



Budgetary Impact of New Retail Projects

Deer Creek Village and East Washington Place

Shopping Centers

Petaluma, California

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Table of Contents

I.	Introduction	1
II.	Objective of Report	1
III.	Major Findings	2
	A. City of Petaluma Fiscal Analysis	2
	B. City of Petaluma Retail Analysis.....	3
IV.	Methodology	4
	A. Design.....	4
	B. Scope of Analysis	7
	C. Data.....	7
V.	Results of Analysis	8
	A. Changes in the City’s General Fund Fiscal Year Budgets	8
	B. Changes in the City’s Sales Tax Revenues	10
	C. Changes to the City’s Expenditures—Programs and Services Reduction	12
	D. Potential Revenue Enhancement to the City with the Development of Deer Creek Village and East Washington Place Shopping Centers.....	14
	E. Comparison and Validation of FEIAs’ Results.....	15
	F. Petaluma’s Fiscal Situation with and without Additional Retail Development.....	20
VI.	Summary of Analysis	22

List of Charts

- CHART 1 – City of Petaluma – Total Revenues
- CHART 2 – City of Petaluma – Total Expenditures and Expenses
- CHART 3 – City of Petaluma – Total Sales Taxes
- CHART 4 – City of Petaluma – Salaries and Benefits
- CHART 5 – Capture of Retail Leakage Impact on Sales Taxes
- CHART 6 – Addition of Target and Lowe’s Impact on Sales Taxes

List of Tables

- TABLE 1 – Taxable Retail Sales of Northern California Cities with Lowe’s Stores Openings, 2003-2007
- TABLE 2 – Taxable Retail Sales of Northern California Cities with Target Stores Openings, 2003-2007

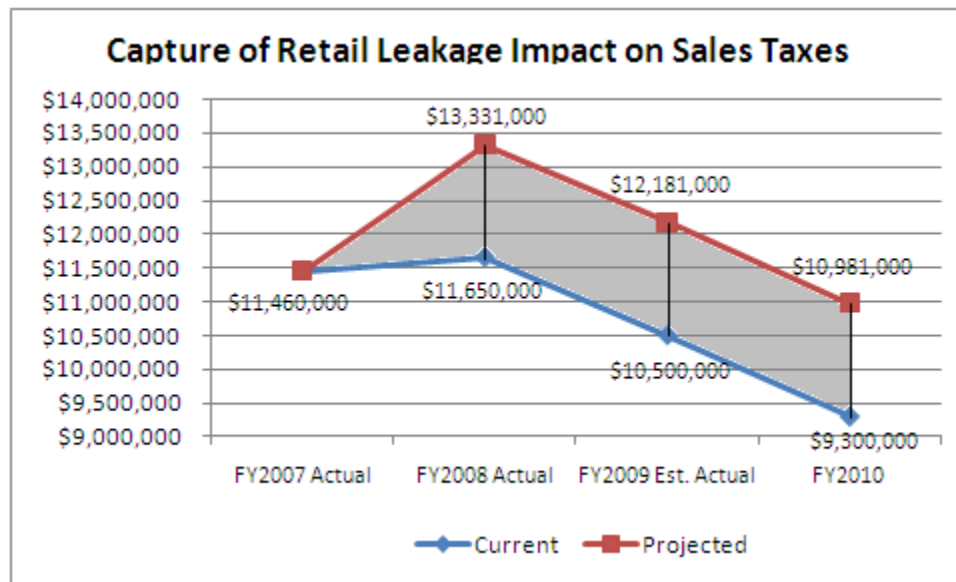
List of Appendices

- Appendix A – Curriculum Vitae for Lon Hatamiya
- Appendix B – Taxable Retail Sales for Cities with Lowe’s Stores Opened in Northern California, 2003-2007
- Appendix C – Taxable Retail Sales for Cities with Target Stores Opened in Northern California, 2003-2007

Executive Summary

The results of our independent and objective analysis of the City of Petaluma's current fiscal crisis clearly and unequivocally demonstrate that the City of Petaluma would be better off financially and commercially with greater retail availability. Without greater retail diversity within the City, Petaluma residents will continue to spend their retail dollars in other neighboring communities with no benefit to their own City's deteriorating fiscal condition. Based upon our analysis of the available data and information, we believe that the current fiscal crisis faced by the City of Petaluma will remain challenging for the foreseeable future. Revenues will remain stagnant or continue to decline resulting in further reductions in City expenditures, programs, and personnel. Without dramatic changes to the City's revenue streams and/or resurgence in the local economy, the City will be faced with ongoing budgetary problems and further difficult decisions.

