscal Conditions; Impacts on Existing Retailers in Eureka; Employment and Wage Impacts; Net Fiscal Effects of Proposed Project; Big-Box Utilization of Local Suppliers and Charitable Contributions to Local Communities; and Market for Industrial Land and Buildings.

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[1] For the purposes of this study, "big-box" retail is defined as any single retail store of at least 50,000 square feet. For certain types of retailers, including general merchandise and home improvement centers, the size is typically greater than 100,000 square feet for new stores, thus falling into what is often termed the "megastore" category. Also, most stores thought of as big-box retail are also "value-oriented," with an emphasis on providing goods at low prices.

DEMOGRAPHIC ANALYSIS

Introduction

To evaluate the potential impacts of new retail development in Eureka., it is necessary to examine demographic factors for Eureka and Humboldt County. Developing an economic and demographic profile of these areas will make it possible to identify key factors influencing future retail sales in the area. This section provides an analysis of demographic trends for Eureka and Humboldt County. To provide a basis for comparison and discussion, data for the State of California have also been included.

Definition of Trade Area

A trade area is defined as the geographic region that encompasses most of a retail site's customers. Because of its relative isolation from other population centers, and urban areas, Humboldt County is designated as the trade area for the region-serving retail that is the subject of this study. Most of the County's population lives in a cluster of cities and unincorporated places including and surrounding Eureka.

Population and Household Trends

Population Growth. Eureka's population has grown very slowly since 1990, increasing from 27,025 in 1990 to 27,729 in 1999, or only 0.3 percent per year.

In the secondary trade area (Humboldt County), the rate of population growth has been slightly higher than Eureka's. The secondary trade area experienced an increase from 119,118 in 1990 to 128,0869 in 1999, reflecting a growth rate of 0.8 percent per year.

Compared to Eureka and Humboldt County, California's population growth rate is very high. Rising from 29,760,0222 in 1990 to 33,773,466 in 1999, the population of California grew at a rate of 1.4 percent per year between 1990 and 1999. (See Table 1.)

Household Size. In 1999 Eureka had a smaller average household size (2.33 persons) compared with Humboldt County (2.43 persons) and California (2.94 persons). Household size in Eureka dropped slightly between 1990 and 1999, from 2.35 persons to 2.33 persons. In Humboldt County, household size decreased 2.49 persons to 2.43 persons between 1990 and 1999. In contrast, household size in the State of California increased from 2.79 persons in 1990 to 2.94 persons in 1999.

Household Income. Household income is particularly relevant to the potential success of retail development. For Eureka, median household income was an estimated $25,564 in 1998, compared to $26,971 for Humboldt County, and $42,452 for California (see Table 2). While only 16 percent of California households earn less than $15,000 per year, 27 percent of Humboldt County and 29 percent of Eureka households fall into this category.

The change in median household income in Eureka, Humboldt County, and California is also relevant. From 1979 to 1998, growth in median household income for Eureka and Humboldt County has been significantly lower than that of California (see Table 3). Eureka's median household income growth during the 1980s was only 57.1 percent, compared with 59.5 percent in Humboldt County, and 96.3 percent in California; however, between 1989 and 1998, median household income growth rates for the three geographies were much closer, ranging from 14.5 in Humboldt County to 18.5 percent statewide.

Age Distribution. The population of Eureka and Humboldt County is relatively old compared with the State, as demonstrated by a comparison of median ages. The estimated 1998 median ages for Eureka residents and Humboldt County residents were 36.0 years and 35.6 years, respectively (see Table 4). In contrast, the median age was 34.1 years for California residents in 1998.

Projected Population Growth. Table 5 shows population projections for Humboldt County, and California made by the California State Department of Finance (DOF). DOF projects that the population of Humboldt County will grow by 12,763 persons between 2000 and 2020, an increase of 9.9 percent over the 20-year period. This reflects a continuation of recent trends and is considerably lower than the 31.2 percent population growth forecasted for California during the same period.

Employment Trends

Recent tabulations of employment by place of work are available only at the countywide level. Table 6 presents this information for Humboldt County for 1988 and 1998. In both years analyzed, the top three categories of employment were services, government and retail trade. These three industries employed 67.1 percent of the County's non-agricultural workers in 1988, and 72.0 percent of non-agricultural workers in 1998. Services, retail trade, and government were also the three top employment categories in the State of California in 1998 when they employed 64.1 percent of the State's non-agricultural workers.

Between 1988 and 1998, the sectors showing an absolute decline in the number of workers in Humboldt County were manufacturing, transportation/public utilities, and wholesale trade. The greatest absolute growth in Humboldt County was in the services sector. While government was Humboldt County's largest sector in 1988, services became the largest in 1998. In California, only manufacturing showed an absolute decline between 1988 and 1998, while services showed the greatest growth. The ascendance of service employment in Humboldt County and California mirrors the nationwide shift to a service-oriented economy.

Summary of Demographic Analysis.

The demographic profile for Eureka and Humboldt County suggests a trade area with households that are smaller in size, older in age, and less affluent than California.

Population growth in Eureka and Humboldt County has been relatively stagnant, and is not expected to increase significantly in the foreseeable future. Both Eureka and Humboldt County have small household sizes when compared to California as a whole. Median household income for both Eureka and Humboldt County is below that of California and has fallen further behind since 1980.

Data for employment by place of work in Humboldt County shows that the total number of employees in the County has increased at a rate of 1.3 percent per year from 1988 to 1998. The majority of workers in the County are employed in the service sector, followed by government and retail trade. Sectors such as manufacturing, transportation/public utilities, and wholesale trade experienced an absolute decline in employment between 1988 and 1998.

The data presented in this chapter reveal slow population growth in Eureka and Humboldt County, combined with relatively low median income levels and sluggish employment growth, that may limit the ability of the trade area to support new retail development.

Table 1: Population and Household Trends

EUREKA	1990	1999 (Estimate)	Average Annual Change '90-'99
Population	27,025	27,729	0.3%
Households	11,137	11,548	0.4%
Average Household Size	2.35	2.33	-0.1%
HUMBOLDT COUNTY			
Population	119,118	128,086	0.8%
Households	46,420	51,301	1.1%
Average Household Size	2.49	2.43	-0.3%
CALIFORNIA			
Population	29,760,022	33,773,466	1.4%
Households	10,381,206	11,224,873	0.9%
Average Household Size	2.79	2.94	0.6%

Sources: 1990 U.S. Census STF1; California State Department of Finance; Bay Area Economics, 1999.

Table 2: Estimated 1998 Household Income Distribution

INCOME RANGE	EUREKA	HUMBOLDT COUNTY	CALIFORNIA
Less than $15,000	29%	27%	16%
$15,000 to $24,999	20%	19%	13%
$25,000 to $34,999	16%	15%	12%
$35,000 to $49,999	15%	16%	16%
$50,000 to $74,999	13%	14%	19%
$75,000 to $99,999	4%	5%	10%
$100,000 and above	4%	4%	13%
Total	100%	100%	100%
Median Income	**$25,564**	**$26,971**	**$42,452**

Sources: Claritas 1998; Bay Area Economics, 1999.

Table 3: Median Household Income Trends

	1979	1989	1998	% Change '79-'89	% Change '89-'98
EUREKA	$13,938	$21,903	$25,564	57.1%	16.7%
HUMBOLDT COUNTY	$14,775	$23,562	$26,971	59.5%	14.5%
CALIFORNIA	$18,252	$35,833	$42,452	96.3%	18.5%

Note: Income amounts are expressed in current dollars for each year.

Sources: Claritas, Inc.; Bay Area Economics 1999.

Table 4: Age Distribution

EUREKA

Age Range	1990 Number	1990 Pct. of Total	1998 Number	1998 Pct. of Total
Under 18	6,757	25%	6,601	26%
18 - 24	2,796	10%	2,074	8%
25 - 34	4,506	17%	3,805	15%
35 - 44	4,303	16%	4,259	16%
45 - 54	2,455	9%	3,267	13%
55 - 64	2,164	8%	1,979	8%
65 and above	4,044	15%	3,840	15%
Total	27,025	100%	25,825	100%
Median Age	**33.8**		**36.0**	

HUMBOLDT COUNTY

Age Range	1990 Number	1990 Pct. of Total	1998 Number	1998 Pct. of Total
Under 18	30,694	26%	31,585	25%
18 - 24	13,313	11%	12,207	10%
25 - 34	19,602	16%	17,051	14%
35 - 44	20,127	17%	21,193	17%
45 - 54	11,361	10%	16,228	13%
55 - 64	9,400	8%	9,844	8%
65 and above	14,621	12%	16,051	13%
Total	119,118	100%	124,159	100%
Median Age	**33.0**		**35.6**	

CALIFORNIA

Age Range	1990 Number	1990 Pct. of Total	1998 Number	1998 Pct. of Total
Under 18	7,808,384	26%	8,686,082	27%
18 - 24	3,456,172	12%	2,917,637	9%
25 - 34	5,677,927	19%	5,152,725	16%
35 - 44	4,602,140	15%	5,488,701	17%
45 - 54	2,871,133	10%	4,107,551	13%
55 - 64	2,225,161	7%	2,497,107	8%
65 and above	3,119,105	10%	3,678,304	11%
Total	29,760,022	100%	32,528,107	100%
Median Age	**31.3**		**34.1**	

Sources: Claritas, Inc.; California State Department of Finance; Bay Area Economics 1999.

Table 5: Population Projections

	2000	2005	2010	2015	2020	Projected % Change '00-'20
HUMBOLDT COUNTY	128,419	132,240	135,602	138,201	141,092	9.9%
CALIFORNIA	34,653,395	37,372,444	39,957,616	42,370,899	45,448,627	31.2%

Sources: California State Department of Finance; Bay Area Economics, 1999.

Table 6: Annual Average Employment by Industry Sector 1988-1998

HUMBOLDT COUNTY

	1988		1998		Avg. Annual
INDUSTRY SECTOR (a)	**Number**	**Percent**	**Number**	**Percent**	**Change '88-'98**
Mining & Construction (b)	1,600	3.7%	1,700	3.5%	0.6%
Manufacturing	6,800	15.9%	6,600	13.5%	-0.3%
Transportation/Public Utilities	2,500	5.8%	2,100	4.3%	-1.7%
Wholesale Trade	1,700	4.0%	1,200	2.5%	-3.4%
Retail Trade	9,300	21.7%	10,500	21.5%	1.2%
Finance, Insurance & Real Estate	1,500	3.5%	2,100	4.3%	3.4%
Services	9,400	22.0%	12,900	26.4%	3.2%
Government (c)	10,000	23.4%	11,800	24.1%	1.7%
Total Non-Farm Employment	42,800	100.0%	48,900	100.0%	1.3%

STATE OF CALIFORNIA

	1988		1998		Avg. Annual
INDUSTRY SECTOR (a)	**Number**	**Percent**	**Number**	**Percent**	**Change '88-'98**
Mining & Construction (b)	566,900	4.8%	626,900	4.6%	1.0%
Manufacturing	2,096,700	17.6%	1,960,300	14.4%	-0.7%
Transportation/Public Utilities	588,400	4.9%	694,000	5.1%	1.7%
Wholesale Trade	733,500	6.2%	800,800	5.9%	0.9%
Retail Trade	2,154,100	18.1%	2,321,200	17.1%	0.7%
Finance, Insurance & Real Estate	773,000	6.5%	798,000	5.9%	0.3%
Services	3,064,800	25.7%	4,219,500	31.1%	3.2%
Government (c)	1,934,100	16.2%	2,163,600	15.9%	1.1%
Total Non-Farm Employment	11,911,500	100.0%	13,584,300	100.0%	1.3%

Notes:

(a) Does not include proprietors, the self-employed, unpaid volunteers or family workers, domestic workers in households, and persons involved in labor management trade disputes. Employment reported by place of work.

(b) Includes employees of construction contractors and operative builders; does not include force account or government workers.

(c) Includes all civilian employees of federal, State and local governments regardless of the activity in which the employee is engaged.

Sources: California State Employment Development Department; Bay Area Economics, 1999.

TRADE AREA RETAIL CONDITIONS AND TRENDS

This section provides information about the overall condition of retail competitive supply in Eureka, the primary trade area, as well as trends in retail sales expenditures in Eureka, in order to provide insight into the overall character of retail demand in the City. On the supply side of the equation, this analysis considers major shopping nodes in Eureka and surrounding areas that currently provide the types of goods that would be available at a new big-box general merchandise store or home improvement center. It also briefly describes other retail districts and centers in the Eureka area that might be affected by the opening of either of these two types of big-box retail.

The sales trend data discussion focuses on three primary issues: overall retail expenditure trends; sales trends for particular categories of goods which would be sold by a major general merchandise retailer or a home improvement center; and an analysis of retail sales leakage by major store category.

Existing Competitive Supply of Region-Serving Retail

Region-serving retail is typically the source for "comparison" goods. Comparison goods (e.g., apparel, furniture, home electronics, and automobiles) are goods for which the typical shopper will do comparisons based on style, quality, and price; as a result, shoppers will travel greater distances to purchase such goods, and outlets specializing in comparison goods tend to cluster at a single destination, such as a regional shopping center or concentration of automobile dealers along a major arterial. Regional shopping centers usually have two or more major department stores as major tenants, with a variety of apparel, jewelry, home furnishings, and other stores in small shops, and have 300,000 square feet or more of retail space. Bayshore Mall in Eureka is the only center of this type in Humboldt County.

An additional trend in region-serving retail is big-box retail, which offers a variety of both convenience and comparison goods in very large retail outlets, often with 100,000 square feet or more in one store. By offering convenience goods at substantial discounts, they attract shoppers from a larger trade area than the typical convenience goods outlet; comparison goods can also be found in this retail setting at deep discounts. Wal-Mart is the best example of this type of store, offering a variety of goods across the convenience-comparison goods continuum, but there are also more specialized outlets such as grocery discount stores (e.g., Food 4 Less) and building materials centers (e.g., Home Depot).

Often, two or more of these types of stores will be located together (e.g., WinCo Foods and Staples at Eureka Mall in Eureka) along with smaller stores that can be either specialized discount retailers, fast food restaurants, or services such as dry cleaning or shoe repair. These large discount retailers often present significant competition to traditional small-town downtowns, neighborhood centers, and regional malls.

The existing supply of region-serving retail in Humboldt County is concentrated in Eureka, primarily along Highway 101, the area's main arterial. There are two major centers (Bayshore Mall and Eureka Mall) totaling nearly 942,000 square feet, as well as three other stand-alone stores (Costco, Kmart, and Montgomery Ward) which also serve a regional trade area, as shown in Table 7. It is interesting to note that most of these retail nodes are located on or near 3.5 miles of Highway 101 between Eureka's city limit near the Elk River and the Balloon Track to the north on the Eureka waterfront (see Figure 1).

Bayshore Mall. One of the newest of the area's major regional shopping destinations, the 732,000 square foot Bayshore Mall was constructed in 1987. The mall itself is a one story enclosed structure and is designed in a linear pattern with Sears at one end and Mervyn's at the other. In between, approximately 95 shops and services line the central walkway, including two additional anchor tenants, Gottschalks and J.C. Penney. Other major retailers include Old Navy, Ross, and Longs Drugs. In addition, Bayshore Mall has a six-screen cinema, a food court, an indoor playland for children, and a community room that is available to local organizations. According to Bayshore Mall managers, currently, the mall is 15 percent vacant (109,800 square feet). However, Bayshore managers would not disclose current lease rates, information about former tenants and their reasons for leaving, and they did not comment on their expectations regarding future competitive pressure from the proposed Wal-Mart.

Eureka Mall. Located east of Highway 101, the 210,000 square foot Eureka Mall was constructed in 1962 and was Humboldt County's first enclosed mall. The relocation of Sears, its original anchor tenant, to Bayshore Mall in 1987 commenced a steady decline in occupancy at Eureka Mall that was reversed when the owners demolished the interior mall and repositioned the property to value-oriented tenants. While Eureka Mall lost national retailers to Bayshore Mall, Chapter 11 bankruptcy (e.g., House of Fabrics), or buy outs and consolidations, it has succeeded in replacing them with discount merchandisers (Staples, WinCo Foods, Blockbuster) and grocery, drugs, and general merchandise stores (Safeway, Rite Aid). Although the center still has 45,000 square feet vacant and is having difficulty in locating appropriate tenants, the current 21 percent vacancy rate is an overall improvement over the center's recent performance.

Costco. Costco, a membership warehouse, opened a 119,000 square foot store in Eureka in 1994. Costco employs 140 workers, 51 percent of whom are full-time. Because Costco acts as a wholesaler to small-to medium-size businesses, managers at the Eureka store stated that they did not view the proposed Wal-Mart as a particularly significant competitive threat, given that Costo and Wal-Mart target different customers and operate different types of formats.

Kmart. Kmart opened its 55,000 square foot store in Eureka in 1986. As a large general merchandise discounter, Kmart is the retailer that is most directly competitive with Wal-Mart and may potentially suffer the greatest negative impact from the proposed Wal-Mart store. However, Kmart managers did not comment on their view of future competitive pressure from a new Wal-Mart located in the Eureka area.

Montgomery Ward. Montgomery Ward occupies a free-standing department store located to the east of downtown on 101, across the highway from Mall 101. This 85,000 square foot store has an estimated payroll of 100 workers (approximately 30 percent of whom are full-time). Montgomery Ward has been operating in Eureka since 1927 and today is the only full-line department store in Humboldt County, selling apparel, jewelry, electronics, appliances, furniture, home and bath products, and draperies. In recent years, the Montgomery Ward chain has gone through bankruptcy and undergone significant store closures and downsizing. Store managers did not wish to comment on their view of the proposed Wal-Mart.

Mill Creek Marketplace. Located in unincorporated McKinleyville, this 200,000 square-foot center opened in 1994 and is anchored by a 95,000 square-foot Kmart and Ray's Food Place. Under construction in this center is a Rite-Aid drug store.

Other Retail Concentrations in Eureka and Surrounding Communities

Mall 101. Currently, this 82,000 square-foot center west of Downtown has only one tenant, Rite-Aid. The remainder of the space, formerly occupied by Mark & Save Warehouse Foods, is currently being remodeled for non-retail use. The property was recently purchased by Humboldt Bank; they plan to consolidate operations currently scattered across multiple locations downtown, and according to City sources, will take over Rite-Aid's space when their lease expires. This will have the combined impact of closing an older retail center, and lowering the daytime population within walking distance of downtown, with potential negative impacts resulting for Downtown retailers.

Downtown. Downtown Eureka has a mix of retail store types, with no single store or type of store dominating. Categories with several outlets include specialty stores, restaurants and bars, home furnishings, auto-related, and second-hand stores. There are also many service-related businesses, including banks, auto repair, and personal care outlets. Most of the stores here occupy specialized market niches not directly competitive with either Bayshore Mall or the large discount stores in the area. There are a number of vacancies in the area, including the former Daly's site.

Henderson Center. Located away from Highway 101 near the center of Eureka, this older retail district offers a mix of neighborhood-serving and city-serving stores. Store categories that are well-represented include specialty shops, a drug store, restaurants, and personal services. One of the largest stores in the area is Shafer's Ace Hardware. There is a 13,000 square foot space formerly occupied by an independent local food store but vacated within the last year. This store was bought out and closed by Safeway with the condition that the site not be reused for a grocery store.

Old Town. This area of historic buildings fills a unique retail niche in Eureka, with a variety of specialty and gift shops, restaurants, and other retailers catering to tourists and local residents seeking a different type of shopping experience. There are no major stores in either the food store or general merchandise category in this area. There is one hardware store, Restoration Hardware, providing a mix of high-end housewares, home furnishings, hardware, and specialty items for the home.

Home Improvement Centers and Hardware Stores in Eureka. The largest home improvement/building materials retailer in Eureka is Pierson's Building Supply on Broadway. This center includes a lumber yard, a garden center, and a broad range of home improvement and hardware items. Other building materials dealers include Schmidbauer Lumber, Hensell Materials, Copeland Lumber Yards, R&S Supply, and several others. Some of these outlets are classified as contractors or wholesalers by the State Board of Equalization, so their sometimes substantial taxable retail sales are not reported in the retail building materials/farm implements store category.

Following the closure this year of Humboldt Hardware, the only remaining conventional hardware store in Eureka is Shafer Hardware in Henderson Center. Restoration Hardware in Old Town provides a specialized range of products rather than those found in a typical hardware store (see above in discussion of Old Town), and there are several other specialized dealers, such as Sequoia Saw & Supply.

Other Retail Nodes in Surrounding Communities. There are also several other significant retail districts and centers in the nearby communities of Fortuna, Arcata, and McKinleyville.

Fortuna. Fortuna has a small downtown containing a mix of specialty shops and local-serving stores, including a hardware store and drug store. South of downtown is Redwood Village, a 130,000 square foot community-serving shopping center anchored by Safeway and Rite-Aid.

Arcata. Arcata contains no retail outlets on the scale of Bayshore Mall or a major discount retailer such as Wal-Mart. The downtown district, which is smaller than Eureka's downtown, contains a number of specialized stores focused on a central plaza which cater to the local college community; there appear to be few if any vacancies.

McKinleyville. In addition to the Mill Creek Marketplace, the other major retail center here is the McKinleyville Shopping Center, an older center anchored by Safeway and Rite-Aid. The Rite-Aid will be moving south to their new store currently under construction in the Mill Creek Marketplace. Also along Central Avenue is the McKinleyville Ace Hardware, next to a vacant 21,000 square foot space.

Planned and Proposed Retail Development

Interviews with staff at the City of Eureka indicate that current plans for new retail development in the City include a discount office supply chain that will open a 23,000 square foot store at a location on Myrtle Avenue near the Longs Drug store in 2000. There have also been tentative discussions between the City and a national drug chain, and an art supply retailer about opening new stores in Eureka. In addition, development of hotels and motels along the Eureka waterfront is expected to include a small portion of retail, although specific plans have not been proposed.

According to planning staff with Humboldt County, there are currently no formal plans or proposals for retail development in the unincorporated County, although a drug store chain may possibly build a store near the Redwood Acres Fairgrounds outside the City of Eureka.