However, these fiscal difficulties could be remedied with the approval and opening of the proposed Deer Creek Village and/or East Washington Place Shopping Centers. The report also provides an objective analysis of the potential projected revenue enhancements to the City due to the proposed construction and operation of the Deer Creek Village Shopping Center and the East Washington Place Shopping Center. **Painful fiscal, programmatic and personnel decisions by the Petaluma City Council could have been greatly lessened, delayed, or more likely, averted. If the potential revenue enhancement generated by both projects were totaled, they could possibly add approximately \$1.7 million in annual revenues to the City's General Fund.** If either or both developments had been built over the past two years, City revenues would have been greatly enhanced. This enhancement could have mitigated much of the reductions in City programs, saving many of the 37 city employees eliminated due to resultant budget cuts. (See graph below)

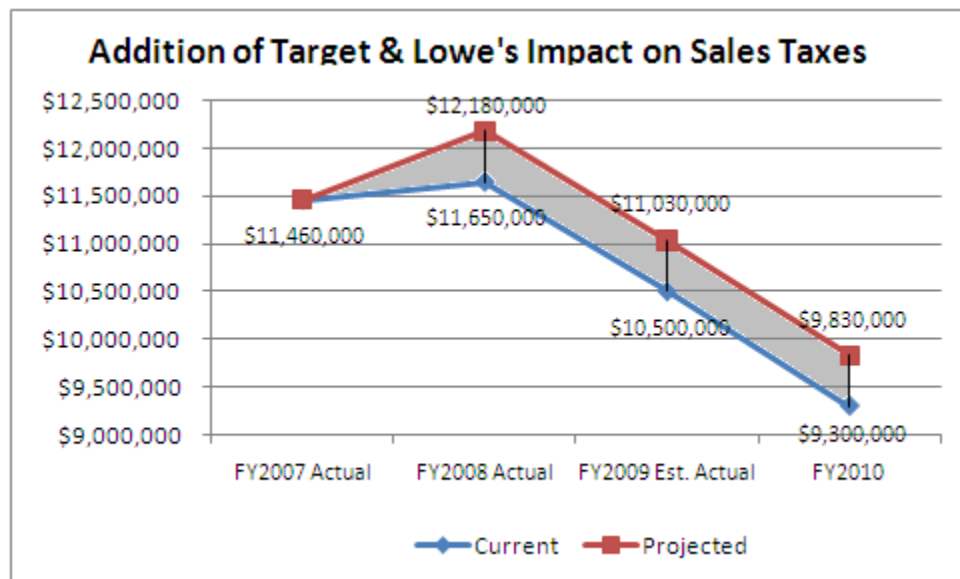


Under our own separate and independent analysis, we determined that Petaluma is significantly under-retailed in many major retail categories, including *Building Materials stores* and *General Merchandise stores* among others. Deer Creek Village and East Washington Place have the potential to capture a sizable portion of these retail sector sales leakages, which are local resident expenditures going to and benefitting neighboring communities since no comparable retail options exist or are available within Petaluma. Deer Creek Village will be anchored by a Lowe’s store and East Washington Place will be anchored by a Target store, with potential to deliver the following benefits:

- As demonstrated by our analysis, *Taxable Retail Sales* in the category of *Building Materials stores* **increased by an average of 41.9%** the year following the opening of a **Lowe’s** store as compared to the year prior to the opening in 11 Northern California communities.
- Similarly under our independent analysis, *Taxable Retail Sales* in the category of *General Merchandise stores* **increased by an average of 58.9%** the year following

the opening of a **Target** store as compared to the year prior to the opening in 9 Northern California communities.

- If the **Lowe's** store had been opened in Petaluma in the past two years or into the future, the City could generate an additional **\$240,000** in sales tax per year (see graph below).
- If the **Target** store had been opened in Petaluma in the past two years or into the future, the City could generate an additional **\$290,000** in sales tax per year (see graph below).