Figure 1: Regional Shopping Destinations in Eureka

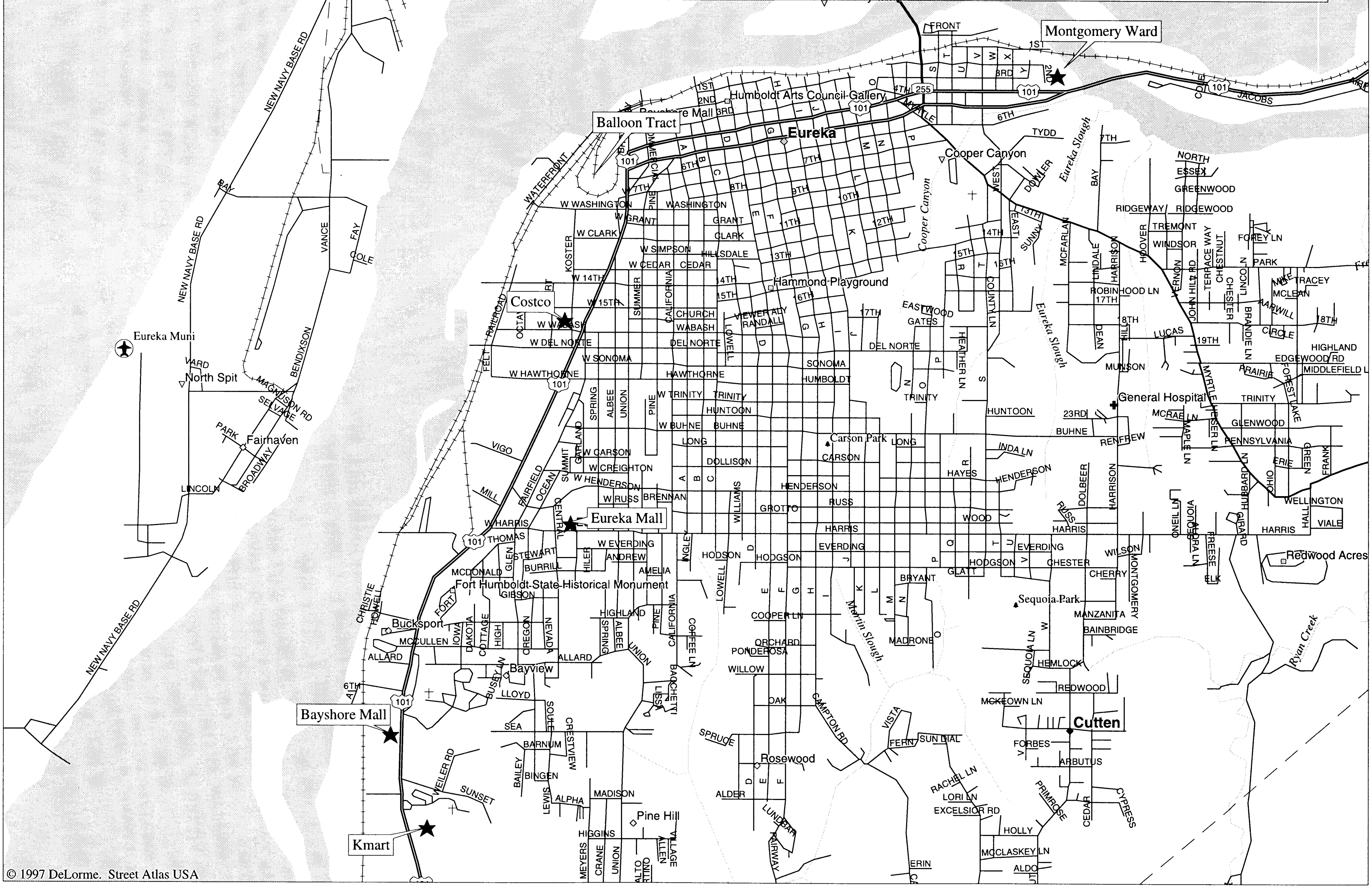

Table 7: Regional Shopping Destinations in Eureka

Name/Location	Open Date	Total Sq. Ft.	Vacancy Rate	Rent	Major Tenants	Comments	Vacant Sq. Ft.	Lease Rates	Time on Market	Former Tenants	Reason for Leaving	Comments on Vacant Space
Bayshore Mall 3300 Broadway	1987	732,000	15%	WND (a)	Sears, Mervyn's, Gottschalks, J.C. Penney, Old Navy, Ross, Longs Drug	Mall has 6-screen cinema, food court, indoor playland, community room.	109,800	WND	WND	WND	WND	WND
Eureka Mall 800 West Harris Street	1962	210,000	21%	WND	Staples, Safeway, Rite Aid, WinCo Foods, Blockbuster	Eureka Mall was the area's first interior mall. Sears was its original anchor tenant and moved to Bayshore Mall in 1987. The center's interior mall was demolished and new frontage on W. Harris was built for value retailers.	45,000	WND	WND	Sears, House of Fabrics, Carl's Shoes, Roos-Atkins, Winchell's Donuts	Large national retailers moved to Bayshore Mall. Some national retailers went into Chap. 11, or were bought out.	Mall has experienced significant vacancy problems since the relocation of Sears to Bayshore Mall. Owner has redesigned and repositioned mall to value-oriented tenants such as Staples and WinCo Foods. Safeway and Rite Aid are synergistic tenants offering food and general merchandise.
Costco 1006 West Wabash Avenue	1994	119,000	NA	NA	Costco	This site is owned by Costco and Costco is the sole occupant.	NA	NA	NA	NA	NA	NA
Kmart 4325 Broadway	1986	55,000	NA	NA	Kmart	This site is owned by Kmart and Kmart is the sole occupant.	NA	NA	NA	NA	NA	NA
Montgomery Ward 2525 4th Street	1927	85,000	NA	NA	Montgomery Ward	This site is owned by Montgomery Ward, and Ward is the sole occupant.	NA	NA	NA	NA	NA	NA

Note (a): Would not disclose.
Source: Bay Area Economics, 1999.

Retail Sales in Eureka and Humboldt County

Since 1990, California has gone through a recession and is currently in the midst of a sustained economic upturn. This cycle is reflected to a great extent in retail sales trends. The following section analyzes retail sales trends in Eureka and Humboldt County, using data from *Taxable Sales in California*, published by the California State Board of Equalization (SBOE) on a quarterly basis. For comparison purposes, data for the entire state are also presented. SBOE currently uses a classification scheme that places all retail outlets (where an "outlet" is one business or store at one location offering goods for sale to the general public) in one of 9 major categories. This classification system is used throughout this section, which looks at overall retail sales trends and then focuses on the categories of general merchandise and building materials/farm implements. It should be emphasized that these categories represent store types, not types of goods. For example, food sales do not all occur at food stores, and food stores sell items other than food. It also should be noted that the published sales data from SBOE are for taxable sales only, which exclude food items for home consumption and prescription drugs. As a result, total retail sales for some stores and categories are substantially above the published figures, particularly in the food store category, and to some extent general merchandise which includes drug stores.

The analysis spans 1990 through third quarter 1998 (most recent data available), a period which brackets the opening of Costco in Eureka and Kmart in McKinleyville, the two largest retailers to open outlets in Humboldt County in the 1990s.

Retail Sales Trends. The following section presents recent retail sales trends in Eureka and Humboldt County. First, data from the state are discussed to show overall trends in retail sales and provide context for the local data.

Statewide Retail Sales Trends. It is only in the last year that taxable retail sales in California have nearly recovered to pre-recession 1990 levels. On an inflation-adjusted basis[2], overall taxable retail sales[3] in California declined significantly during the early 1990s, from approximately $227 billion in 1990 to a low of $202 billion in 1993. By 1998[4], sales had increased back to just below $226 billion. (see Table 8). Sales fell slightly in every category except auto dealers/auto supplies and other retail. Categories showing especially large declines from 1990 through 1998 are apparel, food, and service stations.

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[2] All numbers adjusted to 1998 dollars using the national Consumer Price Index for All Urban Consumers, All Items, published by the U.S. Bureau of Labor Statistics.

[3] Taxable sales in California, as reported by the State Board of Equalization (SBOE), include most goods with the exception of food items for home consumption and prescription drugs. Data provided by the SBOE are the best available source of local retail trends providing quarterly and annual data.

[4] Data described as 1998 actually covers fourth quarter 1997 through third quarter 1998. Complete data for 1998 was not available in time to include in this analysis. Wherever this report refers to taxable sales for 1998, it will actually be for the period described above, except as otherwise noted.

These declines occurred despite an increase in the number of stores (i.e., permits), and an increase of almost 12 percent in state population over the same period. As a result, per-capita sales declined despite the near-recovery in overall sales. Per capita sales declined in all categories with the exception of other retail, which showed a negligible increase. Total per capita taxable retail sales statewide declined 10.7 percent between 1990 and 1998, with decreases of 11.0 percent in general merchandise and 15.6 percent in building materials/farm implements.

These trends show the lasting impacts of the early 1990s recession on retail sales in California, and indicate major changes in consumer shopping patterns. For example, the decline in apparel store sales may show a shift of taxable purchases from clothing and shoe stores to discount general merchandisers or warehouse outlets such as Sam's Club and Costco. Overall, these trends suggest that growth of big-box value-oriented retail is primarily the result of a shift of existing retail dollars rather than an expansion due to growth in population or income.

Countywide Retail Sales Trends. Taxable retail sales trends in Humboldt County have mirrored the statewide trends, although the recovery in overall volume has not been as strong (see Table 9). In 1998 inflation-adjusted dollars, total taxable retail sales declined from $823 million in 1990 to $762 million in 1994, and rebounded to slightly under $800 million in 1998, for an overall decline during the period of 2.8 percent. However, general merchandise sales increased by 8.6 percent, as several other categories showed major declines. Apparel sales and home furnishings/appliance sales fell by about one-third in each category, and building materials/farm implement sales fell by one-quarter. Furthermore, sales in these categories continued to decline through the 1990s even as sales in other categories rebounded. These changes may represent a basic shift in consumer shopping patterns in the County; these same trends are also found at the state level, albeit to a smaller degree. Some of the change may reflect a tendency to purchase the same items at different types of stores, but it may also reflect a change in the mix of goods purchased. One factor may be the opening of Costco and the McKinleyville Kmart in 1994; both these stores may be capturing sales previously taking place at more specialized outlets. The decline in purchases at home furnishings, appliances, and building materials outlets may also show consumer deferral of large-ticket purchases due to continued uncertainty about their own economic future and that of the region, despite the upturn in the national economy.

While overall taxable sales in the County declined more rapidly than statewide during the 1990 through 1998 period, per capita sales actually declined more slowly in Humboldt County (down 8.0 percent as compared with 10.7 percent statewide). While statewide per capita sales declined in almost every category, including general merchandise, County per capita sales increased in general merchandise, while declining at a more rapid rate than statewide for apparel, home furnishings/appliances, and building materials/farm implements, further indicating a shift in shopping patterns in the County.

In summary, overall taxable retail sales in the County have not recovered to 1990 levels after adjusting for inflation, even though the County's population has increased slightly. As a result, retail sales have been a "zero-sum game," with any gain in sales in one category more than offset by decreases in other categories. The category showing the largest dollar gain between 1990 and 1998 is general merchandise, but declines in sales in apparel, home furnishings/appliances, and building materials/farm implements combined are much larger.

Retail Sales Trends in Eureka. Trends in the City generally parallel those statewide and countywide. Taxable sales declined from $497 million in 1990 to $445 million in 1994, and rebounded to $456 million in 1998, for an overall decline of 8.2 percent between 1990 and 1998 (see Table 10). This decline is greater than for either the state or Humboldt County. General merchandise, food, and other retail, though, all posted gains in sales during the period. General merchandise sales showed a large gain in 1995, following the opening of Costco, but have since declined slightly, for an overall gain of 7.9 percent. Apparel, eating and drinking places, home furnishings/appliances, and building materials/farm implements all showed steep percentage declines, mirroring countywide trends. Because Eureka's population has only increased slightly during the 1990s, per capita sales have declined at about the same rate as total sales.

Taxable Sales Trends in Other Cities in Humboldt County. Overall taxable retail sales data for the period 1990 through 1998 are also available for the other incorporated places in Humboldt County, as shown in Table 11. After adjusting for inflation, taxable sales declined in Arcata, Blue Lake, Ferndale, and Rio Dell, and increased in Fortuna and Trinidad. On a per-capita basis, taxable retail sales fell in all jurisdictions except Trinidad, which has a very small population and retail base. In combination, sales trends in the other incorporated places mirrored countywide trends, showing a small decrease in overall sales and a greater decrease in per capita sales.

Comparison of Taxable Sales in Eureka, Humboldt County, and California. Eureka's position as a destination retail center for Humboldt County is demonstrated by comparing the City's sales with those of the whole County for the most recent year available (see Table 12). Well over half (57 percent) of all retail sales in the County occur within the City, even though the City has only 22 percent of County population. Eureka is especially dominant in the comparison goods categories of apparel, general merchandise, home furnishings/appliances, and auto dealers/auto supplies. Eureka's per capita sales, at $16,687, are far above the County at $6,350 and the state at $6,795.

This table also shows that the City and County differ from the state in the way sales are distributed by store type. Especially noteworthy is the relatively high proportion of sales in general merchandise in the City and County. The County shows very low per capita sales in apparel and home furnishing/appliance stores; while the City has high actual per capita sales in these categories, they still represent a smaller part of the retail mix than statewide. The relatively high sales in general merchandise stores and the low sales in apparel stores and home furnishings/appliances stores may be due in part to consumers purchasing these items in general merchandise outlets instead (e.g., purchasing clothes or appliances at a mall anchor). It may also be due to consumers making shopping trips to major urban areas such as the Bay Area to purchase items not available at local stores.

Future Retail Sales Trends in Humboldt County and California. The last few years have seen actual growth in taxable retail sales in Humboldt County and California, even after adjustment for inflation. According to *California County Projections*, *1999 Edition*, published by the Center for Continuing Study of the California Economy (CCSCE), these trends are projected to continue; taxable retail sales in Humboldt County in will rise from approximately $800 million in 1998 to $899 million (1998 dollars) in 2005. Using CCSCE's population estimate for 2005, County per capita sales will rise from $6,350 in 1998 to $6,913 in 2005. Put in perspective, this is about the same level as in 1990. This gain of about $100 million is also equivalent to the taxable sales from three or four large big-box retailers, although it is extremely important to note that this increase would be spread across all categories, and not just be in one store category.

Table 8: California Taxable Retail Sales Trends

	1990	1991	1992	1993	1994	1995	1996	1997	1998 (b)	Change, 1990-1998
in 1998 $000 (a)										
Apparel Stores	$12,901,523	$12,486,293	$12,063,094	$11,739,391	$11,679,037	$11,200,525	$11,505,604	$11,709,357	$11,748,502	-8.9%
General merchandise stores	$38,107,187	$36,993,905	$37,710,335	$36,434,888	$36,832,551	$36,408,710	$36,042,869	$37,092,828	$37,899,026	-0.5%
Food stores	$18,573,312	$19,605,207	$20,282,909	$16,484,956	$15,751,035	$15,477,357	$15,778,821	$16,171,475	$16,009,533	-13.8%
Eating and drinking places	$29,026,196	$28,190,510	$27,353,155	$26,781,056	$26,978,173	$27,236,678	$27,810,147	$28,692,427	$29,525,469	1.7%
Home furnishings and appliances	$11,542,336	$10,593,198	$9,942,930	$9,630,683	$10,324,813	$10,531,300	$10,113,058	$9,782,427	$10,280,011	-10.9%
Bldg. matrl . and farm implements	$19,880,702	$16,834,948	$15,627,111	$15,733,081	$16,127,714	$16,150,997	$16,530,379	$17,869,029	$18,743,045	-5.7%
Auto dealers and auto supplies	$39,052,557	$32,931,470	$31,808,793	$32,697,430	$34,289,309	$35,762,544	$37,115,264	$38,611,153	$41,439,105	6.1%
Service stations	$19,781,302	$18,122,996	$18,996,358	$18,646,245	$18,268,841	$18,283,234	$19,791,357	$19,617,944	$18,010,805	-9.0%
Other Retail Stores	$37,674,895	$35,561,258	$34,482,350	$33,854,245	$35,495,915	$36,879,866	$39,137,459	$41,074,342	$42,284,968	12.2%
Retail Stores Total	**$226,540,011**	**$211,319,785**	**$208,267,035**	**$202,001,974**	**$205,747,388**	**$207,931,211**	**$213,824,958**	**$220,620,983**	**$225,940,464**	**-0.3%**

	1990	1991	1992	1993	1994	1995	1996	1997	1998 (b)	Change, 1990-1998
Sales per Capita in 1998 $ (a)										
Apparel Stores	$434	$412	$391	$375	$369	$351	$357	$358	$353	-18.5%
General merchandise stores	$1,281	$1,221	$1,223	$1,164	$1,163	$1,141	$1,119	$1,135	$1,140	-11.0%
Food stores	$624	$647	$658	$527	$497	$485	$490	$495	$481	-22.9%
Eating and drinking places	$975	$931	$887	$856	$852	$854	$863	$878	$888	-9.0%
Home furnishings and appliances	$388	$350	$322	$308	$326	$330	$314	$299	$309	-20.3%
Bldg. matrl . and farm implements	$668	$556	$507	$503	$509	$506	$513	$547	$564	-15.6%
Auto dealers and auto supplies	$1,312	$1,087	$1,031	$1,045	$1,083	$1,121	$1,152	$1,182	$1,246	-5.0%
Service stations	$665	$598	$616	$596	$577	$573	$614	$600	$542	-18.5%
Other Retail Stores	$1,266	$1,174	$1,118	$1,081	$1,121	$1,156	$1,215	$1,257	$1,272	0.4%
Retail Stores Total	**$7,613**	**$6,975**	**$6,752**	**$6,453**	**$6,498**	**$6,516**	**$6,636**	**$6,753**	**$6,795**	**-10.7%**
Population	29,758,213	30,296,010	30,844,740	31,303,458	31,661,028	31,910,064	32,222,878	32,670,019	33,251,809	11.7%

(a) Retail sales have been adjusted to 1998 dollars using the annual average Consumer Price Index for All Items, All Urban Consumers published by the U.S. Bureau of Labor Statistics.
(b) 1998 4th quarter data not yet available. Data here is 4th quarter 1997 through 3rd quarter 1998.

Sources: Bay Area Economics based on data from the State Board of Equalization, U.S. Bureau of Labor Statistics, 1990 U.S. Census, and State Department of Finance.

Table 9: Humboldt County Taxable Retail Sales Trends

in 1998 $000 (a)	1990	1991	1992	1993	1994	1995	1996	1997	1998 (b)	Change, 1990-1998 $	Change, 1990-1998 %
Apparel Stores	$31,826	$29,297	$28,773	$27,020	$27,075	$24,792	$22,624	$22,450	$20,784	-$11,042	-34.7%
General merchandise stores	$144,537	$143,870	$146,375	$137,413	$140,855	$160,949	$154,474	$154,460	$156,981	$12,444	8.6%
Food stores	$81,560	$91,115	$102,681	$86,251	$83,508	$80,928	$81,047	$81,015	$79,528	-$2,032	-2.5%
Eating and drinking places	$102,161	$101,699	$97,844	$94,367	$91,685	$87,845	$89,394	$88,367	$91,324	-$10,837	-10.6%
Home furnishings and appliances	$25,513	$21,345	$21,536	$21,907	$22,653	$19,326	$19,792	$18,102	$17,265	-$8,248	-32.3%
Bldg. matrl . and farm implements	$110,451	$97,833	$92,563	$89,908	$87,762	$85,169	$85,888	$85,109	$82,847	-$27,604	-25.0%
Auto dealers and auto supplies	$145,499	$128,872	$127,156	$132,242	$133,934	$139,307	$148,091	$143,667	$148,207	$2,708	1.9%
Service stations	$76,458	$84,767	$72,394	$72,565	$70,400	$68,527	$74,596	$84,346	$84,980	$8,522	11.1%
Other Retail Stores	$104,638	$103,993	$106,574	$102,514	$104,463	$103,638	$111,642	$116,158	$117,958	$13,320	12.7%
Retail Stores Total	**$822,643**	**$802,791**	**$795,896**	**$764,187**	**$762,336**	**$770,480**	**$787,547**	**$793,674**	**$799,874**	**-$22,769**	**-2.8%**

Sales per Capita in 1998 $ (a)	1990	1991	1992	1993	1994	1995	1996	1997	1998 (b)	Change, 1990-1998 $	Change, 1990-1998 %
Apparel Stores	$267	$243	$236	$219	$218	$200	$181	$179	$165	-$102	-38.2%
General merchandise stores	$1,213	$1,194	$1,201	$1,114	$1,135	$1,296	$1,238	$1,230	$1,246	$33	2.7%
Food stores	$685	$756	$843	$699	$673	$652	$649	$645	$631	-$53	-7.8%
Eating and drinking places	$858	$844	$803	$765	$739	$707	$716	$704	$725	-$133	-15.5%
Home furnishings and appliances	$214	$177	$177	$178	$183	$156	$159	$144	$137	-$77	-36.0%
Bldg. matrl . and farm implements	$927	$812	$760	$729	$707	$686	$688	$678	$658	-$270	-29.1%
Auto dealers and auto supplies	$1,221	$1,070	$1,043	$1,072	$1,079	$1,122	$1,187	$1,144	$1,177	-$45	-3.7%
Service stations	$642	$704	$594	$588	$567	$552	$598	$672	$675	$33	5.1%
Other Retail Stores	$878	$863	$875	$831	$842	$834	$895	$925	$936	$58	6.6%
Retail Stores Total	**$6,906**	**$6,665**	**$6,531**	**$6,196**	**$6,144**	**$6,204**	**$6,310**	**$6,319**	**$6,350**	**-$556**	**-8.0%**
Population	119,118	120,453	121,862	123,341	124,082	124,200	124,802	125,604	125,959		

(a) Retail sales have been adjusted to 1998 dollars using the annual average Consumer Price Index for All Items, All Urban Consumers published by the U.S. Bureau of Labor Statistics.
(b) 1998 4th quarter data not yet available. Data here is 4th quarter 1997 through 3rd quarter 1998.

Sources: Bay Area Economics based on data from the State Board of Equalization, U.S. Bureau of Labor Statistics, 1990 U.S. Census, and State Department of Finance.

Table 10: Eureka Taxable Retail Sales Trends

in 1998 $000 (a)	1990	1991	1992	1993	1994	1995	1996	1997	1998 (b)	Change, 1990-1998 $	Change, 1990-1998 %
Apparel Stores	$26,127	$23,301	$23,168	$21,588	$21,863	$19,744	$18,659	$18,952	$17,249	-$8,878	-34.0%
General merchandise stores	$116,467	$115,912	$116,334	$112,317	$114,442	$129,000	$122,349	$122,655	$125,658	$9,191	7.9%
Food stores	$23,490	$29,531	$35,924	$30,657	$28,927	$27,133	$25,469	$24,668	$24,653	$1,163	5.0%
Eating and drinking places	$52,425	$49,729	$45,873	$43,515	$42,073	$40,829	$41,659	$41,449	$42,528	-$9,897	-18.9%
Home furnishings and appliances	$19,824	$16,232	$16,606	$16,878	$17,318	$14,431	$15,064	$13,464	$12,155	-$7,669	-38.7%
Bldg. matrl . and farm implements	$61,830	$52,577	$49,451	$44,954	$44,610	$41,485	$40,430	$40,954	$40,642	-$21,188	-34.3%
Auto dealers and auto supplies	$101,582	$89,425	$84,995	$88,813	$89,933	$91,439	$94,821	$92,156	$96,435	-$5,147	-5.1%
Service stations	$38,212	$45,876	$35,567	$34,622	$32,107	$31,260	$31,213	$35,356	$36,616	-$1,596	-4.2%
Other Retail Stores	$57,349	$55,461	$54,947	$54,062	$53,986	$52,379	$56,054	$58,523	$60,432	$3,083	5.4%
Retail Stores Total	**$497,305**	**$478,044**	**$462,864**	**$447,405**	**$445,258**	**$447,699**	**$445,719**	**$448,176**	**$456,368**	**-$40,937**	**-8.2%**

Sales per Capita in 1998 $ (a)	1990	1991	1992	1993	1994	1995	1996	1997	1998 (b)	Change, 1990-1998 $	Change, 1990-1998 %
Apparel Stores	$967	$857	$844	$783	$797	$716	$682	$692	$631	-$336	-34.8%
General merchandise stores	$4,310	$4,261	$4,238	$4,074	$4,171	$4,680	$4,473	$4,477	$4,595	$285	6.6%
Food stores	$869	$1,086	$1,309	$1,112	$1,054	$984	$931	$900	$901	$32	3.7%
Eating and drinking places	$1,940	$1,828	$1,671	$1,579	$1,533	$1,481	$1,523	$1,513	$1,555	-$385	-19.8%
Home furnishings and appliances	$734	$597	$605	$612	$631	$524	$551	$491	$444	-$289	-39.4%
Bldg. matrl . and farm implements	$2,288	$1,933	$1,801	$1,631	$1,626	$1,505	$1,478	$1,495	$1,486	-$802	-35.0%
Auto dealers and auto supplies	$3,759	$3,288	$3,096	$3,222	$3,278	$3,317	$3,466	$3,364	$3,526	-$233	-6.2%
Service stations	$1,414	$1,687	$1,296	$1,256	$1,170	$1,134	$1,141	$1,291	$1,339	-$75	-5.3%
Other Retail Stores	$2,122	$2,039	$2,002	$1,961	$1,968	$1,900	$2,049	$2,136	$2,210	$88	4.1%
Retail Stores Total	**$18,402**	**$17,575**	**$16,861**	**$16,230**	**$16,229**	**$16,242**	**$16,294**	**$16,359**	**$16,687**	**-$1,714**	**-9.3%**
Population	27,025	27,201	27,452	27,566	27,436	27,564	27,355	27,396	27,348		

(a) Retail sales have been adjusted to 1998 dollars using the annual average Consumer Price Index for All Items, All Urban Consumers published by the U.S. Bureau of Labor Statistics.
(b) 1998 4th quarter data not yet available. Data here is 4th quarter 1997 through 3rd quarter 1998.

Sources: Bay Area Economics based on data from the State Board of Equalization, U.S. Bureau of Labor Statistics, 1990 U.S. Census, and State Department of Finance.

Table 11: Taxable Retail Sales Trends in Other Humboldt County Cities

	1990	1991	1992	1993	1994	1995	1996	1997	1998 (b)	Change, 1990-1998
in 1998 $000 (a)										
Arcata	$101,056	$99,717	$104,621	$99,493	$97,521	$94,428	$97,526	$94,516	$96,500	-4.5%
Blue Lake	$3,007	$3,192	$3,608	$3,741	$3,528	$3,203	$2,901	$2,421	$2,534	-15.7%
Ferndale	$8,610	$8,965	$8,771	$8,732	$8,290	$8,431	$7,879	$7,690	$7,410	-13.9%
Fortuna	$65,540	$61,652	$67,830	$64,783	$63,809	$65,900	$67,571	$67,053	$66,855	2.0%
Rio Dell	$5,535	$4,264	$4,412	$3,982	$3,423	$3,169	$2,862	$4,121	$4,815	-13.0%
Trinidad (c)	$4,349	$4,173	$3,941	$2,537	$3,505	$4,746	$5,223	$5,235	$4,895	12.6%
Retail Stores Total	**$188,095**	**$181,964**	**$193,183**	**$183,267**	**$180,076**	**$179,876**	**$183,962**	**$181,035**	**$183,009**	**-2.7%**

	1990	1991	1992	1993	1994	1995	1996	1997	1998 (b)	Change, 1990-1998
Sales per Capita in 1998 $ (a)										
Arcata	$6,644	$6,517	$6,745	$6,363	$6,276	$5,972	$6,015	$5,812	$5,941	-10.6%
Blue Lake	$2,435	$2,537	$2,859	$2,948	$2,811	$2,570	$2,349	$1,960	$2,042	-16.1%
Ferndale	$6,469	$6,787	$6,492	$6,392	$6,238	$6,810	$6,400	$6,247	$5,339	-17.5%
Fortuna	$7,458	$6,950	$7,570	$7,118	$6,887	$6,799	$6,913	$6,766	$6,665	-10.6%
Rio Dell	$1,847	$1,408	$1,467	$1,344	$1,160	$1,113	$996	$1,422	$1,656	-10.3%
Trinidad (c)	$12,013	$11,528	$11,007	$6,969	$9,763	$13,075	$14,509	$14,582	$13,673	13.8%
Retail Stores Total	**$6,286**	**$6,037**	**$6,344**	**$5,970**	**$5,866**	**$5,765**	**$5,805**	**$5,676**	**$5,689**	**-9.5%**

	1990	1991	1992	1993	1994	1995	1996	1997	1998 (b)	Change, 1990-1998
Population										
Arcata	15,211	15,302	15,512	15,637	15,539	15,812	16,215	16,263	16,243	6.8%
Blue Lake	1,235	1,258	1,262	1,269	1,255	1,246	1,235	1,235	1,241	0.5%
Ferndale	1,331	1,321	1,351	1,366	1,329	1,238	1,231	1,231	1,388	4.3%
Fortuna	8,788	8,871	8,961	9,101	9,265	9,693	9,775	9,910	10,031	14.1%
Rio Dell	2,997	3,028	3,008	2,962	2,952	2,847	2,875	2,899	2,908	-3.0%
Trinidad	362	362	358	364	359	363	360	359	358	-1.1%
Total Population of Other Cities	**29,924**	**30,142**	**30,452**	**30,699**	**30,699**	**31,199**	**31,691**	**31,897**	**32,169**	**7.5%**

(a) Retail sales have been adjusted to 1998 dollars using the annual average Consumer Price Index for All Items, All Urban Consumers published by the U.S. Bureau of Labor Statistics.
(b) 1998 4th quarter data not yet available. Data here is 4th quarter 1997 through 3rd quarter 1998.
(c) Trinidad data not available for 1990 due to disclosure rules. Sales estimated at 1991 levels, adjusted for inflation from 1990 rather than 1991

Sources: Bay Area Economics based on data from the State Board of Equalization, U.S. Bureau of Labor Statistics, 1990 U.S. Census, and State Department of Finance.

Table 12: Comparison of Annual Taxable Retail Sales (a)

	Eureka			Humboldt County			California		
	Number		% of County	Number		% of State	Number		% of State
Population	27,348		21.7%	125,959		0.4%	33,251,809		100.0%
1998 Per Capita Annual Income (b)	$16,755		103.7%	$16,150		76.5%	$21,102		100.0%
in $000	Sales	% of Sales in Area	% of County	Sales	% of Sales in Area	% of State	Sales	% of Sales in Area	% of State
Apparel Stores	$17,249	3.8%	83.0%	$20,784	2.6%	0.18%	$11,748,502	5.2%	100.0%
General merchandise stores	$125,658	27.5%	80.0%	$156,981	19.6%	0.41%	$37,899,026	16.8%	100.0%
Food stores	$24,653	5.4%	31.0%	$79,528	9.9%	0.50%	$16,009,533	7.1%	100.0%
Eating and drinking places	$42,528	9.3%	46.6%	$91,324	11.4%	0.31%	$29,525,469	13.1%	100.0%
Home furnishings and appliances	$12,155	2.7%	70.4%	$17,265	2.2%	0.17%	$10,280,011	4.5%	100.0%
Bldg. matrl . and farm implements	$40,642	8.9%	49.1%	$82,847	10.4%	0.44%	$18,743,045	8.3%	100.0%
Auto dealers and auto supplies	$96,435	21.1%	65.1%	$148,207	18.5%	0.36%	$41,439,105	18.3%	100.0%
Service stations	$36,616	8.0%	43.1%	$84,980	10.6%	0.47%	$18,010,805	8.0%	100.0%
Other Retail Stores	$60,432	13.2%	51.2%	$117,958	14.7%	0.28%	$42,284,968	18.7%	100.0%
Retail Stores Total	**$456,368**	**100.0%**	**57.1%**	**$799,874**	**100.0%**	**0.35%**	**$225,940,464**	**100.0%**	**100.0%**
in $	Per Capita Sales		% of County	Per Capita Sales		% of State	Per Capita Sales		% of State
Apparel Stores	$631		382.24%	$165		46.70%	$353		100.0%
General merchandise stores	$4,595		368.68%	$1,246		109.35%	$1,140		100.0%
Food stores	$901		142.78%	$631		131.14%	$481		100.0%
Eating and drinking places	$1,555		214.48%	$725		81.65%	$888		100.0%
Home furnishings and appliances	$444		324.26%	$137		44.34%	$309		100.0%
Bldg. matrl . and farm implements	$1,486		225.94%	$658		116.69%	$564		100.0%
Auto dealers and auto supplies	$3,526		299.69%	$1,177		94.42%	$1,246		100.0%
Service stations	$1,339		198.45%	$675		124.56%	$542		100.0%
Other Retail Stores	$2,210		235.96%	$936		73.64%	$1,272		100.0%
Retail Stores Total	**$16,687**		**262.78%**	**$6,350**		**93.46%**	**$6,795**		**100.0%**

(a) Data from 4th quarter 1997 through 3rd quarter 1998, most recent data available.

(b) Per capita income estimates, from Claritas.

Sources: Bay Area Economics based on data from the State Board of Equalization, 1990 U.S. Census, and State Department of Finance, and Claritas.

Retail Leakage Analysis

Leakage analysis is a technique commonly used to determine whether there is unmet demand for retail goods in an area. Its purpose is to analyze inflows and outflows of retail sales in a defined trade area. To conduct a leakage analysis, actual per capita retail sales within the defined trade area are compared with expected per capita sales, based on regional and national expenditure patterns for households with similar characteristics

A trade area is presumed to be relatively self-contained as far as retail sales are concerned, and thus ideally captures a high proportion of the potential sales in that area, perhaps varying somewhat by type of good. If the trade area shows that per capita expenditures are below a certain percent of expected per capita expenditures, then it is likely that some proportion of sales are "leaking" to areas outside the trade area. Conversely, if the trade area shows actual retail sales in excess of expected sales, then it is likely that the trade area is capturing sales from other areas due to "injections" of retail sales. For example, if a trade area has a major regional shopping center within its boundaries, it may show injections of sales, with high per capita sales relative to the larger region. If a community has insufficient shopping opportunities for its residents, it will show low per capita expenditures, and leakage of potential sales to other areas. This analysis can be refined by breaking down retail sales by category of store, and also by adjusting the analysis to take into account the relative disposable income or other purchasing characteristics of the trade area. BAE has undertaken extensive analysis of taxable retail sales data in California and developed a proprietary retail sales leakage model using multiple demographic factors. It should be noted that leakage analysis is just another tool for analyzing retail sales potential, not an absolute statement on the amount of sales that can be captured in a given area. Unique local factors and spending patterns must be taken into account before drawing any conclusions.

For this study, the leakage analysis was conducted for the Humboldt County, the defined trade area for this study. Since Eureka itself clearly has sales above what would be supported by its own population base in every category (see discussion above), no detailed leakage analysis was done for the City alone. Taxable retail sales data for the most recent four quarters available was used as the base data for this analysis, with some adjustments to take into account non-taxable sales.

Total Retail Leakage. Actual total retail sales in Humboldt County appear to be relatively in balance with predicted expenditures, as shown in Table 13. Estimated total retail sales are approximately $988 million annually, compared with potential sales of $1.045 billion for an overall leakage of six percent of retail sales. Given Eureka and Humboldt County's relative isolation and distance from other major shopping destinations, this relative balance is not surprising. Shopping outside of the County requires either a major trip, or must be done through mail order, phone order, or via the Internet.

Retail Leakage by Store Category. The analysis estimates that Humboldt County shows leakage of sales in apparel, home furnishings/appliances, building materials/farm implements, auto dealers and auto supplies, and other retail. There are injections for general merchandise stores, eating and drinking places, and service stations. Food sales are near to predicted levels (only one percent leakage).

Some of the leakages and injections can be effectively explained by Humboldt County shoppers substituting one type of store for another. For instance, the leakage in the apparel store category may in large part reflect higher proportions of apparel purchases in general merchandise outlets, as well as a lack of high-end apparel outlets within the County. The leakage in the home furnishings/appliance store category may be related to similar factors.

While building materials/farm implements stores also show leakage, analysis of confidential individual store data for the City indicates substantial taxable sales at wholesale building materials dealers that may account for these "missing" sales. Contractors and others often make taxable purchases at these kind of outlets rather than retail stores; in fact, large retail home improvement centers such as Home Depot also cater to contractors, sometimes impacting dealers that are considered wholesalers of building materials. Furthermore, farm implement sales vary widely from county to county in California, further affecting the reliability of leakage estimates. All these factors make leakage analysis for the building materials category problematic.

The other retail category consists of a variety of specialized store types, ranging from jewelry stores serving individual consumers to office supply stores serving businesses rather than individuals. As a result, leakages in this category are difficult to associate with any particular type of store, and the local economic base can make a big difference in the mix of stores. For example, in 1997, the subcategory of office, store, and school supplies accounted for 26 percent of other retail store sales statewide, but only 15 percent in Humboldt County. This may be more a reflection of the small office-based sector in the County rather than any leakage of sales.

The two store categories other than general merchandise that show higher than predicted sales are eating and drinking place and service stations. High sales in these categories are probably due to the impacts of tourism. In fact, the injections for general merchandise stores may also be due in part to tourist spending in the County.

Table 13: Humboldt County Retail Sales Leakage by Major Store Category

Retail Sales Category	Actual Per Capita Sales	Potential Per Capita Sales (a)	Estimated Total Sales for Area	Potential Total Sales for Area (a)	Injections/(Leakages) of Sales	Injections/(Leakages) as Percent of Potential Sales
Apparel Stores	$165	$245	$20,784,000	$30,908,358	($10,124,358)	(33%)
General Merchandise Stores	$1,454	$1,344	$183,176,490	$169,238,625	$13,937,865	8%
Food Stores (a)	$1,913	$2,035	$240,993,939	$244,234,942	($3,241,003)	(1%)
Eating and Drinking Places	$725	$598	$91,324,000	$75,372,321	$15,951,679	21%
Home Furnishings and Appliances	$137	$215	$17,265,000	$27,060,066	($9,795,066)	(36%)
Building Materials and Farm Implements	$658	$790	$82,847,000	$99,464,256	($16,617,256)	(17%)
Auto Dealers and Auto Supplies	$1,177	$1,405	$148,207,000	$177,025,600	($28,818,600)	(16%)
Service Stations	$675	$542	$84,980,000	$68,225,551	$16,754,449	25%
Other Retail Stores	$936	$1,221	$117,958,000	$153,755,489	($35,797,489)	(23%)
Total	**$7,840**	**$8,394**	**$987,535,429**	**$1,045,285,208**	**($57,749,779)**	(6%)

Notes:
(a) Potential sales have been estimated by category using a Bay Area Economics proprietary regression model. Statewide average per capita sales have been adjusted according to local area per capita income, average household size, and several other demographic factors. Leakage is the total potential sales for the area less the total reported sales in the area.
(b) Data used to construct this table based on reported taxable sales. Grocery Store taxable sales are assumed to constitute 33% of total sales.

Sources: Bay Area Economics, based on data from State Board of Equalization; U.S. Census, City of Eureka, and Claritas

Summary of Retail Conditions in Eureka and Humboldt County

The retail environment in Eureka and Humboldt County is extremely competitive, with a number of major region-serving centers and free-standing stores as well as older retail districts. The 1990s have brought new challenges, including a cycle of decline and recovery in the state economy, major new retailers entering the market, high vacancies, and repositioning of existing centers, and consumers who have become more cost conscious and accustomed to value retail shopping . While the major stores and chains compete to capture expenditures, older retail districts have out of necessity repositioned themselves in niches less competitive with the big stores. Past trends of limited regional growth in population and income (and thus spending potential) will continue into the foreseeable future.

The leakage analysis indicates that actual total retail sales in Humboldt County are only slightly below potential expenditures. General merchandise stores show net injections of sales, but this is counterbalanced by the leakage in the apparel and food categories, perhaps indicating that County residents are buying apparel and food items at general merchandise stores instead, a long-term trend throughout the state. Although County retail sales in the building materials/farm implements categories appear to be below expectations, some of the expected sales in this store category may be going to building materials dealers categorized as wholesale outlets rather than retail stores. The higher than expected sales at restaurants and service stations are probably linked to tourism, which may also account for some of the injections in the general merchandise store category. The apparent leakage in the other retail store category may actually be due to the relatively narrow economic base of the County, leading to limited sales in certain subcategories such as office supply stores. Furthermore, the small population and economic base of the County may limit local buying opportunities for specialized goods (e.g., high end apparel) and lead to some leakage for the store categories carrying specialized items.

PROFILE OF GENERAL MERCHANDISE AND HOME IMPROVEMENT RETAIL SEGMENTS

Profile of General Merchandise Retailing

The steady ascendance of discount merchandising in the U.S. retail market over the past decade has occurred during a period when region-serving shopping centers with large discount anchor stores are supplanting many shopping malls with traditional department stores. Today, big-box retailers such as Wal-Mart and Target, and category killers (large specialist discounters) such as Toys "R" Us and Office Depot, are among the most vital and profitable of retail formats. A major reason for their success is the price consciousness of consumers that intensified during the recession of the early 1990s that has persisted since that time, in spite of many years of economic growth.

Wal-Mart Stores Inc.

With 1999 annual sales of $138 billion and 815,000 U.S. employees, Wal-Mart is the largest retailer in the world and the largest private-sector employer in the U.S. Based in Bentonville, Arkansas, Wal-Mart's U.S. operations encompass 2,901 stores, including 1,857 discount stores, 591 Super Centers and 453 Sam's Club stores (a wholesale operation with a $35 annual membership fee).[5] In 1998, Wal-Mart had higher sales than Sears, J.C. Penney, and Kmart combined.[6]

The average Wal-Mart discount store is 94,300 square feet,[7] although existing store sizes range from 30,000 square feet to 150,000 square feet. Annual sales per square foot throughout the chain are estimated to be $350.[8]

There are 106 Wal-Mart discount stores and 24 Sam's Clubs in California, as well as two distribution centers. According to the Wal-Mart Web site, excluding stores located in the nine-county San Francisco Bay Area, there are 23 Wal-Mart discount stores in Northern California located between Stockton and the Oregon border (Antelope, Chico, Clearlake, Crescent City, Elk Grove, Folsom, Lodi, Martell, Oroville, Rancho Cordova, Red Bluff, Redding, Rocklin, Roseville, Sacramento, Stockton, Susanville, Ukiah, Willows, Woodland, Yreka, Yuba City) and three Sam's Clubs (Sacramento [2], Yuba City). There are currently no Wal-Mart Super Centers in California. A complete listing of all Wal-Mart stores can be found on the company's Web site (www.wal-mart.com).

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[5] Information from Wal-Mart Web site: www.wal-mart.com.

[6] 1999 Form 10-K Sears, Roebuck and Co.; 1999 Form 10-K J.C. Penney Company; Inc.; 1999 Form 10-K Kmart Corporation.

[7] 1999 Form 10-K, Wal-Mart Stores, Inc.

[8] Wal-Mart's 1999 Annual Report and other financial statements do not include data for sales per square foot. The source of this estimate is "Wal-Mart Goes Express with 'Market' Concept," *Discount Store News*, February 22, 1999.

Competitive Strategies. The first Wal-Mart was opened by Sam Walton in rural Arkansas in 1962. Walton's experience as a merchant operating variety stores in small towns in Arkansas and Missouri convinced him that shoppers would flock to a large discounter with a wide selection of merchandise and good customer service. While much of Wal-Mart's early growth was in small, rural markets, it has expanded in recent years into metropolitan areas, including San Diego, San Francisco, Houston, Phoenix, Dallas, Chicago, and the Greater Los Angeles area.

Wal-Mart is well known for its ability to attract consumers by offering low prices and national brands. Its success can be attributed to maintaining cost controls and strict inventory control, training employees to provide excellent customer service, and displaying merchandise in an appealing and stylish manner. In a recent interview, Wal-Mart's chief operating officer stated that an average customer shops at Wal-Mart six times per month.[9]

For years Wal-Mart has been able to achieve higher sales productivity than its competitors by successfully employing a "productivity loop," i.e., reducing expenses and passing the earnings to consumers through lower prices, thus stimulating sales which in turn helps to lower expenses. A significant weapon in cost control has been Wal-Mart's sophisticated use of technology in building a distribution network that links each cash register to a regional warehouse. Consequently, Wal-Mart is able to track sales with great precision. Wal-Mart buys quickly and demands fast and frequent deliveries; typically, an order is turned around in 24 hours.

Wal-Mart has sought to protect its expertise in logistics and recently brought a lawsuit against major Internet retailer Amazon.com which accused it of hiring away key Wal-Mart information technology staff in order to learn about the company's computer merchandising system. As part of a settlement reached in April 1999, Amazon.com agreed to re-assign some former Wal-Mart executives and consultants to duties not related to their previous work with Wal-Mart's computer system.[10]

Although Wal-Mart itself has had an online store since 1996, it has not been especially focused on Web retailing. With estimates that the number of Web shoppers is expected to grow from 16 million in 1998 to 61 million in 2002, Wal-Mart is rumored to be relaunching its Website in the summer of 1999. The company is also creating a global network to link it with over 91,000 suppliers worldwide.[11]

1999 Expansion Plans. According to expansion plans announced by Wal-Mart in October 1998, the company intends to open approximately 40 new Wal-Mart stores in the U.S., in addition to 150 new Super Centers. Approximately 90 percent of the Super Centers will be

[9] "A Steady Course," *Discount Merchandiser*, April 1999.
[10] "Can Wal-Mart Be the Next Amazon.com?," *Interactive Week Online*, June 4, 1999.
[11] *Ibid.*

relocations or expansions of existing discount stores. The company also plans to open 10 to 15 new Sam's Clubs in the U.S.[12]

Wages and Benefits. Jobs offered by national retailers such as Wal-Mart, Target, Kmart, and Home Depot have become a significant source of new employment in recent years. For many job seekers, particularly entry-level workers, working for one of these retailers is an attractive option because they offer benefits such as health insurance, dental insurance, and profit sharing. In addition, the shift in the U.S. economy away from manufacturing and heavy industry toward services has given discount retailers like Wal-Mart an increasing pool of job applicants. Furthermore, the increased labor force participation rate of women, seniors, and teenagers has expanded the labor supply. Taken together, these changes in the country's labor market have helped make Wal-Mart the largest private-sector employer in the U.S.