- In addition, Building Materials stores (**Lowe's**) and General Merchandise stores (**Target**) opened in Northern California communities from 2003-2007, were among the top 7 sales tax generators in each city the year following their opening and continuing in successive years. As a result, these types of stores not only add

greatly to the retail mix of a community, but also provide a steady source of sales tax revenue.

Moreover, our independent Taxable Retail Sales analysis which solely focuses upon the potential additional benefits of opening both a Lowe's store and a Target store could also result at a minimum in over \$550,000 in new sales tax just from those two stores. Simply by opening the Lowe's and Target stores, at the very least the City would be able to save three police officer positions and two firefighter positions slated to be eliminated or left vacant in the FY2010 budget.

All in all, the City of Petaluma faces enormous challenges and continuing fiscal crises without alternative revenue generation opportunities or an upturn in the local economy. However, it is clear from our analysis of the current situation that **the City can help itself** with the approval of the Deer Creek Village Shopping Center and/or the East Washington Place Shopping Center. Deer Creek Village and East Washington Place would inject increased sales tax revenues into the City of Petaluma by diversifying the retail base and available choices for consumers. These sales tax revenues would come mainly from retail expenditures already being made by Petaluma residents, but elsewhere in other cities. **Most importantly, by providing greater retail choices for its residents, Petaluma will not only benefit from improved convenience and efficiency, but it will also benefit from greater sales tax revenues which will ensure the protection of essential City services and programs during a critical period of budgetary and economic uncertainty.**

I. Introduction

With the onset of the worst economic recession in the United States since the Great Depression, many cities across the state of California have experienced severe reductions in their revenues over the past few years. This dramatic downturn in the global, national, state and local economies have forced most state and local governments to drastically reduce overall spending with a negative impact upon available and essential services. This situation is particularly acute in the City of Petaluma, California (“Petaluma” or “City”), which necessitates the further independent review of the city’s fiscal situation. In this report, we provide a comparative analysis of the year-over-year changes in Petaluma’s budget, the reduction in Petaluma’s revenues, and the reduction in available services and programs. These fiscal impacts were most definitely brought upon by the declining economy over the past few years. However, this study also analyzes the potential for mitigating measures despite the negative recessionary pressures upon the local economy.

II. Objective of Report

The objective of this report is to identify, quantify, and analyze changes to the City’s fiscal situation during the years of 2006 through 2010. This fiscal analysis provides a baseline measure to be compared with the succeeding years to further determine trends in City revenues and expenditures. It also highlights the affects of budgetary changes upon essential City services.

The report also provides an objective analysis of the potential projected revenue enhancements to the City due to the proposed construction and operation of the Deer Creek Village Shopping Center (“Deer Creek Village”) and the East Washington Place Shopping Center (“East Washington Place”). This analysis also allows a further determination of the economic impact of the potential projected revenues of these proposed developments upon the existing budgetary and fiscal status of the City.

Lastly, this report also provides an independent and objective comparative analysis of the City's *actual* versus *potential* fiscal situation based upon scenarios with and without the future development of the additional proposed retail shopping centers of Deer Creek Village and East Washington Place.

III. Major Findings

A. City of Petaluma Fiscal Analysis

- The City of Petaluma has experienced dramatic declines in General Fund revenues over the past several years from a high of \$52million in FY2007 to a projected low of \$34million in FY2010, or a rapid drop of 34.6%.
- Declining revenues have resulted in comparable declines in General Fund Expenditures from a high of \$51.6 million in FY2007 to a projected low of \$35.5 million in FY2010, or a drop of 31.2%.
- Sales Tax revenues make up the largest share of the City's General Fund Revenues (between 25-30% per year). Sales Tax revenues have declined by 20.2% in the last two years from \$11.65 million in FY2008-09 to \$9.3 million in FY2010-11. This compares with an anticipated modest increase in statewide sales taxes of 16.8% across California during the same period.
- The declining fiscal condition of the City has resulted in the elimination of essential services, programs, and people, as well as the reduction and depletion of available reserves.