Wal-Mart does market surveys in the communities where it plans to open a store in order to offer competitive, market-based wages. For career-minded individuals, the company also offers numerous advancement opportunities. About 60 percent of Wal-Mart's management staff started with the company as hourly associates.[13]

Wal-Mart offers both full-time and part-time employment. About 70 percent of Wal-Mart employees (associates) are full-time, although both full-time and part-time employees are eligible for benefits. Associates who need benefits but cannot work a complete 40-hour week (such as students and senior citizens) can receive full-time benefits by working at least 28 hours per week. Benefits offered to Wal-Mart's full-time and part-time employees include health insurance, 401(k) stock purchase, jury duty pay, holiday pay, store discount, bereavement leave, military leave, personal leave, scholarship programs and paid vacations.[14]

In January 1999, Wal-Mart was named by *Fortune* magazine as one of the 100 best companies to work for in America. Ranked 66th, Wal-Mart is the only discount retailer on the list. The magazine also pointed out that Wal-Mart is the largest private-sector employer of African-Americans and Hispanics in the nation.[15]

Community Support. In 1998 Wal-Mart's community involvement, including contributions to Children's Miracle Network Hospitals, United Way agencies and local non-profits, totaled $127 million. This amount included $42 million from the company's Community Matching Grant Program, as well as contributions to scholarship funds, grants for economic development, and awards to outstanding teachers. In April 1999, the Cone/Roper Cause Related Trends Report named Wal-Mart the nation's number one "good

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[12] Information from Wal-Mart Web site: www.wal-mart.com.
[13] *Ibid.*
[14] Information furnished by a Wal-Mart representative.
[15] "The 100 Best Companies to Work for in America," *Fortune*, January 11, 1999.

corporate citizen."

Profile of Home Improvement Retailing

Over the last 20 years the home improvement retail industry has undergone a dramatic shift away from small independent paint, hardware, and lumber stores toward national chain retailers with big-box formats and a wide variety of merchandise under one roof. Home Depot, Home Base, and Orchard Supply are among the top 10 home improvement retailers in the U.S. As consumers purchase larger homes with more amenities, and as the "cocooning" trend continues (i.e., consumers spending more time at home and more money on home furnishings and décor), retailers such as Home Depot, Home Base, and Orchard Supply expect home renovation and repair expenditures to reach record levels. In spite of the rise of these big-box centers, home improvement retailing still remains fragmented, with only eight percent of the U.S. market captured by the industry leader (i.e., Home Depot)[16].

Home Depot, Inc.

Home Depot Inc. is the leading retailer in the home improvement industry in the U.S. with a market share of approximately eight percent. Based in Atlanta, Home Depot had over $30.2 billion in sales in 1998, and approximately 125,000 employees. There are 765 Home Depot stores (including 12 EXPO Design Centers) in 44 states, five Canadian provinces, Chile, and Puerto Rico. A typical Home Depot is a 107,000 square foot store plus a 24,000 square foot outside garden center. Each store stocks 40,000 to 50,000 SKUs (stock keeping units); average annual per store sales are $410 per square foot.[17]

There are 106 Home Depot stores in California, as well as three EXPO Design Center stores. According to the Home Depot Web site, excluding stores located in the nine-county San Francisco Bay Area, there are nine Home Depot stores in Northern California located between Stockton and the Oregon border (Carmichael, Chico, Folsom, Rancho Cordova, Roseville, Sacramento [2], Stockton, and West Sacramento). There are currently no EXPO Design Center stores in Northern California. A complete listing of all Home Depot stores can be found on the company's Web site (www.homedepot.com).

Competitive Strategies. Home Depot's success is based on a concept first introduced in 1978 that brought DIY (do-it-yourself) customers a wide selection of products in a no-frills, warehouse environment with simple merchandise presentation. This discount environment reduces overhead costs and allows Home Depot to pass savings on to the customer in the form of lower merchandise prices.

In addition to the do-it-yourself market, Home Depot also targets the BIY (buy-it-yourself) customer, and professional remodelers and commercial customers such as general

[16] 1999 Form 10-K, The Home Depot, Inc.
[17] *Ibid.*

contractors and trade subcontractors (e.g., masons, electricians, painters, and plumbers). For the BIY market, Home Depot facilitates the purchase of products by the homeowner for installation by a professional contractor. Home Depot itself offers installation services for many products and works with third-party independent licensed contractors who provide services to customers. This one-stop shopping allows Home Depot to reach customers who wish to economize on home improvement projects, but do not have the ability or desire to take on a remodeling or repair job.

Home Depot's business with professional contractors is also significant. By offering 11 departments under one roof (lumber, building materials, flooring, paint, hardware, plumbing, electrical, lighting, garden, kitchen and bath, millwork, and décor), low prices, and job site delivery, Home Depot is a strong competitor with other building materials suppliers.

EXPO Design Center Strategy. Since 1991 Home Depot has opened 12 EXPO Design Centers in California, Georgia, Florida, New York, Texas and Virginia.[18] A prototypical store is 92,000 square feet and in contrast to a typical Home Depot, EXPO sells interior design products and installation services rather than building materials. The EXPO format is a design idea center targeted toward upper-income consumers interested in home décor and remodeling, and the stores have showrooms with full-size displays that allow shoppers to visualize possible projects. The rollout of the EXPO format has been slow because of the need to fine-tune the store prototype; however, Home Depot plans to open 200 EXPO Design Centers in the next five to seven years.[19]

Villager's Hardware Strategy. Villager's Hardware is the newest store concept to emerge from Home Depot and the first test site opened in East Brunswick, New Jersey in June 1999. The prototype for Villager's Hardware is 30,000 to 40,000 square feet. With 37,000 SKUs in 10 departments, Villager's Hardware sells tools, fasteners, hardware, plumbing, electrical, and seasonal items.[20] At the same time it offers merchandise not carried in traditional Home Depot stores such as closet organizers, cleaning agents, and housewares.[21] According to a Home Depot executive, "Home Depot is home improvement, EXPO is home design, and Villager's Hardware is home enhancement."[22] The Villager's Hardware concept will be tested for at least the next year before the company considers further expansion.[23]

As Home Depot branches into associated businesses, it brings significant financial

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[18] See Home Depot Web site: www.homedepot.com.

[19] 1999 Form 10-K, The Home Depot, Inc.

[20] *Ibid.*

[21] "Home Depot Branching Out," *Cleveland Plain Dealer*, June 6, 1999.

[22] "Home Depot's Smaller Creation Focuses on Goods for the Home," *Atlanta Journal and Constitution*, June 22, 1999.

[23] "Home Depot Branching Out," *Ibid*.

resources as well as a strong, nationally recognized brand. From its plans to expand the EXPO Design Center format, to experimentation with the new Villager's Hardware stores, it is clear that Home Depot intends to continue to expand into new markets and invest in new concepts to ensure future growth.

1999 U.S. Expansion Plans. In 1998 Home Depot opened 121 new stores and plans to open 167 new stores in 1999.[24] Often, the company opens new stores on the perimeter of markets that are currently served by existing Home Depots, thus ensuring long-term market penetration. While there is a degree of "cannibalization" (i.e., sales at the existing store are captured by the new store), Home Depot believes that there is a positive trade-off in terms of overall increase in market share.[25]

Wages and Benefits. According to Home Depot's 1999 Form 10-K, approximately 147,580 of the company's 157,000 workers (94 percent) world-wide are non-salaried and are compensated on an hourly basis. Approximately 75 percent of the company's world-wide employees are full-time workers. It is Home Depot's stated policy to maintain salary and wage levels above those of its competitors in its market areas in order to attract and retain qualified personnel.[26]

Community Support. Home Depot has an active corporate giving program with emphasis on charities involved with housing, youth, or the environment. Funded organizations include Habitat for Humanity, Big Brothers/Big Sisters, Boy Scouts, Boys & Girls Clubs, United Way, Wilderness Society, and the World Wildlife Fund.

HomeBase Inc.

HomeBase is the second largest home improvement retailer in the western U.S., and is the seventh largest in the nation. Based in Irvine, California, and with estimated sales of $1.44 billion, HomeBase operates 84 stores in 10 western states (Arizona, California, Colorado, Idaho, Nevada, New Mexico, Oregon, Texas, Utah, and Washington).[27] HomeBase was founded as HomeClub in 1983 with two membership warehouses in southern California. Subsequently HomeClub was acquired and re-sold, and in 1992 HomeClub changed its name to HomeBase and shifted from a membership store to a full scale retailer.[28] HomeBase stores are approximately 103,000 square feet with an adjoining nursery and garden center. According to the company's latest annual report, 24 to 34 percent of HomeBase stores experience competition from new big-box home improvement stores each year. Approximately 150 people are employed at each HomeBase store[29] and the company

[24] 1999 Form 10-K, The Home Depot, Inc.
[25] *Ibid*.
[26] *Ibid*.
[27] 1999 Annual Report, HomeBase, Inc.
[28] HomeBase Web site: www.homebase.com.
[29] HomeBase Web site: www.homebase.com.

currently has 8,400 workers.[30]

There are 50 HomeBase stores in California. According to the HomeBase Web site, excluding stores in the nine-county San Francisco Bay Area, there are five HomeBase stores in Northern California located between Stockton and the Oregon border (Chico, Redding, Sacramento [2], Stockton). A complete listing of all HomeBase stores can be found on the company's Web site (www.homebase.com).

Competitive Strategies. HomeBase offers a broad assortment of home improvement and building supply products, as well as decorative accessories, to a target market ranging from casual do-it-yourself customers to professional contractors. Each store has 14 departments including: lumber, building materials, garden and nursery, plumbing, electrical equipment, hand and power tools, housewares, hardware, kitchen, bath, paint, décor, seasonal, and fashion lighting.[31]

HomeBase has developed several strategies to increase its share in the highly competitive home improvement market. For example, the company offers a separate Contractor's Service Desk to provide quick and efficient service to building professionals and contractors. There is also one proprietary credit card program for consumers, and another for professional contractors. HomeBase assists its customers with free, in-home design consultations for kitchen and bath remodeling, as well as installation services.[32] However, the most emphasis has been placed on the company's recently completed store overhaul and remodeling program that has placed a Design Center and Special Orders section in the front center part of the store.[33]

1999 Expansion Plans. In 1999 the company plans to open five new stores in California (El Centro, Los Angeles, Norwalk, Norco, San Diego), and one in Phoenix, Arizona.[34]

Wages and Benefits. According to the HomeBase Web site (www.homebase.com), the company offers a competitive compensation and benefit package including medical, dental, and life insurance coverage, as well as a 401(k) plan. Sales associates also receive extensive training in many areas to ensure high quality customer service. In addition, sales associates receive a minimum of 80 hours of training courses each year.

Community Support. According to the HomeBase Web site, the company is a prominent supporter of cancer, diabetes and HIV/AIDS research through contributions to the City of Hope National Medical Center and Beckman Research Institute.

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[30] Hoover's Online Web site: www.hoovers.com.
[31] HomeBase Web site: www.homebase.com.
[32] HomeBase Web site: www.homebase.com.
[33] HomeBase Web site: www.homebase.com.
[34] 1999 Annual Report, HomeBase, Inc.

Orchard Supply Hardware Corp.

Orchard Supply Hardware operates 75 hardware superstores in California[35] which average approximately 40,000 square feet each,[36] and carry over 45,000 SKUs (stock keeping units).[37] Based in San Jose, Orchard was purchased by Sears , Roebuck & Co. in 1996 and is part of Sears' 255-store hardware chain. Total 1998 revenue for the Sears Hardware division (including Orchard Supply) was $1.3 billion. Since its acquisition by Sears, Orchard Supply does not publish annual sales data.

According to the Orchard Supply Web site, excluding stores in the nine-county San Francisco Bay Area, there are eight Orchard Supply stores in Northern California located between Stockton and the Oregon border (Citrus Heights, Elk Grove, Lodi, Redding, Sonora, Stockton, Woodland, Yuba City). A complete listing of all Orchard Supply Hardware stores can be found on the company's Web site (www.osh.com).

Competitive Strategies. Orchard Supply has carved a niche in the home improvement market by providing a better assortment of merchandise in a larger space than a traditional hardware store. At the same time, the shopping experience offered at Orchard stores is more manageable and less overwhelming compared with gigantic warehouse retailers.[38] In fact, the company's stated mission is to offer "same quality, service and convenience of a 'mom and pop' operation, but with a greater depth of products than other larger warehouse facilities and home center chains."[39]

Since joining Sears, Orchard supplements its wide assortment of national brands with Craftsman tools (a private Sears label), and other home repair products. Departments include hardware, lawn and garden, nursery, paint, plumbing and bath, electrical and lighting, industrial hardware, housewares, work gear, and seasonal items.[40]

Orchard Supply also has a Commercial Services Program that provides one-to-one service to contractors and other business customers. This personalized service includes price quotes on demand, special orders, and a dedicated checkout for expediting transactions. Orchard also accepts phone and fax express orders that are compiled by Commercial Services Representatives and ready for loading when the customer arrives for pickup.

1999 Expansion Plans. As part of Sears' Hardware Stores division, Orchard Supply stores in California have retained the Orchard name, while stores outside the state are known as Sears Hardware. In 1998, nine new Orchard Supply stores were opened in

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[35] Orchard Supply Hardware Web site: www.osh.com.
[36] "Sears Chooses Orchard's Format," *National Home Center News*, January 25, 1999.
[37] Orchard Supply Hardware Web site: www.osh.com.
[38] "Sears Chooses Orchard Format," *National Home Center News*, January 25, 1999.
[39] Sears, Roebuck Web site: www.sears.com.
[40] *Ibid*.

California. In 1999, Sears plans to open 20 to 30 Sears Hardware and Orchard Supply stores.

Wages and Benefits. While wage information was not available, full-time Orchard employees receive medical, dental, and life insurance, vision care, vacation, eight paid holidays, employee discounts, profit sharing and 401(k) plans, and educational reimbursements. Part-time employees receive eight paid holidays, employee discounts, profit sharing and 401(k) plans, and an employee credit union.[41]

Community Support. Orchard does not disclose its information about its corporate giving activities.

Strategies for Competing with Big-Box Retailers

The arrival of a discount retailer in any community is often regarded as a mixed blessing. While a discount store is prized by many cities because it is seen as a source of tax revenue, employment, and better value shopping, it is equally a source of dread for local retailers who fear it will adversely impact downtown and neighborhood shopping districts. In the face of discounters' low-price image and appeal to shoppers looking for a bargain, many small local retailers around the country have devised effective strategies to successfully compete.

Competition and Coexistence. By providing goods and services not offered by discounters, many local retailers are able to capitalize on the carloads of discount store customers passing through town. In many cases, a general merchandise discounter that draws shoppers from a regional area has also served as a magnet for other businesses such as furniture stores, appliance stores, and bicycle repair shops. Service enterprises that complement discount retailers have also been successful. For example, an appliance dealer could potentially expand its repair business by setting up service agreements with every major brand of vacuum and kitchen appliance carried by a nearby discounter.

However, merchants who must compete in the same product categories have a more difficult job. Kenneth Stone, an economist at Iowa State University, advises local merchants to coexist with discounters by expanding store hours and buying joint advertising with other locally owned retailers. He also recommends that local shops strategically adapt their operations by carrying items that the big-boxes stock in limited supply such as sporting apparel and athletic shoes.[42] While many discounters are known for carrying a broad range of goods, they do not necessarily offer a very deep selection within any given category.

All American Home Center vs. Home Depot. One of the most dramatic examples of a

[41] Orchard Supply Hardware Web site: www.osh.com.
[42] "Competing With the Discount Mass Merchandisers," by Dr. Kenneth E. Stone, Professor of Economics, Iowa State University (1995).

locally-owned business going into head-to-head competition with a large national discounter occurred in 1996 when Home Depot moved in literally across the parking lot from All American Home Center in Downey, California. The first thing All American did to counter its high price image was to implement a comprehensive pricing program utilizing software and services from a retail merchandising systems vendor. Based on market intelligence provided by the systems vendor, All American lowered prices on price-sensitive items which increased their sales volume in those categories. The new pricing system also allowed All American to maintain or increase the price of items where demand was less sensitive.[43]

All American's new approach to pricing changed its inventory management. By optimizing its inventory mix, the store now has less money tied up in stock and can use the spare funds to improve and grow the business. Among the new programs instigated by All American were a special counter for contractors, Senior Discount Tuesdays, bilingual signage for its Hispanic customer base, and a "Half-Price Place" merchandising area with close-outs and other discounted items. The store also added new restrooms, an ATM machine, a utility bill paying station, and a large electronic sign that faces Home Depot and advertises products and services (such as free delivery within the City of Downey).[44]

Strategies for Office Supply and Toy Retailing. While it is helpful to encourage main street merchants to be more competitive, concrete examples of successful strategies are also useful. Recommendations that were published in *Inc.* magazine several years ago discussing ways for independent office supply and toy retailers to compete with national chains are still applicable to today's retail environment.

Independent office supply stores have formed collective purchasing groups that allow them to be price competitive with national discounters. Interestingly, a key to success for the independents has been to mimic the look and feel of discount stores rather than highlight their individuality. Since office supply customers tend to emphasize price, independents must create the impression that they are super competitive. "You have to change the box you sell out of and make it look like a discount place. We even painted the ceiling white and stacked the merchandise high to make it look like Kmart or Office Depot. Now people come into our store and say 'Finally, an office discount store.'"[45]

The success of mass marketers such as Toys "R" Us, Target, and Wal-Mart has meant that independent toy stores can no longer compete on a commodity basis. Toy retailers must promote themselves as a distinct alternative by focusing on the specialty end of the market, offering educational products, or selling toys that are not advertised on television. For example, Brio Inc. distributes its products solely through specialty stores "because they get

[43] "Taking Aggressive Measures," *Do-It-Yourself Retailing*, May 1998.
[44] *Ibid.*
[45] "The New and Improved American Small Business," *Inc.*, January 1995.

the product into the hands of the consumer and explain to them what the value is."[46] In addition, independents are in a better position than the chains to stage special events that play up their links to the community.

Conclusions. It is clear that the arrival of discount stores prompts (or forces) local merchants to rejuvenate their businesses in order to compete. Successful competitive strategies include:

- matching the discounter's prices for price sensitive items
- offering fast service and helpful staff
- offering services the discounter cannot match (discount days, free delivery service, etc.)
- imitating a discount store atmosphere
- offering specialized or high quality merchandise

It is important to remember that change is inherent to the retail industry and the current ascent of large format discounters is consistent with the market's pattern of constant transformation. Nevertheless, small merchants have an important role in every retail market, and they are an essential component in bringing diverse products and services to evermore discriminating consumers. For example, the specialty beverage market which began with Snapple flavored teas was built up by small stores willing to experiment with a new category, not in a discount environment where shelf space is very expensive. Although competition from big-boxes can be fierce, small independent retailers can thrive if they can identify needs of shoppers in their market that are not met by large national discounters.

[46] *Ibid.*

EUREKA'S EXISTING FISCAL CONDITIONS

For fiscal year 1999-2000, the City of Eureka has a proposed budget of $41,149,919. The General Fund (the fund likely to be impacted by new development) comprises approximately 35.6 percent of the total budget, or $14.7 million.

Revenues to the General Fund are collected from several sources including: 1) taxes (e.g., property taxes, sales taxes, transient occupancy taxes, etc.); 2) charges for services; 3) intergovernmental transfers; 4) licenses, permits and franchises; 5) fines and forfeits; and 6) other miscellaneous revenues. Tax revenues are the largest source of revenue, comprising approximately 69.5 percent of the General Fund revenue base. In fiscal year 1999-2000, property tax revenues are expected to account for seven percent of General Fund revenues (see Table 14).

Sales taxes in Eureka are expected to account for 46 percent of General Fund revenues. This contrasts sharply with Humboldt County where sales taxes are expected to account for only 12.4 percent of the 1999-2000 General Fund revenue.

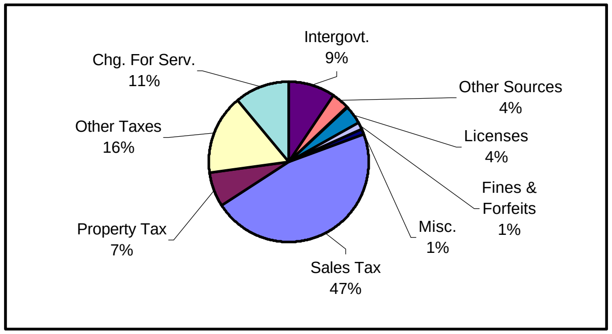
Of the remaining revenue sources, the most significant is revenue from charges for services which is expected to account for 11 percent of total General Fund revenues. Intergovernmental transfers are another significant revenue source (nine percent of total General Fund revenues). These revenues include $1.3 million in motor vehicle in-lieu fees from the State, and $29,500 in homeowners property tax relief.

Like many other California cities, General Fund expenditures are largely dominated by police services costs. For fiscal year 1999-2000, these costs are estimated to be $10.7 million, which represents 58 percent of total General Fund expenditures. Public works and general government services represent the other two significant General Fund expenditures, comprising 21 percent and 15 percent of the General Fund budget respectively.

Table 14: Eureka General Fund

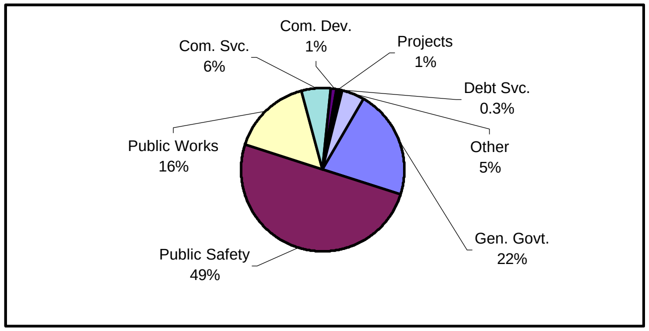
Revenues

Description	Amount	Percentage
Sales Tax	$6,811,000	46%
Property Tax	$1,008,000	7%
Other Taxes (a)	$2,371,200	16%
Charges for Services	$1,631,965	11%
Intergovernmental Transfers	$1,358,400	9%
Other Financing Sources	$547,559	4%
Licenses, Permits & Franchises	$546,500	4%
Fines & Forfeits	$209,800	1%
Miscellaneous	$170,824	1%
TOTAL	$14,655,248	100%



Expenses

Description	Amount	Percentage
General Government	$3,356,905	22%
Public Safety	$7,694,353	50%
Public Works	$2,472,845	16%
Community Servics	$876,354	6%
Community Development	$190,281	1%
Projects	$100,000	1%
Debt Service	$52,707	0.3%
Other Financing Uses	$699,126	5%
TOTAL	$15,442,571	100%



Note (a): Other taxes include business license taxes, transient lodging tax, utility tax, etc.
Sources: City of Eureka Proposed 1999-2000 Annual Budget; Bay Area Economics, 1999.

IMPACTS ON EXISTING RETAILERS IN EUREKA

This section provides an analysis of possible impacts of new "big-box" retail development in Eureka. To focus the analysis, impacts are assessed based on two particular types of big-box stores: a discount general merchandiser (such as the proposed Wal-Mart) and a home improvement center, such as Home Depot or HomeBase. It should be noted once again that to the best of BAE's knowledge there is currently no proposal for such a home improvement center in Eureka, but given trends in the value retail industry, such a store could be proposed for Humboldt County in the future. Three possible scenarios are discussed for each of the two store types, for a total of six scenarios:

1. No new big-box store of this type in Humboldt County (Baseline scenario)
2. New big-box store of this type in Eureka
3. New big-box store of this type in Humboldt County, but outside Eureka

To assess the viability of existing businesses, both today and in the face of future competition from a new discount general merchandise outlet or home improvement center, Bay Area Economics performed several areas of analysis. As a first step, store-by-store taxable sales data for major competitive outlets in Eureka were analyzed for the period 1993 through 1998. This time period covers the period before and after the opening of the last major retail stores in the Eureka area, Costco and the Kmart in McKinleyville. This data source involves confidential sales data, so the results of the analysis can only be described in a general way. However, the results of this analysis greatly inform the findings of this study.

In addition to the individual store data, overall taxable sales trends for existing retail centers and districts in the City for the 1993 through 1998 period have been made available to Bay Area Economics and can be discussed in a general way without revealing confidential data regarding the sales of individual stores. These areas were previously described above.

Analysis of Store-by-Store Data. In 1993 and 1994, taxable retail sales in Eureka and Humboldt County reached their lowest level of the 1990s on an inflation-adjusted basis. Since 1994, total taxable retail sales have rebounded, albeit not to 1990 levels. Individual stores and chains, however, have not all followed these trends. Many major retail outlets have continued to see a decline in sales during this period, while others outperformed the market average.

Major General Merchandise Outlets. Between 1993 and 1998, the taxable sales in this category have increased substantially, in large part because of the opening of Costco in late 1994. Aside from Costco, which has been very successful in generating taxable sales, several outlets have shown major declines in sales and are currently performing poorly in comparison to industry standards for sales on a per-square-foot basis. In addition, the last department store in downtown Eureka, Daly's, and the J.J. Newberry store in Eureka Mall closed during this period. On the other hand, not every other store that was open in 1993 has seen a decline in sales, and with a few notable exceptions most stores are still performing at least moderately well on a sales per square foot basis.

Drug Stores. The 1993 through 1998 period has seen a major decline in taxable drug store sales in Eureka.[47] This may reflect a shift in consumer shopping patterns towards purchase of household items and other goods at larger general merchandise stores. While prescription sales are not taxable and are therefore not shown in the taxable sales data, it is worth noting that Costco has a pharmacy, and a shift of prescription purchases to this store could have contributed to a decline in incidental purchases at drug stores since consumers were not as likely to be in those stores.

Food Stores. Taxable sales at major food stores have also declined since 1993, perhaps as a result of a shift in sales to Costco and other general merchandise stores and new grocery stores in the area but outside Eureka (e.g., Ray's Food Place in McKinleyville). This mirrors the declining trend for the 1993 to 1998 period for all retail food stores in Eureka (see Table 10 above), although it is worth noting that 1998 sales are above 1990 levels. Since 1993, two major outlets have closed in the City; the Mark & Save Warehouse Foods at Mall 101, and the Food Mart in Henderson Center. One additional major store has opened, Ray's Food Place on Broadway.

Building Materials and Related Outlets. The outlets analyzed in this category include major retail building materials dealers as well as hardware stores, and selected large wholesale building supply businesses that showed taxable sales. Combined sales for these outlets declined from 1993 to 1998, reflecting the trend for the retail building materials/farm implements category, but store by store results were very mixed, with some outlets registering major gains while others showed declining sales. It should be noted that one local hardware store, Humboldt Hardware on Broadway, went out of business in 1999, and one other outlet, Pay n Pak, closed just prior to the study period.

Summary of Store-by-Store Sales. The 1993 through 1998 period has seen the opening of three major regional stores relevant to this study: Costco, the Kmart in McKinleyville, and a major supermarket, Ray's Food Place on Broadway (an additional Ray's Food Place opened in McKinleyville). Following these store openings, there has been a shift in sales between stores, with some but not all of the other major general merchandise outlets registering large declines in taxable sales during the period. Published citywide data show that the drug store category and food store category showed a decline in taxable sales during the period, and these declines impacted some of the major outlets in these categories. Daly's, the only downtown department store, closed during the period, as did two major

[47] Prior to 1997, the State Board of Equalization considered drug stores to be a separate category for its published city data; starting in 1997, they were put in the general merchandise category. This reflected conditions in the real world, where SBOE could no longer publish separate figures for drug store sales for many cities anyway because industry consolidation had led less than four outlets, at which point confidentiality rules prevent presenting the data. Furthermore, the remaining "drug" stores were likely to be chain stores that function in large part as general merchandise outlets.

food outlets in Eureka. In the building materials category, individual business performance varied widely from the overall decline for building materials/farm implement outlets shown in the published data, with several individual stores showing large percentage gains. One hardware store included in the analysis, Humboldt Hardware on Broadway, has since closed.

These store-by-store data show that overall performance in any category can mask poor performance by certain stores in the face of new competition. Several of these major stores may be at risk of closure if they continue to perform well below industry standards.

Trends by Retail Center/Area. Taxable sales data are also available for several major retail nodes in the City: Bayshore Mall, Highway 101/Broadway (including Bayshore Mall), Eureka Mall, Downtown, Old Town, and Henderson Center. Combined, these areas account for nearly three-quarters of all taxable sales in the City.

Bayshore Mall. On an inflation-adjusted basis, taxable sales at Bayshore Mall declined slightly between 1993 and 1998, and in 1998 made up just above 15 percent of City taxable sales. Like many malls, this center has faced increasing competition from existing and new discount retailers as shoppers become more cost-conscious. The impact of major new outlets entering the market may be seen in the sharp decline in sales from 1994 to 1995, following the opening of Costco and Kmart in McKinleyville. Since then sales have rebounded somewhat, but have not quite reached 1993 levels.

To provide additional insight, Bay Area Economics compared the list of outlets in the Mall reporting taxable sales in 1998 to the list in 1993 to see how much turnover occurred during the period. Interestingly, of the 93 outlets present in 1993, almost one-third were gone by 1998, with 64 were still listed; the number of total outlets increased to 121 in 1998. These data are illustrative of the high failure rate in retailing, even in one of the prime locations in the area.

Highway 101/Broadway. Despite the slight decline in taxable sales at Bayshore Mall, this area as whole exhibited a substantial increase in sales between 1993 and 1998. This may be due to the opening of new stores around the mall, such as Ray's Food Place, as well as a recovery in sales for the automotive sector and other categories that have major stores in this retail corridor. When the mall is excluded, taxable sales in this area, which constitute about one-quarter of all City taxable sales, increased by over 20 percent.

Eureka Mall. This older mall has undergone a major repositioning in recent years, from a traditional enclosed mall to an orientation toward value-oriented retail. Taxable sales declined slightly between 1993 and 1998, as the two major food outlets and drugstore faced competition from the newly opened Costco and Ray's Food Place. Overall sales have actually rebounded somewhat from a low in 1995, following the opening of Staples. In 1998, Eureka Mall contributed less than five percent of the City's taxable sales.

Downtown. Total taxable sales in the downtown area have been relatively flat over the study period, despite the closure of Daly's department store, and in 1998 made up slightly under five percent of the City's taxable sales. As was done for Bayshore Mall, Bay Area Economics compared the list of outlets reporting taxable sales in 1998 to the list in 1993 to see how much turnover occurred during the period. Of the 180 outlets present in 1993, only 85 were still listed in 1998, a far lower "survival rate" than at Bayshore Mall; the number of total outlets also decreased from 180 to 165. These data indicate a high failure rate for small businesses, even in an area where overall sales have remained relatively unchanged.

Old Town. As in Downtown, total taxable sales in Old Town have been fairly constant during the 1993 to 1998 period. This area is responsible for between three and four percent of the City's total taxable sales.

Henderson Center. The Henderson Center area actually showed an increase in taxable sales between 1993 and 1998. The area contributes between four and five percent of Eureka's total taxable sales. This area shows more stability than Downtown; the total number of outlets listed dropped slightly from 82 to 79, but 48 of these were listed in both 1993 and 1998. Nevertheless, the high business turnover rate seen Downtown is also present in this area, with approximately 40 percent of the outlets listed in 1993 no longer being present in 1998, and a similar proportion of new outlets in 1998 that were not present in 1993. It should be noted that one major "anchor" retailer, Food Mart, closed in the last year, and taxable sales from this store never appeared in the City's grouped data for Henderson Center. The loss of this store may adversely affect the rest of the area, but data are not yet available to confirm such a trend.

Summary of Sales by Area. Most of the retail centers and districts as described above showed either slight declines or gains in inflation-adjusted taxable sales between 1993 and 1998, as did the City as a whole. Only one area, the Highway 101/Broadway corridor (excluding Bayshore Mall), showed a major change in taxable sales, with an increase of more than 20 percent. The older areas with concentrations of small businesses – Downtown, Old Town, and Henderson Center – held their own, showing little change in the face of the major new store openings in the region. This is probably due in large part to the fact that these areas had been facing competition from large retailers (especially at Bayshore Mall and along the Highway 101/Broadway corridor) for many years prior to 1993, and as a result the stores most directly competitive with larger retailers have already closed or otherwise adjusted to the presence of major national retailers in the area.

Interviews with Eureka Stakeholders

In an effort to learn about the viability of Eureka's locally-owned retail stores from the point of view of people familiar with the area's business environment, BAE conducted phone interviews with representatives of several non-profit local organizations, including: the Eureka Convention and Visitors Bureau; the Eureka Chamber of Commerce; the Eureka Main Street Program; the Henderson Center Merchant's Association; and, the Humboldt Association of Realtors. The interviewees were asked about their perceptions regarding the viability of small, locally-owned stores in Eureka, their expectations of Wal-Mart's impact on the local retail market, and their expectations of the impact of a discount home improvement center, should one come to Eureka.

Eureka/Humboldt County Convention and Visitors Bureau. Since 1978 the Eureka/Humboldt County Convention and Visitors Bureau has worked to promote and strengthen tourism in Eureka and Humboldt County. The organization's mission is to plan and execute a marketing strategy consisting of tourism development, meeting solicitation, and film and video production. It also seeks to promote awareness of Eureka and Humboldt County's scenic beauty and recreation resources, and to build a positive image of the area in the visitor marketplace.

While unable to comment on existing retail businesses in Eureka, the Bureau's representative mentioned that in Humboldt County, visitor shopping is a major activity and accounts for an estimated 15 percent of total retail sales in the County. These tourist retail expenditures range from buying groceries to purchasing art work and handicrafts from the many artists and artisans who reside in the County. The Bureau's representative also said that while it has been shown in many cases that factory outlet stores have been successful in drawing tourists, it is not clear whether stores such as Wal-Mart, or a discount home improvement retailer would motivate visitors to travel to the area. The Bureau's representative did not have an opinion about locating a store such as Wal-Mart on the Balloon Track.

Eureka Chamber of Commerce. The Chamber of Commerce has been in existence for over 100 years and currently has 650 members. According to a representative from the Eureka Chamber of Commerce, most locally-owned stores in Eureka are struggling. The presence of Bayshore Mall and national retail chains, combined with the decline in the lumber industry and the declining levels of disposable income in the area, make for a challenging retail environment for Eureka's owner-operated stores. The Chamber of Commerce representative felt that the presence of an additional general merchandise discounter such as Wal-Mart is likely to have a negative impact on local retail in Eureka, as well as on retailers in Myrtletown (an unincorporated section of Humboldt County adjacent to Eureka), and in nearby cities such as Fortuna and Arcata.

In addition to expressing concern that on net, jobs would be lost, the Chamber's representative noted that national discounters who come into a City like Eureka seem to have a different agenda from locally owned retailers who are more invested in the community. The Chamber of Commerce representative also felt that companies like Wal-Mart and home improvement chain operators are by definition geographically diversified and can tolerate local economic downturns to a greater extent than small stores because of their deeper pockets and greater resources.

Eureka Main Street Program. The Eureka Main Street Program is a downtown revitalization program that was established in 1992 and is affiliated with both the California Main Street Program and the National Main Street Program (part of the National Trust for Historic Preservation). The organization has promoted the cultural arts as an engine for revitalizing downtown Eureka, and helped support the recent Arts Alive festival hosted in downtown Eureka. According to a representative from the Eureka Main Street Program, retailers in the downtown area suffered after the opening of the Bayshore Mall in 1987, and the City lost a major downtown department store. In recent years, the vacancy rate for retail space has improved, but small store owners continue to struggle and many vacant retail spaces have become offices. The Eureka Main Street representative stated that the organization is neutral on the issue of Wal-Mart's opening a store in the City, and had no opinion on the anticipated impact of a new discount home improvement retailer in Eureka.

Henderson Center Merchants Association. The Henderson Center Merchants Association was established in 1945 and has 120 members located in a four block area between Henderson and Harris Streets, east of Highway 101 in Eureka. Most of the stores are small family businesses and include a bakery, hardware store, paint store, video store, children's store, and independent bookstore. Other businesses and services include a hair salon, barber, pizza parlor, and doctors' and dentists' offices. In February 1999, Henderson Center lost a 15,000 square foot grocery store which closed after the owner sold the building to Safeway. The store is currently boarded up and vacant, and locating a new user for the site is not anticipated in the foreseeable future.

According to a representative from the Merchants Association, most independent retailers in Eureka are making ends meet but none can afford a 20 percent decline in sales that they anticipate will occur if Wal-Mart moves into the area. The Henderson Center Merchant's Association is opposed to rezoning the Balloon Track to permit Wal-Mart to build a store because, in their opinion, retail sales are not growing in Eureka's current stagnant economy. Therefore, sales to Wal-Mart will simply result from redistributing existing sales from existing businesses and there will not be any net gain in either retail sales volume or sales tax revenue generated to the City. Furthermore, the Merchants Association's representative stated that there are better uses for the Balloon Track than constructing a big-box store, and that the community should look for other options for this major waterfront location. With respect to a national home improvement discounter moving to Eureka, the Merchants Association representative expects that this would be very harmful to the City's existing hardware, paint and home improvement businesses. In addition, lumber wholesalers would also suffer because the area's contractors would be likely to shift their buying behavior and make the bulk of their purchases from the new discount store, should one be built.

The Merchants Association's representative also questions the City's emphasis on sales tax revenue generation at the expense of local merchants, and would encourage the City to pursue joint revenue sharing initiatives with its neighbors and Humboldt County. According to the Merchants Association's representative, the City and County could also work together to make police, fire, and emergency service more efficient, for example, thereby lowering costs and reducing the high priority the City seems to place on sales tax revenue generating uses.

Humboldt Association of Realtors. The Humboldt Association of Realtors provides information, education, and other services to its 350 members in Humboldt County. The

Association is headquartered in Eureka and is affiliated with both the California Association of Realtors and the National Association of Realtors. A representative from the Association stated that the organization is neutral on the issue of Wal-Mart moving into Eureka. However, the Association is opposed to making zoning changes through ballot initiatives such as Measure J. The Association's representative also said that the organization does not take positions on political issues that are not real estate related and therefore was not able to respond to a hypothetical question about the expected impact of a home improvement discounter, should one move to Eureka in the future.

Summary of Stakeholder Interviews. A common theme among those interviewed was concern over impacts on smaller, locally-owned businesses. Many were concerned about the ability of local merchants to compete with large national chains. There was also concern about the commitment of non-local owners to the community, as well as about a net loss of jobs.

Case Studies

As part of its analysis, Bay Area Economics looked at retail sales trends in two other northern California communities with similar conditions where value-oriented big-box retail has entered the market. The two cities chosen in consultation with City staff were Ukiah and Chico. These cities were chosen because they are both relatively isolated from larger urban areas in the state, they both already had large retail centers with department stores and discount outlets prior to the entry of the most recent "wave" of big-box outlets, and each serves as the retail hub of the surrounding county. In both cases, the influx of big-box retailers included a Wal-Mart and a major home improvement center. While Crescent City has been the subject of much local attention in Eureka regarding the potential impacts of new big-box retail, it is not as comparable to Eureka as these two cities. Crescent City and Del Norte County have a much smaller population base than Eureka and Humboldt County, and did not have existing large retailers already in place when Kmart and Wal-Mart opened stores there.

Ukiah and Mendocino County. Ukiah functions as the retail center for Mendocino County in much the same way Eureka does for Humboldt County, generating a high proportion of the County's retail sales relative to its population. While not as isolated as Eureka, Ukiah is still well outside the extremely urbanized Bay Area. Ukiah and Mendocino County have smaller populations than Eureka and Humboldt County, respectively, but like Eureka, Ukiah has shown little change in population in the 1990s, while Mendocino County has grown at a slightly faster rate than Humboldt County. Taxable retail sales in Ukiah and Mendocino County show the impact of the early 1990s economic downturn in much the way as other areas of the state (including Eureka and Humboldt County), with total sales declining in the early 1990s and recovering thereafter (see Tables 15 and 16). One key difference from Eureka, though, is that Ukiah itself saw a substantial increase in taxable retail sales in 1994, with sales jumping ahead of 1990 levels, and then continuing to increase with 1998 sales 17 percent above 1990 sales. In Eureka, sales continued to decline into 1994 and only began to recover in 1995 (after the opening of Costco) but by 1998 had still not recovered to 1990 levels. Countywide sales in

Mendocino County followed the same trend as Humboldt County, with 1998 retail sales slightly below 1990 levels after adjustment for inflation. In contrast to Eureka, where the City's share of County sales dropped slightly, Ukiah increased its proportion of County sales between 1990 and 1998. Ukiah's improved retail sales starting in 1994 coincided with the opening in early 1994 of Wal-Mart. As discussed below, additional big-box retail also opened in the same area near Highway 101.

To further assess the impacts of these new store openings, the Finance Director and an Associate Planner for the City of Ukiah were contacted. Both of them felt that "there were no substantial impacts" on downtown when Wal-Mart moved into town in January 1994. By the time the 104,000 square foot Wal-Mart moved into Ukiah, all of the larger retailers and chains (Sears, JC Penney) had already vacated downtown and moved closer to the freeway. Remaining in Downtown Ukiah were specialty retailers such as jewelers, housewares stores and card shops, not the sort of retailers that were directly threatened by Wal-Mart's competition. Although some specialty shops have gone out of business, neither contact was willing to attribute their closure to Wal-Mart's arrival. Among those businesses that were in direct competition, there was some concern that they would be hurt; in reality, a number of the City's large retailers upgraded their operations. Kmart, for example, built out from 40,000 to 107,000 square feet. Ranch and Home Supply was one large business which did close during the last several years, but neither contact seemed to feel that Wal-Mart was a direct competitor or hastened its demise.

While Wal-Mart's effect on downtown has been negligible, the area by the freeway a mile and a half away has seen a great deal of change in the 90s. After Wal-Mart moved into old industrial acreage near the freeway, the city planning department changed the master plan to allow for more mixed-use development (retail, office and light industrial). Subsequently, Jack in the Box, Shell, La-Z-Boy Furniture, Food 4 Less, Staples and Friedman Brothers, a regional home-improvement chain, have all moved into the rezoned area.

Although the Finance Director and the Associate Planner were not working for the City of Ukiah when Wal-Mart opened, neither was aware of any organized opposition from the business community. There seemed to be greater resistance, though, when Friedman's moved in, as some townspeople felt that the market was not big enough to support Friedman's and the existing, smaller hardware stores. If anything, Friedman's has "made (the smaller stores) more competitive" and many have "thrived."

Chico and Butte County. Like Eureka and Ukiah, Chico functions as the retail center for its surrounding county, with a disproportionate share of retail sales relative to population (see Tables 17 and 18). Chico is larger than Eureka and has shown more growth, and Butte County compares similarly to Humboldt County. However, the area is also somewhat isolated from the major metropolitan centers of the state although not to extent that Humboldt County is. As in Humboldt and Mendocino County, retail trends in Butte County mirror statewide trends, with a drop in inflation-adjusted taxable sales during the early 1990s. In Butte County, though, sales did not drop as dramatically, have not rebounded as significantly and did not recover as much as in the other two counties. For the 1990 to 1998 period, inflation-adjusted taxable sales in Butte County declined by almost six percent, compared to a decline of under three percent in Humboldt County and a negligible drop in Mendocino County. This occurred despite greater population gains in Butte County during the period, so Butte County's per capita retail sales dropped fifteen percent, nearly twice the drop in the other two counties. Chico, though, has shown a net gain in taxable retail sales, thus capturing a greater share of countywide sales. General merchandise store sales jumped considerably in Chico and also increased somewhat in Butte County in 1994, the year of Wal-Mart's opening. This increase appears to be part of a longer-term trend; general merchandise store sales increase in Chico every year from 1990 through 1994, while sales in several other store categories declined. In the ensuing years, sales have declined and leveled off, although at levels above 1990.

As in Ukiah, local officials were contacted for their opinions regarding the impacts of Wal-Mart and other big-box retail in their community. Based upon conversations with the Chico Associate Planner and a representative of the Chamber of Commerce, it appears that like Ukiah, Chico has not seen significant changes as a result of Wal-Mart's arrival in March 1994. By the time the 126,000 square foot Wal-Mart opened, downtown Chico had already carved out a unique business niche. When North Valley Plaza Mall was built on the outskirts of Chico in the early 1960s, large retailers such as Sears and JC Penney left downtown for the greater space the mall afforded. As a result, many of the vacated downtown retail spaces were subdivided for smaller retail tenants that served the Chico State University community. The resulting mix of apparel stores, specialty shops, sporting goods stores, hardware store, restaurants, and bars remains today. The Chamber of Commerce noted that downtown is doing quite well and that there are currently very few vacancies.

When Chico Mall was built on the south side of town in the early 1990s, more big-box retailers such as HomeBase, WinCo Foods and Food 4 Less moved in. There is also a Home Depot in Chico. As the Associate Planner explained, by the time Wal-Mart arrived in 1994, "people in the community were numbed to big-box retailers." While there "was a lot of grumbling" about Wal-Mart's arrival, there was "no concerted campaign" against the store from existing retailers. In the years since the store has opened, other big-box retailers have seen "no major decline or fall-off in business." The Associate Planner noted that when JC Penney and Montgomery Ward moved into the malls, they often overbuilt the floor area and spread out displays, which afforded them room to increase volume in the future. This has allowed some of the older retailers to expand and be competitive. Meanwhile, the Wal-Mart made little or no impact on Downtown Chico which had "already weathered the expansion of retail sprawl" when the malls were built. Both the area south of town where Wal-Mart and the other big-box retailers are located and downtown are booming, as the town's economy has adjusted quite well to its changing retail fabric.

Table 15: Ukiah Taxable Retail Sales Trends

	1990	1991	1992	1993	1994	1995	1996	1997	1998 (b)	Change, 1990-1998
in 1998 $000 (a)										
Apparel Stores	$6,329	$5,263	$4,320	$3,899	$4,693	$3,712	$3,066	$2,949	$2,773	-56.2%
General merchandise stores	$49,263	$53,824	$56,277	$52,313	$70,030	$69,099	$69,500	$70,398	$72,599	47.4%
Food stores	$19,960	$20,725	$21,042	$19,812	$18,303	$17,326	$17,313	$17,216	$17,778	-10.9%
Eating and drinking places	$23,065	$22,628	$22,018	$20,803	$21,234	$22,032	$21,150	$21,274	$21,436	-7.1%
Home furnishings and appliances	$4,226	$4,286	$3,884	$3,918	$3,484	$4,360	$4,708	$4,710	$2,792	-33.9%
Bldg. matrl . and farm implements	$19,066	$15,504	$13,217	$12,042	$12,123	$12,138	$23,377	$29,125	$30,113	57.9%
Auto dealers and auto supplies	$28,399	$26,694	$25,433	$21,423	$22,048	$23,534	$28,059	$25,274	$26,748	-5.8%
Service stations	$17,037	$14,317	$14,789	$15,485	$17,375	$15,942	$15,896	$15,881	$15,083	-11.5%
Other Retail Stores	$25,579	$24,271	$26,049	$28,348	$28,258	$26,878	$27,968	$32,967	$36,677	43.4%
Retail Stores Total	**$192,923**	**$187,512**	**$187,030**	**$178,043**	**$197,547**	**$195,022**	**$211,036**	**$219,795**	**$225,999**	**17.1%**
Ukiah as % of Mendocino County	**33%**	**34%**	**35%**	**35%**	**38%**	**37%**	**39%**	**39%**	**39%**	

	1990	1991	1992	1993	1994	1995	1996	1997	1998 (b)	Change, 1990-1998
Sales per Capita in 1998 $ (a)										
Apparel Stores	$433	$355	$292	$262	$317	$253	$208	$199	$186	-56.9%
General merchandise stores	$3,367	$3,633	$3,806	$3,516	$4,724	$4,709	$4,722	$4,749	$4,881	45.0%
Food stores	$1,364	$1,399	$1,423	$1,331	$1,235	$1,181	$1,176	$1,161	$1,195	-12.4%
Eating and drinking places	$1,576	$1,527	$1,489	$1,398	$1,432	$1,501	$1,437	$1,435	$1,441	-8.6%
Home furnishings and appliances	$289	$289	$263	$263	$235	$297	$320	$318	$188	-35.0%
Bldg. matrl . and farm implements	$1,303	$1,047	$894	$809	$818	$827	$1,588	$1,965	$2,025	55.4%
Auto dealers and auto supplies	$1,941	$1,802	$1,720	$1,440	$1,487	$1,604	$1,907	$1,705	$1,798	-7.3%
Service stations	$1,164	$966	$1,000	$1,041	$1,172	$1,086	$1,080	$1,071	$1,014	-12.9%
Other Retail Stores	$1,748	$1,638	$1,762	$1,905	$1,906	$1,832	$1,900	$2,224	$2,466	41.1%
Retail Stores Total	**$13,185**	**$12,658**	**$12,649**	**$11,965**	**$13,326**	**$13,289**	**$14,340**	**$14,828**	**$15,194**	**15.2%**
Population	14,632	14,814	14,786	14,880	14,824	14,675	14,717	14,823	14,874	

(a) Retail sales have been adjusted to 1998 dollars using the annual average Consumer Price Index for All Items, All Urban Consumers published by the U.S. Bureau of Labor Statistics.
(b) 1998 4th quarter data not yet available. Data here is 4th quarter 1997 through 3rd quarter 1998.

Sources: Bay Area Economics based on data from the State Board of Equalization, U.S. Bureau of Labor Statistics, 1990 U.S. Census, and State Department of Finance.

Table 16: Mendocino County Taxable Retail Sales Trends

	1990	1991	1992	1993	1994	1995	1996	1997	1998 (b)	Change, 1990-1998
in 1998 $000 (a)										
Apparel Stores	$16,317	$13,621	$11,753	$10,747	$9,998	$8,521	$7,882	$8,182	$8,143	-50.1%
General merchandise stores	$85,316	$89,063	$93,192	$82,488	$96,579	$97,988	$98,451	$97,760	$99,016	16.1%
Food stores	$77,674	$82,710	$84,371	$74,758	$70,460	$69,559	$69,810	$67,325	$66,961	-13.8%
Eating and drinking places	$75,713	$72,825	$70,843	$68,675	$68,959	$69,228	$69,995	$71,658	$71,108	-6.1%
Home furnishings and appliances	$16,278	$15,663	$14,095	$15,208	$14,055	$13,856	$14,138	$14,205	$13,135	-19.3%
Bldg. matrl . and farm implements	$73,414	$78,587	$71,259	$59,565	$56,403	$53,082	$73,032	$86,600	$86,942	18.4%
Auto dealers and auto supplies	$88,929	$77,966	$70,754	$69,778	$74,448	$77,703	$82,210	$82,450	$92,431	3.9%
Service stations	$62,317	$57,532	$54,789	$55,666	$55,199	$52,761	$59,095	$59,489	$57,345	-8.0%
Other Retail Stores	$80,525	$68,403	$68,135	$75,038	$73,419	$77,428	$69,446	$76,580	$80,865	0.4%
Retail Stores Total	**$576,483**	**$556,370**	**$539,190**	**$511,923**	**$519,520**	**$520,126**	**$544,059**	**$564,250**	**$575,946**	**-0.1%**
Mendocino County Excluding Ukiah	**$383,561**	**$368,858**	**$352,161**	**$333,880**	**$321,973**	**$325,105**	**$333,023**	**$344,455**	**$349,947**	**-8.8%**

	1990	1991	1992	1993	1994	1995	1996	1997	1998 (b)	Change, 1990-1998
Sales per Capita in 1998 $ (a)										
Apparel Stores	$203	$167	$143	$130	$120	$101	$93	$96	$94	-53.9%
General merchandise stores	$1,062	$1,091	$1,131	$994	$1,155	$1,167	$1,165	$1,145	$1,139	7.3%
Food stores	$967	$1,013	$1,024	$901	$843	$828	$826	$788	$770	-20.3%
Eating and drinking places	$942	$892	$860	$828	$825	$824	$828	$839	$818	-13.2%
Home furnishings and appliances	$203	$192	$171	$183	$168	$165	$167	$166	$151	-25.4%
Bldg. matrl . and farm implements	$914	$963	$865	$718	$674	$632	$864	$1,014	$1,000	9.4%
Auto dealers and auto supplies	$1,107	$955	$859	$841	$890	$925	$973	$966	$1,063	-3.9%
Service stations	$776	$705	$665	$671	$660	$628	$699	$697	$660	-15.0%
Other Retail Stores	$1,002	$838	$827	$904	$878	$922	$822	$897	$930	-7.2%
Retail Stores Total	**$7,175**	**$6,815**	**$6,545**	**$6,169**	**$6,212**	**$6,192**	**$6,436**	**$6,608**	**$6,625**	**-7.7%**
Population	80,345	81,643	82,384	82,983	83,628	83,999	84,531	85,385	86,938	8.2%

(a) Retail sales have been adjusted to 1998 dollars using the annual average Consumer Price Index for All Items, All Urban Consumers published by the U.S. Bureau of Labor Statistics.
(b) 1998 4th quarter data not yet available. Data here is 4th quarter 1997 through 3rd quarter 1998.

Sources: Bay Area Economics based on data from the State Board of Equalization, U.S. Bureau of Labor Statistics, 1990 U.S. Census, and State Department of Finance.

Table 17: Chico Taxable Retail Sales Trends

	1990	1991	1992	1993	1994	1995	1996	1997	1998 (b)	Change, 1990-1998
in 1998 $000 (a)										
Apparel Stores	$45,013	$41,544	$42,781	$35,986	$32,384	$31,171	$30,596	$31,689	$29,412	-34.7%
General merchandise stores	$150,277	$165,224	$195,961	$198,893	$217,563	$206,122	$197,616	$201,997	$206,721	37.6%
Food stores	$67,516	$65,276	$63,237	$52,934	$48,680	$50,828	$59,102	$60,077	$56,898	-15.7%
Eating and drinking places	$76,736	$76,677	$76,668	$75,548	$81,230	$76,515	$74,167	$75,942	$81,284	5.9%
Home furnishings and appliances	$41,518	$37,185	$32,467	$34,527	$32,660	$38,802	$39,085	$38,799	$39,225	-5.5%
Bldg. matrl . and farm implements	$87,707	$79,792	$73,471	$77,429	$79,359	$76,332	$72,179	$77,716	$79,997	-8.8%
Auto dealers and auto supplies	$108,332	$98,475	$104,958	$108,142	$105,542	$112,138	$111,612	$115,160	$114,946	6.1%
Service stations	$31,783	$28,527	$29,721	$30,560	$32,718	$37,386	$39,911	$39,952	$37,758	18.8%
Other Retail Stores	$126,885	$118,330	$110,088	$110,712	$111,361	$117,770	$122,888	$130,914	$134,645	6.1%
Retail Stores Total	**$735,768**	**$711,029**	**$729,351**	**$724,731**	**$741,497**	**$747,065**	**$747,154**	**$772,246**	**$780,886**	**6.1%**
Chico as % of County	**56%**	**56%**	**57%**	**58%**	**60%**	**61%**	**61%**	**62%**	**63%**	

	1990	1991	1992	1993	1994	1995	1996	1997	1998 (b)	Change, 1990-1998
Sales per Capita in 1998 $ (a)										
Apparel Stores	$1,126	$1,020	$998	$815	$722	$674	$650	$637	$564	-49.9%
General merchandise stores	$3,760	$4,058	$4,573	$4,502	$4,853	$4,456	$4,201	$4,062	$3,967	5.5%
Food stores	$1,689	$1,603	$1,476	$1,198	$1,086	$1,099	$1,256	$1,208	$1,092	-35.4%
Eating and drinking places	$1,920	$1,883	$1,789	$1,710	$1,812	$1,654	$1,577	$1,527	$1,560	-18.8%
Home furnishings and appliances	$1,039	$913	$758	$782	$728	$839	$831	$780	$753	-27.5%
Bldg. matrl . and farm implements	$2,194	$1,960	$1,714	$1,753	$1,770	$1,650	$1,534	$1,563	$1,535	-30.0%
Auto dealers and auto supplies	$2,710	$2,419	$2,449	$2,448	$2,354	$2,424	$2,372	$2,316	$2,206	-18.6%
Service stations	$795	$701	$694	$692	$730	$808	$848	$803	$724	-8.9%
Other Retail Stores	$3,175	$2,906	$2,569	$2,506	$2,484	$2,546	$2,612	$2,633	$2,584	-18.6%
Retail Stores Total	**$18,408**	**$17,463**	**$17,020**	**$16,406**	**$16,538**	**$16,151**	**$15,882**	**$15,531**	**$14,984**	**-18.6%**
Population	39,970	40,717	42,853	44,176	44,835	46,255	47,045	49,723	52,116	

(a) Retail sales have been adjusted to 1998 dollars using the annual average Consumer Price Index for All Items, All Urban Consumers published by the U.S. Bureau of Labor Statistics.
(b) 1998 4th quarter data not yet available. Data here is 4th quarter 1997 through 3rd quarter 1998.

Sources: Bay Area Economics based on data from the State Board of Equalization, U.S. Bureau of Labor Statistics, 1990 U.S. Census, and State Department of Finance.

Table 18: Butte County Taxable Retail Sales Trends

	1990	1991	1992	1993	1994	1995	1996	1997	1998 (b)	Change, 1990-1998
in 1998 $000 (a)										
Apparel Stores	$52,332	$47,965	$48,519	$40,054	$37,480	$35,888	$35,584	$36,435	$34,059	-34.9%
General merchandise stores	$211,577	$239,395	$275,867	$274,965	$286,876	$272,504	$263,902	$267,484	$272,563	28.8%
Food stores	$147,217	$149,370	$147,730	$124,888	$119,116	$118,558	$131,829	$129,705	$121,957	-17.2%
Eating and drinking places	$139,592	$139,027	$136,920	$132,523	$136,092	$130,842	$128,662	$130,299	$134,390	-3.7%
Home furnishings and appliances	$58,648	$52,539	$47,965	$48,161	$46,996	$52,286	$50,091	$50,134	$50,567	-13.8%
Bldg. matrl . and farm implements	$202,192	$162,937	$152,243	$152,129	$142,295	$135,230	$135,873	$137,642	$136,960	-32.3%
Auto dealers and auto supplies	$197,826	$186,351	$185,402	$187,097	$183,583	$188,915	$188,166	$193,719	$195,502	-1.2%
Service stations	$88,546	$77,911	$78,545	$83,599	$81,577	$82,860	$87,535	$84,312	$78,083	-11.8%
Other Retail Stores	$225,053	$212,771	$202,626	$198,661	$202,337	$210,209	$210,570	$216,612	$220,267	-2.1%
Retail Stores Total	**$1,322,982**	**$1,268,266**	**$1,275,817**	**$1,242,078**	**$1,236,353**	**$1,227,292**	**$1,232,213**	**$1,246,341**	**$1,244,348**	**-5.9%**
Butte County excluding Chico	**$587,214**	**$557,237**	**$546,466**	**$517,347**	**$494,856**	**$480,227**	**$485,059**	**$474,095**	**$463,462**	**-21.1%**

	1990	1991	1992	1993	1994	1995	1996	1997	1998 (b)	Change, 1990-1998
Sales per Capita in 1998 $ (a)										
Apparel Stores	$287	$259	$258	$211	$195	$184	$181	$184	$169	-41.2%
General merchandise stores	$1,162	$1,295	$1,469	$1,445	$1,490	$1,400	$1,344	$1,354	$1,352	16.4%
Food stores	$808	$808	$787	$656	$619	$609	$672	$657	$605	-25.2%
Eating and drinking places	$766	$752	$729	$697	$707	$672	$655	$660	$667	-13.0%
Home furnishings and appliances	$322	$284	$255	$253	$244	$269	$255	$254	$251	-22.1%
Bldg. matrl . and farm implements	$1,110	$881	$811	$800	$739	$695	$692	$697	$679	-38.8%
Auto dealers and auto supplies	$1,086	$1,008	$987	$983	$954	$970	$959	$981	$970	-10.7%
Service stations	$486	$421	$418	$439	$424	$426	$446	$427	$387	-20.3%
Other Retail Stores	$1,236	$1,151	$1,079	$1,044	$1,051	$1,080	$1,073	$1,097	$1,093	-11.6%
Retail Stores Total	**$7,264**	**$6,858**	**$6,794**	**$6,528**	**$6,423**	**$6,305**	**$6,277**	**$6,310**	**$6,172**	**-15.0%**
Population	182,120	184,927	187,780	190,262	192,474	194,665	196,307	197,514	201,596	10.7%

(a) Retail sales have been adjusted to 1998 dollars using the annual average Consumer Price Index for All Items, All Urban Consumers published by the U.S. Bureau of Labor Statistics.
(b) 1998 4th quarter data not yet available. Data here is 4th quarter 1997 through 3rd quarter 1998.

Sources: Bay Area Economics based on data from the State Board of Equalization, U.S. Bureau of Labor Statistics, 1990 U.S. Census, and State Department of Finance.

New Potential Shopping Alternatives Offered by Big-Box Retailers

In an effort to determine whether a Wal-Mart will provide new shopping alternatives to local consumers by offering a wider variety of goods, new goods and services not currently available in Eureka, and greater price competition, BAE compared the merchandise categories available at Wal-Mart to goods carried by 11 major existing retailers in Eureka. Table 19 shows that all of the 19 major merchandise categories offered by Wal-Mart are also carried by the 11 major existing Eureka retailers. Most overlap between Wal-Mart and existing stores occurs in baby items, apparel (for men, women, and children), shoes, housewares, small appliances, sports equipment, and toys.

Although a study of market prices was not included in this scope of work, it is known that Kmart positions itself as a leading low price retailer and its prices are considered comparable to Wal-Mart's. Longs Drug and Rite Aid are also fiercely competitive and their prices are generally comparable. Staples is a discount office supplier, and Costco also offers office equipment and supplies at low prices to its members. In general, apparel carried by Kmart, Costco, and Ross is priced at a lower level than apparel at Sears, J.C. Penney, Montgomery Ward, Mervyn's, and Gottschalks. Wal-Mart's apparel inventory is more competitive with discounters such as Kmart and Ross rather than department stores like Sears and J.C. Penney.

The data presented in Table 19 indicate that a new Wal-Mart in Eureka is not likely to offer new goods or services to area shoppers. Furthermore, existing discount retailers in the Eureka market present consumers with many options for purchasing low cost goods.

Table 19: Merchandise Categories Available at Wal-Mart Compared to Existing Eureka Retailers

Wal-Mart Merchandise Categories	Kmart	Costco	Sears	J.C. Penney	Montgomery Ward	Mervyn's	Gottschalks	Ross	Longs Drug	Rite Aid	Staples
Apparel - children	•	•	•	•	•	•	•	•			
Apparel - men	•	•	•	•	•	•	•	•			
Apparel - women	•	•	•	•	•	•	•	•			
Baby items	•	•	•	•	•	•	•	•	•	•	
Books	•	•							•	•	
Computers	•	•									•
Housewares (soft goods)	•	•	•	•	•	•	•	•			
Music	•	•	•	•	•						
Non-prescription drugs	•	•							•	•	
Office equipment	•	•									•
Personal care	•	•							•	•	
Pharmacy		•							•	•	
Photo supplies & finishing	•	•							•	•	
Shoes	•	•	•	•	•	•	•	•			
Small appliances	•	•	•	•	•	•			•	•	
Software	•	•									•
Sports equipment	•	•	•	•	•			•			
Toys	•	•	•	•	•			•			
Video	•	•	•	•							

Sources: Wal-Mart Web site (www.wal-mart.com); Kmart Web site (www.kmart.com); Costco Web site (www.costco.com); Sears Web site (www.sears.com); J.C. Penney Web site (www.jcpenney.com); Montgomery Ward Web site (www.mward.com); Mervyn's Web site (www.mervyns.dhc.com); Gottschalks Web site (www.gotts.com); Ross Stores Web site (www.rossstores.com); Longs Drug Web site (www.longs.com); Rite Aid Web site (www.riteaid.com); Staples Web site (www.staples.com).

Estimated Impacts of Proposed Retail Projects on Existing Businesses

As discussed above, the estimated impacts here and in the following sections will consider three different scenarios. Each of these scenarios will be considered for a major general merchandise discount store (e.g., Wal-Mart), and a major discount home improvement center (e.g., Home Depot, HomeBase).:

1. No new big-box store in Humboldt County (Baseline scenario)
2. New big-box store in Eureka
3. New big-box store in Humboldt County, but outside Eureka

Scenario 1: Baseline Scenario. This scenario projects future retail sales in Eureka and the County presuming no new big-box general merchandise or home improvement retailers locate anywhere in Humboldt County prior to 2005.

Despite the fact that neither of these store types is assumed in this scenario, this does not mean that existing conditions will continue to prevail. Among the factors that could lead to changes irrespective of new big-box development are increases or decreases in the population, income, and tourism in Humboldt County, national trends such as the rise of Internet retailing, and possible closure or expansion decisions by existing retailers. As discussed above in the section on retail sales trends, a combination of projected increases in personal and household income as well as projected population increases are expected to lead to an increase in annual taxable retail sales in Humboldt County from $800 million in 1998 to $899 million in 2005 (in 1998 dollars). Estimates of taxable sales by store category, if the current mix of sales by remains constant (a reasonable assumption assuming no new big-box stores in the County), is presented in Table 20. In the general merchandise category, taxable retail sales are estimated to grow approximately $19 million. Increases in building materials/farm implements would be slightly above $10 million in this Baseline Scenario.

Even with these overall increases and no major new competition, though, some existing retailers are probably still “at risk”; these include stores that have shown recent trends of declining sales, or continued poor performance relative to industry standards even though overall retail sales have been increasing. Stores at risk include both major retailers and smaller stores. Recent trends in the older shopping areas in the City indicate also that although overall retail sales in Eureka have been increasing, these areas are showing relatively flat sales, thus losing market share. This could be an indicator of future problems for these areas, especially in the face of any economic downturn. Large retailers such as Wal-Mart and Kmart have the resources to survive a down cycle, but locally-owned businesses such as those found in these areas may not.

Scenario 2: New Big-Box Store in the City of Eureka. In this scenario, a major general discount merchandiser or a major discount home improvement center opens within the City boundaries. In this scenario, the total retail sales will remain the same as projected in the baseline scenario for Humboldt County; because of the County’s relative isolation and lack of current leakage of overall retail sales (see discussion above), sales in a new outlet would almost all be captured from existing outlets.

New Discount General Merchandise Store. As shown in Table 20, general merchandise store taxable sales in Humboldt County are projected to increase by over $19 million between 1998 and 2005. This is well under the sales of a typical Wal-Mart. A 120,000 square foot store with annual sales of $250 per square foot would generate $30 million. As a result, some sales could be cannibalized from existing general merchandise stores in the City and County, and the proportion of sales going to general merchandise stores might increase. This shifting of sales could happen without decreasing the sales of existing retailers in these other categories; for example, a new Wal-Mart could capture some of the increase in taxable sales projected in the food store category.

Previous analysis indicates that the opening of two major discount general merchandise stores in the Eureka regional market had a greater impact on other large stores than on the older retail districts consisting of smaller stores. Sales in these districts was relatively unchanged during the period. In addition to other general merchandisers, sales shifted from other major categories, especially food and apparel stores, and drug store sales were also adversely impacted. Since, with the exception of the McKinleyville Kmart, the region's major retail outlets are all within Eureka, impacts on any existing retailers outside the City would probably not be as great as on those inside the City. Because of confidentiality issues regarding the data, Bay Area Economics cannot pinpoint which stores are specifically at risk, but there are major stores in the City that showed substantial declines in sales following the opening of Costco and the McKinleyville Kmart and stores that are currently not performing to industry standards. Kmart is the most directly competitive store to a new discount general merchandise store, with an aging, and (by current standards) undersized store in Eureka, but the response might be a store upgrade to compete more effectively (as happened in Ukiah), rather than closure.

In summary, to be successful, a new big-box general merchandise store located in Eureka would need to capture sales greater than the projected increase in general merchandise store sales in Eureka. Some of increase would probably thus come at the expense of existing general merchandisers, and some would come through an increase in the share of overall sales going to general merchandise, which would not necessarily decrease sales at existing stores, but instead might only capture some of the projected increases in other categories, especially food and apparel. The existing retailers most likely to be impacted are primarily within the City, with the exception of the McKinleyville Kmart, and are larger individual stores not located in the older retail districts. Because there might be some capture of potential sales from stores located outside of Eureka, the City might capture a larger share of the projected County retail sales in general merchandise and other categories, but it should be noted that much of this increase would go to Eureka in any case because of its dominance of the general merchandise category in Humboldt County. However, because of the overall increase projected in retail sales by 2005, this new store might capture only the projected increase in sales to stores outside the City rather than actually taking existing sales.

New Discount Home Improvement Center. Because this store type would be new to

Eureka, it is somewhat more difficult to estimate the impacts on existing retailers. In 1998, there were $83 million in sales in building materials/farm implements; slightly under half these sales were at outlets in Eureka itself. While this is a high proportion relative to population, it is not at all like Eureka's dominance of the general merchandise category, where 80 percent of the County's taxable sales occur in the City. Eureka also shows considerable taxable sales at wholesale building supply outlets, and some of these sales may also be captured by a store such as Home Depot that targets sales to contractors as well as "do-it-yourself" consumers.

By 2005, total taxable retail sales in the building materials/farm implements category are projected to increase by $10 million to over $93 million annually. In comparison, the average Home Depot store has annual sales of $40 million. Even if a new store in Eureka only had sales of $30 million, this would amount to approximately one-third of all 2005 sales in this category in the County, and would be about 75 percent of the City's current sales. A new discount home improvement center would therefore be likely to capture substantial sales from existing outlets in the retail building materials/farm implements category as well as from wholesale dealers and contractors in both Eureka and surrounding areas. Most likely to be affected are similar stores such as Pierson's Building Supply, but a wide variety of other stores such as lumber yards, hardware stores, garden and nursery stores, and paint stores could see a loss of sales. Because of the lack of a similar big-box store in Del Norte County, some sales might also be captured from that area. The great distance to other population centers outside the County limits the potential for additional sales from those areas. For instance, Ukiah is much closer to the existing Home Depot in Rohnert Park than Eureka.

To summarize, a major home discount home improvement center in Eureka would likely capture a greater share of sales from existing outlets in both the City and surrounding areas than a new general merchandise store, and from a broader variety of stores, since there is no other store of this type in the area and sales in this category are not expected to increase as much as in general merchandise. Some of the potentially impacted stores, including hardware stores and paint stores, are smaller outlets located in the older shopping districts of Eureka. Because of the size of a new big-box specializing in home improvement goods relative to the total regional market in this category, it is likely to capture current as well as future sales from existing outlets outside Eureka, thus leading to a net decrease in building materials/farm implements sales in the remainder of Humboldt County. Such a store would probably also increase both the absolute amount of retail sales and the City's share of County sales in the building materials/farm implements category.

Scenario 3: New Big-Box Store in Humboldt County, but Outside the City of Eureka. In this scenario, a big-box store would still locate in the Eureka area, but outside of City limits, either in an unincorporated area or another city. It should be emphasized that to the best of Bay Area Economics' knowledge, no such proposal is currently pending.

New Discount General Merchandise Store. This scenario would differ from Scenario 2 primarily in the distribution of taxable sales revenues in the County. Since most of the existing competitive outlets are within Eureka, the City would both lose projected gains in general merchandise category retail sales as well as some current sales captured from existing general merchandise outlets. There might be some variation in the level of impact, depending on location. For example, a new Wal-Mart in or close to McKinleyville would compete more directly with the Kmart there, and would be less likely to cannibalize sales from Eureka than would a Wal-Mart store to the south of Eureka. Furthermore, a Wal-Mart outside the City would probably be less likely to capture sales from other store categories in the City such as food and drug stores. Overall, though, there would likely be a net loss of retail sales revenue within Eureka combined with an increase outside the City.

New Discount Home Improvement Center. As with a general merchandise store, this scenario would differ from Scenario 2 primarily in the distribution of retail sales in the County. Smaller local-serving retailers within the City might be less adversely affected, but the City would still see a sizable decrease in taxable sales at retail and wholesale building supply outlets, and the remainder of the County would capture these sales as well as the increase in sales projected for 2005.

Summary of Estimated Impacts on Existing Retailers. Obviously, the best scenario for existing retail sales outlets would be a "no build scenario," with no new competition from either a discount general merchandise store or home improvement center, and increasing retail sales due to increases in population and per capita disposable income. However, the retail environment in the County, particularly for general merchandise stores and other stores selling similar items, is already fiercely competitive. As shown by the data on individual outlets for Bayshore Mall, Downtown, and Henderson Center, there is already a great deal of turnover. Furthermore, some major national chains have shown the ability to adapt to markets where either they or the community have decided that a large-format store is inappropriate, or where the national chain is trying to capture another segment of the market. One example of this is the smaller-scale Villager's Hardware prototype now being tested by Home Depot. Existing major stores such as Kmart could also decide to expand and increase their market share.

A new big-box general merchandise store located within Eureka could capture most of the projected increase in countywide taxable retail sales, but would also capture some sales now going to existing general merchandise outlets both within and outside the City. Any capture for other categories could come from the projected increase in sales rather than a shift of existing sales. The greatest impacts would likely be on existing major general merchandise outlets in the City and County rather than smaller stores that have already been affected by the opening of Bayshore Mall and other big retail stores in the area. Much of the projected increase in general merchandise sales captured by a new store would occur in Eureka even without the new store, since the City already is so dominant in this category.

A new big-box home improvement center in Eureka would likely have a greater impact on existing stores in both the City and other parts of the county, since they have not previously faced this kind of competition, and the relative proportion of the building materials/farm implements sales going to this single outlet would be greater than for a general merchandise store. Furthermore, the projected increases in sales in this category are not nearly as great as for general merchandise, meaning that more sales would be captured from existing outlets rather than future increases in this category. However, since Eureka currently commands a smaller proportion of sales in this category than in general merchandise, a new home improvement center in the City would not only capture projected gains in this category's sales, but would also draw in a higher proportion of existing building materials/farm implement sales in the County, resulting in a decrease in the proportion of sales in the remainder of the County.

The location of a new store either type outside the City but in the County would result in the remainder of the County capturing the projected increases in retail sales in each category as well as reducing current sales within the City. Smaller stores within the City might be less impacted depending on how far away the new store was located. From an overall retail sales revenue viewpoint, this scenario would be the worst for the City of Eureka, and the best for whatever other jurisdiction(s) received the benefit of the increased sales revenues.

Table 20: Projected Humboldt County Taxable Retail Sales

in 1998 $000 (a)	1998 (b)	2005	Change, 1998-2005 $	%
Apparel Stores	$20,784	$23,352	$2,568	12.4%
General merchandise stores	$156,981	$176,376	$19,395	12.4%
Food stores	$79,528	$89,354	$9,826	12.4%
Eating and drinking places	$91,324	$102,607	$11,283	12.4%
Home furnishings and appliances	$17,265	$19,398	$2,133	12.4%
Bldg. matrl . and farm implements	$82,847	$93,083	$10,236	12.4%
Auto dealers and auto supplies	$148,207	$166,518	$18,311	12.4%
Service stations	$84,980	$95,479	$10,499	12.4%
Other Retail Stores	$117,958	$132,532	$14,574	12.4%
Retail Stores Total (c)	**$799,874**	**$898,700**	**$98,826**	**12.4%**

Sales per Capita in 1998 $ (a)	1998 (b)	2005	Change, 1998-2005 $	%
Apparel Stores	$165	$180	$15	8.9%
General merchandise stores	$1,246	$1,357	$110	8.9%
Food stores	$631	$687	$56	8.9%
Eating and drinking places	$725	$789	$64	8.9%
Home furnishings and appliances	$137	$149	$12	8.9%
Bldg. matrl . and farm implements	$658	$716	$58	8.9%
Auto dealers and auto supplies	$1,177	$1,281	$104	8.9%
Service stations	$675	$734	$60	8.9%
Other Retail Stores	$936	$1,019	$83	8.9%
Retail Stores Total	**$6,350**	**$6,913**	**$563**	**8.9%**
Population (c)	125,959	130,000	4,041	3.21%

(a) Retail sales have been adjusted to 1998 dollars using the annual average Consumer Price Index for All Items, All Urban Consumers published by the U.S. Bureau of Labor Statistics.
(b) 1998 4th quarter data not yet available. Data here is 4th quarter 1997 through 3rd quarter 1998.
(c) 2005 projections of total taxable retail sales from CCSCE. Distribution by store type assumes retail mix remains unchanged between 1998 and 2005.

Sources: Bay Area Economics based on data from the State Board of Equalization, U.S. Bureau of Labor Statistics, 1990 U.S. Census, and State Department of Finance; Center for Continuing Study of the California Economy (CCSCE).

EMPLOYMENT AND WAGE IMPACTS

Much of the concern regarding the impacts of big-box retail relates to the impacts on employment and wages. With some notable exceptions (particularly grocery stores, which are often unionized), retail jobs are often low-paying or entry-level jobs. Furthermore, there is a perception that value retailers use a smaller number of employees to generate the same amount of sales, leading to a decrease in retail employment. The impacts can be thus be divided into two categories: net employment gains/losses, and wage and benefit impacts. As in the previous section regarding the impacts on existing businesses, job and wage impacts will be considered for different scenarios. However, since the concerns regarding job impacts are more regional in nature, the analysis will only consider a baseline scenario and the potential impacts of each type of store regardless of where it is located in the Eureka region.

Baseline Scenario

Under this scenario, there is neither a large new discount general merchandise store or home improvement center constructed anywhere in the County. Under this scenario, increased retail employment growth would likely follow increases in sales as projected over the next several years.

Job Impacts. To estimate future retail employment increases from sales increases, dollar volume of sales must be linked to employment. One means of doing this would be to show any correlation between changes in retail employment and retail sales in Humboldt County. An analysis of recent trends in retail sales and employment, though, does not demonstrate a clear link between employment and sales changes. Based on EDD data, annual average retail employment in Humboldt County increased from 9,500 to 10,500 jobs between 1990 and 1998. Much of this increase occurred in the early part of the decade, when taxable retail sales were declining; between 1996 and 1998 there was actually a slight decrease in jobs even as sales continued to increase.

Another way to attempt to link sales volume to employment is by taking current taxable sales and dividing by the number of retail employees. Based on 1998 data (see Table 20), the average retail employee in Humboldt County generated slightly over $94,000 in annual sales. Examination of store-by-store data for major retailers in Eureka, as well as assumptions about typical employment and sales at a big-box store, indicate that the average employee in successful large retail outlets generates a far higher dollar volume, often at twice the countywide average. Data from successful smaller outlets also indicates much higher per employee sales than the overall average. This may be an indicator that many retail outlets are not nearly as successful, leading to the lower overall average.

Given recent trends in Eureka, it is likely that a high proportion of the projected increase in countywide retail sales will go to large outlets with higher sales per employee than the County average. At $150,000 in annual sales per employee and a projected gain of approximately $100 million in retail sales, Humboldt County would see a net gain of between 650 and 675 retail employees by 2005. These jobs would be spread across the spectrum of retail categories. There would be a net gain of 130 to 135 general merchandise jobs, and between 65 and 70 jobs in the building materials/home improvements category. Since this scenario assumes no change in the overall mix of retail sales by category, all major store categories would see gains in employment. This gain in jobs does not mean that all existing jobs are secure. Retailing is extremely competitive in Humboldt County, and even with overall sales gains and no new competition, some existing stores, even major ones, may close their doors in the next few years.

Wage Impacts. Since this scenario is essentially existing conditions in the retail mix with an overall growth in sales, there would be no significant change in existing wage patterns. The only exception would be if food store sales in unionized stores decline, with a shift in sales to non-union operations (e.g., discount food warehouses or other types of stores selling housewares and food items).

Scenario 2: New Big-Box Store in Humboldt County (Location not Specified)

This scenario envisions either a new big-box general merchandise store or a discount home improvement center in the Eureka area.

Job Impacts. As discussed above, a new general merchandise store would probably not attract significant new retail sales to the County; instead, it would absorb the expected net increase in retail sales and also take some sales from existing stores. As a result, the growth in total retail employment of 650 to 675 jobs assumed in the baseline scenario would be unchanged. An estimated 50 to 60 existing general merchandise retail jobs would likely be replaced by new positions at the Wal-Mart, which is estimated to create approximately 200 jobs. This one-for-one replacement assumes that the sales per employee for the replacement jobs at the new store is roughly equivalent to that of the lost jobs at existing employers, since the existing sales losses are largely expected to occur at similar large retailers.

There could be shifts in the proportion of sales by major retail category, though, leading to a greater increase in general merchandise jobs than that described above. As a result, there might be reduced gains in other retail categories selling household items, particularly food and apparel.

A new building improvement center might attract some additional sales from Del Norte County, because of the lack of a similar competing outlet. An estimated capture of $1,000,000 in sales (slightly over 10 percent of the building materials/farm implements sales in Del Norte County) would lead to a net gain of less than 10 jobs, a negligible number given the total retail employment growth of 650 to 675 jobs assumed in the baseline scenario. Based on capture of sales from existing outlets, an estimated 100 to 125 jobs at existing retail and wholesale outlets would be replaced by positions at Home Depot. Once again, it is assumed that the replacement jobs would generate sales at about the same rate as the jobs lost at existing outlets.

Wage Impacts. In the case of a new general merchandise store, the existing sales to be captured would come from other large general merchandise stores with comparable pay scales. Some potential new jobs in the higher-paying food-store category would instead move to general merchandise, but this would not result in the loss of existing grocery store positions.

The situation with a new home improvement center would be more complex, because it would capture existing sales from a variety of retail and wholesale outlets. Wage levels for retail employees in the building improvements category appear to be higher than overall retail wages[48], in part due to the higher knowledge and skill level required. Based on available data, it is unclear whether the new jobs at Home Depot would match existing wage levels.

Summary of Job and Wage Impacts

As retail sales follow projected growth trends, the total number of jobs would increase over time regardless of whether a new store enters the market. The opening of a new big-box general merchandiser or home improvement center in Humboldt County would likely lead to a replacement of some current positions at existing retailers with positions at the new retail outlets. For a new general merchandise store, most of the replacement jobs would be similar to those lost in terms of wages and benefits. While the proportion of retail sales in some other sectors including the high-paying food sector would decline as consumers shift purchases to the new general merchandise store, this shift would come from growth in sales and would not lead to the replacement of existing high-paying positions with new lower-paying ones. For a new home improvement center, it is not clear how the wages and benefits would compare to existing outlets; the existing jobs lost may come from a variety of store types, and this retail sector currently has high wages relative to retail in general.

[48] Based on earnings and employment data from *County Business Patterns, 1996,* U.S. Dept of Commerce, Bureau of the Census.

NET FISCAL EFFECTS OF PROPOSED PROJECT

Introduction

Sale taxes represent a critical source of revenue for most California communities. Many jurisdictions actively promote the development of retail centers to maximize this revenue source. However, any new development in a community generates ongoing costs for provision of municipal services, so each project must be evaluated for its net fiscal impact. A large retail center such as a new big-box retailer, once developed, will require some level of municipal services in subsequent years. The annual maintenance of additional traffic signals, police and fire department calls to the center, and other services such as landscape maintenance may require additional resources impacting the City's General Fund. The increased level of activity in each department also affects the administrative component of city government, thus increasing general administrative costs citywide.

In Eureka sales taxes currently account for nearly half of the City's General Fund revenues. In contrast, sales taxes only make up about 12 percent of Humboldt County General Fund revenues. This chapter will estimate the net revenue-generating potential under the same three scenarios used in the previous two chapters under current conditions and in 2005. Looking at the project's future fiscal impact will demonstrate the significance of anticipated growth in retail sales in Humboldt County.

To understand how a big-box general merchandise or home improvement outlet might impact city services in Eureka, BAE contacted several Northern California cities where similar development has occurred, and also used information gathered for previous BAE studies. The following discussion outlines this information. Detailed information from the existing centers is presented in Table 21.

Yolo Polo Plaza, Woodland. The Yolo Polo Plaza in Woodland, California consists of approximately 254,000 square feet of retail on 21.2 acres. Major tenants include Wal-Mart and Staples. The Yolo Polo Plaza opened in the summer of 1997. Total annual costs are either prorated or taken from the project's 1993 environmental impact report (EIR). Recent interviews with Woodland City staff indicated that actual costs associated with the project may actually be lower than estimated here.

According to the Woodland Public Works Department, one additional traffic signal was installed along with several new streetlights. The department has not performed any maintenance on these devices since the opening of the mall. The project EIR estimated the annual cost of traffic signal and street light maintenance to be $23,728. Water and sewage service is provided by the Public Works Department; however, the funding for these services is programmed through a special assessment and does not impact the City's general fund.

Police service is provided by the City of Woodland Police Department. According to the department, annual calls to the center cost a total of approximately $25,000. This is a prorated amount and includes incidents recorded during a two-month period. During this time, 23 incidents were recorded requiring 16 hours of police time. An average of 1.35 officers responded to each incident. Shoplifting, car break-ins, and minor car accidents were most common, followed by vandalism, trespassing, and other incidents. Police service in the project EIR was estimated at $32,977.

Fire Service to the Yolo Polo Plaza is provided by the Woodland Fire Department. According to the department, most building related incidents, such as erroneously pulled fire alarms, are reimbursable from the property owners. Incidents such as structural fires and car accidents requiring medical attention are not recoverable, but no such incidents have occurred to date. The fire department estimates its future non-recoverable costs to range from zero to $10,000 per year. A midpoint of $5,000 is shown in Table 21. The project EIR estimated annual fire service at $16,810.

Other city services impacted by the Yolo Polo Plaza include the Community Development Department and Library Services. The project EIR and City staff were unable to identify the manner in which these services are impacted. According to the project EIR, these costs are expected to total $5,660 per year.

General city services and contingencies are estimated at $2,823 and are taken from the project EIR. Together, the total impact of the Yolo Polo Plaza on the City of Woodland's General Fund is $62,211. This figure is relatively high compared to other centers' costs and may be attributed to several factors. One, the number of city departments impacted is higher. Most notable are fire and police services, which are both funded by the City general fund. Two, the information gathered is based in part on projected costs rather than actual costs; As a result, project EIR costs were used which may be high estimates; recent interviews with Woodland City staff indicated that actual costs associated with the project are lower than shown here. Lastly, other factors such as incidence of crime in the area surrounding the Yolo Polo Plaza could be different in Woodland as compared to other cities, resulting in a high number of police calls.

Vintage Oaks Shopping Center, Novato. The Vintage Oaks Shopping Center is a large regional center consisting of 620,000 total square feet. It is home to Costco, Target, Macy's Furniture Store, and many other retailers.

According to City of Novato Public Works Department, traffic improvements totaling $100,000 including the installation of two additional traffic signals and several streetlights were originally assessed to the property owners. The annual city costs to maintain the additional traffic signals is an estimated $9,600; streetlight maintenance is estimated at $960 per year. Water and sewer service is provided by the North Marin Water District and the Novato Sanitary District. According to representatives from these agencies, all service costs are covered under the existing rate structures. The North Marin Water District did estimate that four (4) one hour emergency visits a year are made to shut off sprinkler related water valves. These emergency visits are non-recoverable.

Pursuant to the development agreement with the City, the Vintage Oaks Shopping Center has provided free space to the Novato Police Department for a substation. The police department estimates annual expenses of $15,000 for Vintage Oaks related incidents. Of this amount, $11,000 is expended on the BAT program (Beat Auto Theft) during the winter holiday season. The expenditures for the BAT program are recovered from the center's owners, leaving an annual service cost of approximately $4,000. The Novato Police Department could not disclose how many non-BAT incidents occur a year, but maintained that incidents at the center were minimal and insignificant.

Fire service to the Vintage Oaks Shopping Center is covered through the Novato Fire District, a special assessment district. As a result, emergency fire service to the center does not affect the City's general fund.

Together, the amount of public services funded by the City of Novato's General Fund to the Vintage Oaks Shopping Center is approximately $14,680 per year. According to the Novato Finance Department, government overhead factors are calculated at 20 percent of this amount, or $2,936. As a result, the total annual cost of public services to the Vintage Oaks Shopping Center is approximately $17,616 (See Table 21).

Century Plaza, Pittsburg. Century Plaza consists of 523,120 square feet with stores such as Old Navy, Ross Dress For Less, Petsmart, Target, and Toys R Us.

According to the Pittsburg Public Works Department, one additional traffic signal was added for this center and requires approximately $10,000 a year in maintenance. In addition, there are numerous additional streetlights with annual service costs of approximately $500. Water and sewage service is provided by the Diablo Contra Costa Water District. Similar to the Vintage Oaks center, this service does not impact the City's general fund. According to the Diablo Contra Costa Water District, all water and sewage costs including emergency contingencies are recovered under the existing rate structure.

Police service to the Century Plaza is provided by the City of Pittsburg Police Department. The Department is funded by the City's General Fund. The total cost of non-reimbursable police service to the center is estimated at $14,500 and includes calls for shoplifting, auto break-ins, and other disturbances.

Fire service to the Century Plaza is provided by the Contra Costa Fire Protection District. This is a special assessment district whose operating budget does not impact the City of Pittsburg's General Fund.

Direct public services to the Century Plaza shopping center impacting the City of Pittsburg's General Fund total $25,000 per year. Again, government overhead is calculated at twenty percent of this total for an amount of $5,000. The total cost of public services to the Century Plaza Shopping Center is approximately $30,000 per year (See Table 21).

In addition to the above information, other northern California cities where big-box centers have been recently constructed were contacted, including Ukiah, Chico, and Windsor.

None of these cities reported extraordinary ongoing expenses associated with the opening of their respective centers. In Windsor, where more detailed information was obtained, neither the Chief of Police nor the Public Works Director reports any quantifiable change in public service costs due to Wal-Mart's arrival in March of 1999. The police chief had anticipated more calls for service, particularly for crimes such as shoplifting, but has not seen any appreciable increase. He felt that the police had received so few calls because the "security within the store, both the personnel and their surveillance equipment, is pretty air-tight." When Wal-Mart moved into Windsor, the developer not only agreed to make street improvements; add bus stops; build curbs and gutters; and set traffic signalization to the town standard, they became responsible for the ownership and maintenance of the public works around the store for one year. Nevertheless, the Public Works Director did not foresee any increased service costs once the maintenance is passed over to the town and felt that if anything, traffic patterns have improved in the area even with the increased traffic at the Highway 101/Shiloh Road exit resulting from trips to Wal-Mart.

Table 21: Comparable Public Service Costs (a)

SERVICE	SHOPPING CENTER Vintage Oaks Novato, CA		Century Plaza Pittsburg, CA		Yolo Plaza Woodland, CA	
Total Square Feet	**620,000**		**523,120**		**254,000**	
Public Works					$23,728	(d)
Traffic Signal Maintenance	$9,600		$10,000			
Street Light Maintenance	$960		$500			
Water	$120	(I)	(c)		(c)	
Sewage	(c)		(c)		(c)	
Police	$4,000		$14,500	(j)	$25,000	
Fire	(b)		(b)		$5,000	(g)
Other City Services	NA		NA		$5,660	(f)
Total Operating Cost	$14,680		$25,000		$59,388	
General City Services/Contigencies (e)	$2,936		$5,000		$2,823	
Total City Cost	$17,616		$30,000		$62,211	

Notes:
(a) Costs listed are non-recoverable; costs are annual.
(b) Service provided under special assessment district, no cost incurred to the city.
(c) Costs recovered under normal billing for these services.
(d) Cost estimates obtained from project EIR, actual cost are unknown.
(e) 20 percent of total or amount specified by city.
(f) Community development and library services.
(g) Most costs recovered (fire alarms). The only incidents that are non recoverable are fires and car accidents, no such incidents reported to date.

Source:
BAE, city staff from the departments listed.

Net Tax Revenues Generated by Project

Net tax revenues to the City of Eureka General Fund were estimated for the Scenario 2, where the store would be built inside Eureka, and Scenario 3, where the new store would be built outside but near Eureka. Scenario 1 is the Baseline Scenario, with no new big-box general merchandise store or home improvement center. As a result, there are no fiscal impacts associated with the scenario. Estimates of tax revenues (including net retail tax revenues and the increase in property tax revenues) were completed for a "stabilized year" based on current (1999) population and for the year 2005. Because of the confidential nature of the taxable sales data used to estimate impacts on existing stores, the details of that calculation are not disclosed in this report. These estimates are based on the findings in the general discussion of impacts on existing retailers above. Table 22 shows only the gross taxable sales estimated for the new store and the loss of taxable sales at existing outlets in the City of Eureka for each presented Scenario and alternative. These estimates are also based on existing tax allocations. Alternate scenarios based on a tax-sharing agreement between jurisdictions in Humboldt County is beyond the scope of this analysis.

Baseline Scenario. As noted above, since no new project would be built, this scenario would result in no direct change in fiscal impact.

Scenario 2: New Retail Outlet in Eureka. This scenario would result in a positive fiscal impact for the City in 1999 which would increase in future years as overall retail sales grows. The current positive impact of a home improvement center would be greater than for a general merchandise store, since the ability to capture sales from outside the City is greater, but this relationship reverses by 2005, since the overall growth in general merchandise sales is greater and allows existing stores the ability to recover sales previously lost. In 2005, the net fiscal surplus for the general merchandise alternative is estimated at $189,000 annually, and the surplus for a home improvement center is estimated at $149,000.

Scenario 3: New Retail Outlet Outside of Eureka. In this scenario, all scenarios result in a loss of taxable sales revenues for the City. The immediate impact would be a net annual fiscal loss for the City of an estimated $230,000 for the general merchandise alternative and $150,000 for the home improvement center alternative. By 2005, this would decrease to $90,000 for the general merchandise alternative and $130,000 for the home improvement alternative.

Summary of Fiscal Impacts

The opening of a new big-box general merchandise store or home improvement center within Eureka would likely result in positive fiscal impacts for the City, even given existing levels of retail sales. If either type of outlet located outside the City, the impacts would be negative, since much of the sales would be captured from existing stores inside the City. Even with projected growth through 2005, these negative impacts would persist.

Table 22: Net Fiscal Effects of New Retail Development

	SCENARIO 2: Store in Eureka				SCENARIO 3: Store in County, Outside Eureka			
	General Merchandise		Home Improvement Center		General Merchandise		Home Improvement Center	
	1999	2005	1999	2005	1999	2005	1999	2005
<u>REVENUES</u>								
Gross Taxable Sales In New Store	$30,000,000	$30,000,000	$30,000,000	$30,000,000	NA	NA	NA	NA
less Loss of Taxable Sales In Existing Stores	($24,000,000)	($9,000,000)	($19,000,000)	($13,000,000)	($23,000,000)	($8,000,000)	($15,000,000)	($9,000,000)
Net Change in Taxable Sales Citywide	$6,000,000	$21,000,000	$11,000,000	$17,000,000	($23,000,000)	($8,000,000)	($15,000,000)	($9,000,000)
Net Increase In Sales Tax Revenues	$60,000	$210,000	$110,000	$170,000	($230,000)	($80,000)	($150,000)	($90,000)
Property Tax Increment (a)	$7,200	$7,200	$7,200	$7,200	$0	$0	$0	$0
Total General Fund Revenues	**$67,200**	**$217,200**	**$117,200**	**$177,200**	**($230,000)**	**($80,000)**	**($150,000)**	**($90,000)**
<u>EXPENSES</u>								
Public Works	$4,000	$4,000	$4,000	$4,000				
Police	$14,500	$14,500	$14,500	$14,500				
Fire	$5,000	$5,000	$5,000	$5,000				
Total Operating Cost	$23,500	$23,500	$23,500	$23,500				
General City Services/Contingencies (i)	$4,700	$4,700	$4,700	$4,700				
Total City Costs	**$28,200**	**$28,200**	**$28,200**	**$28,200**				
<u>NET ANNUAL FISCAL SURPLUS (DEFICIT)</u>	**$39,000**	**$189,000**	**$89,000**	**$149,000**	**($230,000)**	**($80,000)**	**($150,000)**	**($90,000)**

Notes:
All dollar amounts expressed in 1998 dollars.
(a) Based on following assumptions:

Store Size	120,000	square feet
Cost of Improvements (Value Basis)	$75	per square foot
Base Property Tax Rate	1%	of value
Eureka General Fund Share of Increment	8%	of base property tax rate (assumes store not in redevelopment area).

Sources: BAE

BIG-BOX UTILIZATION OF LOCAL SUPPLIERS AND CHARITABLE CONTRIBUTIONS TO LOCAL COMMUNITIES

Big-Box Utilization of Local Suppliers

While there is a perception that local merchants and business owners utilize local suppliers to a greater extent than competing big-box retailers, few data on this matter are available and investigations for this report did not discover any studies conducted by either the retail industry or academic researchers that focus on this question.

Wal-Mart, the largest of the big-box retailers, has a stated policy promoting the use of local vendors as follows:

> Wal-Mart is committed to purchasing products from local and regional vendors and suppliers through its Vendor Development Department. During the fiscal year ending January 31, 1998, Wal-Mart spent $61.6 billion with some 70,000 U.S. suppliers. Wal-Mart's determination to purchase from American vendors whenever pricing and quality are comparable to goods made elsewhere has resulted in the reintroduction of many American-made products previously lost to overseas manufacturers[49].

The available data from Wal-Mart is only state-specific, rather than region-specific (i.e., North Coast, Humboldt County), and gives total corporate expenditures in each state, not store-by-store expenditures. The Wal-Mart web site shows data for dollars spent with suppliers in each state in 1998 (see Table 23). These data indicate that purchases from in-state suppliers ranged from 0.01 percent (Delaware) to 18.34 percent (Texas) of total dollars spent with U.S. suppliers. In California, Wal-Mart reports using 5,650 in-state suppliers, for a total of $3.6 billion, or 5.84 percent of the total spent on suppliers in the United States. On average, Wal-Mart purchased 2.1 percent of its inventory from suppliers in any one state. Table 23 also shows that in 1998, Wal-Mart had 91,142 suppliers in the U.S., ranging from 120 in Vermont to 8,310 in Texas. The median number of suppliers per state was 1,557, and the median dollars spent with suppliers in any one state was $273 million.

In an effort to address this subject at least on an anecdotal basis, several Eureka retailers were interviewed about their purchasing behavior. To provide a rough basis for comparison, the local retailers were asked about purchases from Northern California rather than just Humboldt County or the North Coast. These interviews with a local hardware store, sporting goods store, music retailer, and auto parts supplier indicate that purchases from local suppliers (i.e., Northern California) range from 20 percent (hardware store) to 75 percent (music retailer). The sporting goods store interviewed estimated that 34 percent of its inventory comes from suppliers within a six hour travel time radius (extending from the San Francisco Bay Area to Portland), while the auto parts supplier estimated that 35 percent of its inventory is purchased from local suppliers.

[49] http://www.wal-mart.com/newsroom/index.html

Based on the above analysis, it is difficult to say with any certainty what the impacts of a new big box retailer would be on supplier networks in Humboldt County and nearby areas. It should be noted that the businesses likely to sustain the greatest impacts from such a store are its direct competitors, which are for the most part outlets of large national and regional retail chains, with similar regional and national supplier networks, rather than small local stores (see discussion above). [50]

[50] While an analysis of multiplier effects is beyond the scope of this study, the fact that the jobs lost and the sales lost to a new large general merchandise discounter in Humboldt County would come from existing large regional and national retail chains with similar sales forces and supplier networks would likely indicate limited indirect impacts on the regional economy.

Table 23: 1998 Wal-Mart In-State Suppliers

State	No. of Stores (a)	No. of In-State Suppliers	Dollars Spent With In-State Suppliers	Percent of Total Dollars Spent With Suppliers
Alaska	85	2,098	$536,900,000	0.87%
Arizona	41	1,137	$202,800,000	0.33%
Arkansas	81	3,265	$2,970,000,000	4.82%
California	124	5,650	$3,600,000,000	5.84%
Colorado	46	1,837	$245,300,000	0.40%
Connecticut	17	604	$481,400,000	0.78%
Delaware	4	134	$4,480,000	0.01%
Florida	166	4,344	$995,800,000	1.62%
Georgia	103	3,361	$3,880,000,000	6.30%
Hawaii	6	512	$73,800,000	0.12%
Idaho	10	1,973	$142,600,000	0.23%
Illinois	130	4,097	$8,000,000,000	12.99%
Indiana	89	2,634	$273,000,000	0.44%
Iowa	52	1,638	$218,500,000	0.35%
Kansas	53	1,687	$116,600,000	0.19%
Louisiana	84	1,557	$281,000,000	0.46%
Maine	22	469	$47,800,000	0.08%
Maryland	37	985	$196,300,000	0.32%
Massachusetts	30	1,272	$544,500,000	0.88%
Michigan	66	2,082	$611,500,000	0.99%
Minnesota	43	1,721	$842,800,000	1.37%
Mississippi	60	1,399	$142,800,000	0.23%
Missouri	121	3,148	$2,170,000,000	3.52%
Montana	10	402	$19,700,000	0.03%
Nebraska	21	767	$123,600,000	0.20%
Nevada	15	383	$61,800,000	0.10%
New Hampshire	21	698	$42,000,000	0.07%
New Jersey	22	1,279	$1,950,000,000	3.17%
New Mexico	22	709	$36,600,000	0.06%
New York	74	3,728	$3,000,000,000	4.87%
North Carolina	100	3,143	$8,900,000,000	14.45%
North Dakota	10	371	$11,700,000	0.02%
Ohio	104	3,232	$1,900,000,000	3.08%
Oklahoma	84	1,735	$323,000,000	0.52%
Oregon	23	1,036	$221,500,000	0.36%
Pennsylvania	79	3,652	$2,400,000,000	3.90%
Rhode Island	7	252	$94,700,000	0.15%
South Carolina	62	1,521	$160,600,000	0.26%
Tennessee	99	2,439	$1,140,000,000	1.85%
Texas	293	8,310	$11,300,000,000	18.34%
Utah	19	856	$267,700,000	0.43%
Vermont	3	120	$52,000,000	0.08%
Virginia	62	1,733	$819,100,000	1.33%
Washington	22	1,147	$631,000,000	1.02%
West Virginia	21	618	$39,700,000	0.06%
Wisconsin	67	2,284	$681,500,000	1.11%
Wyoming	11	318	$10,000,000	0.02%
Median	**46**	**1,557**	**$273,000,000**	**0.44%**
Average	**58**	**1,880**	**$1,292,852,766**	**2.10%**
U.S.A.	2,706	91,142	$61,600,000,000	

Note (a): Includes Wal-Mart and Sam's Club stores.
Sources: Wal-Mart Web site (www.wal-mart.com); Bay Area Economics, 1999.

Big-Box Charitable Contributions

Conversations with local merchant organizations indicate that national chains operating in Eureka are not necessarily making significant philanthropic donations to the local community, usually because their corporate policy does not give store managers the flexibility to make discretionary charitable contributions. For example, the majority of the cost for the annual July 4th fireworks display is paid for by small, locally owned businesses. The same is true about support for youth soccer teams, and a new baseball field that was recently constructed. Nevertheless, large national retailers are typically active philanthropists. Information presented in Chapter X shows that Wal-Mart contributes to the Children's Miracle Network Hospitals and United Way, Home Depot funds Habitat for Humanity and Big Brothers/Big Sisters, and Home Base contributes to cancer research.

The Wal-Mart web site shows data for the number of stores in each state in which the company operates, and dollars spent on "community involvement" in each of those states in 1998 (see Table 24). These data indicate that Wal-Mart's community involvement ranged from $190,557 in Vermont to $10,300,000 in Texas. On average, Wal-Mart has charitable contributions equal to $34,036 per store, an amount equal to approximately 0.07 percent of estimated store revenues.

It is not clear how the level of Wal-Mart's community involvement is calculated, and whether the dollar amount published reflects actual dollars contributed, or if it includes the value of goods or services provided, or amounts raised and contributed by Wal-Mart employees. Attempts to contact Wal-Mart and the Wal-Mart Foundation to clarify the information provided by Wal-Mart's Web site were not successful.

Table 24: 1998 Wal-Mart Community Involvement

State	No. of Stores (a)	Community Involvement	Community Involvement per Store	Estimated Percent of Store Revenue
Alaska	85	$3,100,000	$36,471	NA
Arizona	41	$1,200,000	$29,268	NA
Arkansas	81	$5,100,000	$62,963	NA
California	124	$3,900,000	$31,452	NA
Colorado	46	$1,300,000	$28,261	NA
Connecticut	17	$539,514	$31,736	NA
Delaware	4	$192,175	$48,044	NA
Florida	166	$5,300,000	$31,928	NA
Georgia	103	$3,400,000	$33,010	NA
Hawaii	6	$234,931	$39,155	NA
Idaho	10	$349,648	$34,965	NA
Illinois	130	$3,800,000	$29,231	NA
Indiana	89	$3,000,000	$33,708	NA
Iowa	52	$1,700,000	$32,692	NA
Kansas	53	$1,700,000	$32,075	NA
Louisiana	84	$2,600,000	$30,952	NA
Maine	22	$924,780	$42,035	NA
Maryland	37	$918,691	$24,829	NA
Massachusetts	30	$897,555	$29,919	NA
Michigan	66	$1,600,000	$24,242	NA
Minnesota	43	$1,500,000	$34,884	NA
Mississippi	60	$2,400,000	$40,000	NA
Missouri	121	$3,300,000	$27,273	NA
Montana	10	$319,299	$31,930	NA
Nebraska	21	$718,550	$34,217	NA
Nevada	15	$391,215	$26,081	NA
New Hampshire	21	$1,000,000	$47,619	NA
New Jersey	22	$602,114	$27,369	NA
New Mexico	22	$831,271	$37,785	NA
New York	74	$2,700,000	$36,486	NA
North Carolina	100	$3,300,000	$33,000	NA
North Dakota	10	$518,546	$51,855	NA
Ohio	104	$3,100,000	$29,808	NA
Oklahoma	84	$2,500,000	$29,762	NA
Oregon	23	$1,100,000	$47,826	NA
Pennsylvania	79	$2,800,000	$35,443	NA
Rhode Island	7	$241,846	$34,549	NA
South Carolina	62	$2,200,000	$35,484	NA
Tennessee	99	$3,400,000	$34,343	NA
Texas	293	$10,300,000	$35,154	NA
Utah	19	$578,396	$30,442	NA
Vermont	3	$190,557	$63,519	NA
Virginia	62	$2,400,000	$38,710	NA
Washington	22	$1,200,000	$54,545	NA
West Virginia	21	$829,794	$39,514	NA
Wisconsin	67	$2,100,000	$31,343	NA
Wyoming	11	$332,432	$30,221	NA
Median	**46**		**$33,708**	
Average	**58**		**$34,036**	
U.S.A.	2,721	$92,611,314	$34,036	0.07% (b)

Notes:

(a) Includes Wal-Mart and Sam's Club stores.

(b) Assumes average revenue of $47,000,000 per store based on 1999 Wal-Mart Annual Report showing 2,901 stores and gross revenue of $137.6 billion.

Sources: Wal-Mart Web site (www.wal-mart.com); Bay Area Economics, 1999.

MARKET FOR INDUSTRIAL LAND AND BUILDINGS

The demand source for industrial land and buildings in Eureka and the areas surrounding the City has in the past principally come from users in the lumber, milling, and fishing industries. As the area's traditional economic base has declined, the demand for industrial sites has also changed. Conversations with real estate agents and brokers familiar with industrial land and buildings in Eureka and nearby communities indicated that currently there is little activity in this market sector. This means that there is little product (land or vacant buildings for sale or for lease) being actively promoted, and very few sizable users are seeking land or building space. These condition are a reflection of recent employment trends in the County, which has seen a long-term decline in employment in manufacturing, transportation and public utilities, and wholesale trade.

The City of Eureka itself has very little remaining developable land within City limits, and most industrial sites within the City are located west of Highway 101. Significant industrial areas in nearby communities include the Aldergrove Industrial Park in Arcata, Samoa Peninsula, and Fields Landing (both are outside of the City and are under the jurisdiction of Humboldt County).

Samoa Peninsula and Fields Landing are active industrial sites occupied by timber industry users. However, both also have timber processing facilities that have been closed. Because the future reuse of these closed facilities is uncertain, and because their reuse (either for industrial or commercial development) is likely to entail environmental clean up issues, the most conservative approach would be to not regard them as part of the industrial land supply for the foreseeable future.

The 30-acre Aldergrove Industrial Park is located north of Eureka near the intersection of State Route 299 and Highway 101 in Arcata. Major tenants include AMG Data Services, North Coast Awning, a construction contractor, and a food processing incubator. There are currently no vacancies at Aldergrove Industrial Park, with the exception of a 5,500 square foot space at a 15,000 square foot former industrial building that has been converted into small spaces for light industrial and commercial users (see Table 25). Built in 1985, the building currently has lease rates of $0.40 per square foot per month (NN), and current tenants include the Arcata School District, a glass blower's studio, an investigative agency, a tile and granite company, and a silk screen artist.

Research for this report discovered only one piece of vacant industrial land offered for sale, located near the intersection of Highway 299 and Guintoli Lane in Arcata (adjacent to Aldergrove Industrial Park). This property is made up of a two-acre parcel and three-acre parcel, has excellent freeway access and visibility, and has been on the market since October 1998. Prior to the death of the current property owner's spouse, the owner was planning to develop a trucking facility. These plans have since been dropped and the property is now for sale. With an advertised price of $540,000 for the five acres (approximately $108,000 per acre), the property owner is asking for more than double the current market rate, according to real estate brokers and agents familiar with the property and with the industrial land market in western Humboldt County. No offers for the site have been made, although a lumber company and equipment rental company have expressed interest, but not at the current price (see Table 26).

Another vacant industrial building is located at the Mill Yard property on Highway 101 between Eureka and Arcata. This 10,000 square foot building is located on a site shared by the Mill Yard and A & I Roofing company. Built prior to World War II, the building was previously occupied by the Mill Yard which consolidated the building occupants to other space it has on the site. The asking lease rate is $0.30 per month (gross), and the building has been on the market for approximately 12 months.

General comments about the market for industrial land and buildings in Eureka and surrounding communities by real estate brokers and leasing agents indicate that the market is more or less stagnant. There is very little supply, and in terms of buildings, the properties that are available are not modern and have not seen much investment from property owners. On the demand side, most tenants are small users and are willing to lease space "as is" and to make improvements themselves if necessary. For users requiring sites of two or three acres (considered a large user in the current market), nothing is available in Eureka and it is very difficult to find adequate space in surrounding communities.

In spite of these issues, brokers and agents indicated a greater concern with the lack of supply of modern, suitable light industrial, commercial, and small office space. With respect to the Balloon Track, many felt that it could developed with a mix of uses including light industrial, commercial, and flex space (i.e., adapted for both shop and small office).

Table 25: Currently Leasing/Selling Industrial Buildings

Site Name/Location	Total Sq. Ft.	Vacancy Rate	Vacant Sq. Ft.	Year Built	Lease Rate (sf)	Terms	Major Tenants	Comments/Amenities
5610 West End Road **Arcata**	15,000	37%	5,500	1985	$0.40	NN	Arcata School District Glass blower Investigative agency Tile and granite company Silk screen artisan	This former industrial building has been subdivided into small industrial and commercial spaces (1,000 to 5,000 sq. ft. each). Each unit has individual power, restrooms, etc.
The Millyard **Highway 101** (between Eureka & Arcata)	10,000	100%	10,000	pre-World War II	$0.30	Gross	Mill Yard Lumber Co. A & I Roofing	This building was vacated by Millyard, although the company occupies other buildings on the site. Building has been vacant for 12 mos.

Source: Bay Area Economics, 1999.

Table 26: Vacant Industrial Land

Site Name/Location	Acres Available	Date Available	Asking Price	Price per Acre	Comments/Amenities
Highway 299/Guintoli Lane Arcata	5	Oct. 1998	$540,000	$108,000	Site is comprised of two parcels - 3 ac. and 2 ac. Plans to develop trucking facility halted when owner died. Heirs seeking to sell land at approx. 2X current market rate. No offers received to date. Site has excellent visibility and freeway access. Potential interest from lumber businesss, equipment rental business, but not at current price.

Source: Bay Area Economics, 1999.

APPENDIX: RETAIL LEAKAGE ANALYSIS METHODOLOGY

Retail leakage analysis compares actual retail sales in an area with some benchmark that provides a measure of the potential sales generated by that area's residents. If sales levels are below the predicted level, the area may be able to support increased sales. This increase in sales could take the form of increased sales in existing outlets or in new outlets.

A lower-than-predicted sales volume implies that consumers are traveling outside the area to shop; thus, the sales are "leaking" out of the study area. Conversely, if the area shows more sales than would be expected from the area's characteristics, there are sales "injections" into the study area. Often, an injection of sales indicates that the study area is serving as the regional shopping destination for a broader area. Conversely, if an area shows substantial leakage, it may be due to the presence of a region-serving retail node outside the study area capturing those "leaked" sales. In such a case, the study area itself may not have sufficient population to support the region-serving retail, so those sales cannot expect to be captured within the study area.

There are a number of factors that can be used to predict sales levels, with the two most important factors being number of persons in the area and the disposable income available to that population. Additional factors influencing retail spending in an area include household type, age of population, number of workers in the area (i.e., daytime population), tenure patterns (owner vs. renter), and cultural factors.

Bay Area Economics has developed a leakage model for California based on many of these factors. Basically, the model takes per capita sales by retail category statewide and adjusts for local conditions using a multiple regression model based on variations between counties in their sales, population, income, and employment characteristics. Unlike some retail leakage models, which use one adjustment for all categories, the Bay Area Economics takes into account the influence of each factor <u>separately</u> on each retail store category. For instance, per capita food store sales show little relationship to household income, while apparel sales show a much stronger influence. In some cases, such as service stations, only the number of persons in an area seems to affect sales levels.

The Bay Area Economics model also does not use consumer spending data such as the Consumer Expenditure Survey, unlike many other models of this type. Because these surveys show consumer purchases by category of <u>good</u> rather than category of <u>store</u>, any model based on them must reallocate expenditures by goods into expenditures by store, introducing a source of potential error. For example, apparel can be bought at an apparel outlet, or at a general merchandise store. In addition, the Consumer Expenditure Survey data is not available below the metropolitan area level, and does not indicate where consumers actually spend their retail dollars. The Bay Area Economics retail leakage model predicts sales based solely on actual taxable retail sales data by store category published by the State Board of Equalization, and on population and worker characteristics. The actual regression model is based on 1990 data; because of the population census that year, reliable estimates for key data used to construct the model are readily available for all levels of geography. In predicting current sales for a given study area, the most current comparative data available are used.

Because this model is based on "real-world" data for California, Bay Area Economics believes it is better suited for leakage analysis than other models. Nevertheless, it has limitations, most of which are shared by other models in use. First, the model is limited by the available data sources. Store categories are those used by the State Board of Equalization, and sales for a particular "niche" store type (e.g., discount grocery warehouse) cannot be predicted based on this model. Many factors that affect retail sales levels are left out, because data on which to test a relationship to sales are not available. Finally, on some level every area is unique, and there are factors affecting sales that cannot predicted from a general model. As a result, a retail leakage model should only be viewed as a "first step" in estimating the sales potential for an area. Other factors, such as the level of competition from surrounding retail nodes, trends in retail marketing, retail rent levels and vacancies, and physical factors (e.g., accessibility and highway visibility of available retail sites) must always be taken into account in determining the potential for capturing new retail sales in an area. Also, when the analysis shows that a higher level of sales could be captured, further analysis must be undertaken to determine whether this is due to underperformance in existing outlets or lack of sufficient outlets to meet the demand.