B. City of Petaluma Retail Analysis

- The *Leakage Analysis* performed in the FEIA's for Deer Creek Village and East Washington Place indicates that Petaluma is significantly under-retailed in many major retail categories, including Building Materials stores and General Merchandise stores among others.
- Deer Creek Village and East Washington Place have the potential to capture a sizable portion of these sales leakages, which are local resident expenditures going elsewhere.
- Taking into account local tax and fee revenues generated by Deer Creek Village and city costs to provide services, the project will generate under the *FEIA Leakage Analysis* an estimated net fiscal surplus of approximately \$681,000 annually to the City's General Fund, mainly from the Sales Taxes generated.
- Taking into account local tax and fee revenues generated by East Washington Place and city costs to provide services, the project will generate under the *FEIA Leakage Analysis* an estimated net fiscal surplus of approximately \$1 million annually to the City's General Fund, mainly from the Sales Taxes generated.
- Under our own separate and independent analysis, *Taxable Retail Sales* in the category of *Building Materials* stores increased by an average of 41.9% the year following the opening of a **Lowe's** store as compared to the year prior to the opening in 10 Northern California communities.

- Similarly under our independent analysis, *Taxable Retail Sales* in the category of *General Merchandise* stores increased by an average of 58.9% the year following the opening of a **Target** store as compared to the year prior to the opening in 9 Northern California communities.
- If the **Lowe's** store had been opened in Petaluma in the past two years or into the future, the City could generate an additional \$240,000 in sales tax per year.
- If the **Target** store had been opened in Petaluma in the past two years or into the future, the City could generate an additional \$290,000 in sales tax per year.
- Our independent analysis further affirms and validates the FEIA conclusions that additional retail development in Petaluma would result in significant revenue enhancement to the City.

IV. Methodology

A. Design

Identification and quantification of changes to the City's annual budgets from FY2006 through FY2010 was accomplished by analyzing detailed publicly-available data provided in the *City of Petaluma's FY2006 Budget Summary*; *City of Petaluma's FY 2007 Budget Summary*; *City of Petaluma's FY2008 Budget Summary*; *City of Petaluma's FY2009 Budget Summary*; and the *City of Petaluma's FY 2010 Budget Summary*.¹ More specifically, the City's annual fiscal year budgets provide detailed reports on revenues generated and expenditures for programs and services. For purposes of this study, we focused solely on General Fund

¹ <http://cityofpetaluma.net/finance>, downloaded 11/18/2009.

budgeting since it is the primary fund of the City’s government that records all assets and liabilities that are not assigned to a special purpose. The General Fund provides the resources necessary to sustain the day-to-day activities, pays for all administrative and operating expenses, and thus is captive to fluctuations in incoming revenues from year-to-year.

We determined that a comparative analysis of historical General Fund data was warranted. First, we identified the five-year period of 2006 through 2010 analyzed in this report, not only because it is the last five years of available data, but it also represents a period of initial strength then decline in the national, state and local economies. Second, we reviewed and compiled the *General Fund Revenues* and *General Fund Expenditures/Expenses* data from this period. Third, we reviewed and compiled the *Sales Tax Revenues* from the same period. Finally, we compared and analyzed this year-over-year data to come up with our results to determine the impacts upon Petaluma both in lost revenues, but also lost City services and their corresponding positions (jobs).

Furthermore, we also identified and analyzed the potential projected revenue enhancements to the City by reviewing the detailed publicly-available Fiscal and Economic Impact Analyses (“FEIA’s”) required by the City Council under Resolution No. 2008-189 N.C.S. These FEIA’s are required due to the concern about the size and scope of potential large-scale commercial developments in the City. First, we reviewed the FEIA’s prepared by Bay Area Economics (“BEA”) for the City on both the proposed Deer Creek Village and East Washington Place commercial retail developments.²³ Second, we reviewed and analyzed the *Retail Sales Analysis* sections of both FEIA’s, with particular attention to the *Leakage*

² “*Fiscal and Economic Impact Analysis for Proposed Deer Creek Village Shopping Center in Petaluma, CA,*” prepared for the City of Petaluma by Bay Area Economics, January 2009.

³ “*Fiscal and Economic impact Analysis for Proposed East Washington Place Shopping Center in Petaluma, CA,*” prepared for the City of Petaluma by Bay Area Economics, January 2009.

Analysis. Third, we further examined and analyzed the *Fiscal Impact Analysis* section of both FEIA's, with focus upon the *Projected General Fund Revenues* and *Projected General Fund Costs* discussion.

As a further point of comparison and validation, we identified and quantified *Taxable Retail Sales* for specific California cities by analyzing detailed data provided by the California Board of Equalization in quarterly and annual reports and further compiled in the *California Retail Survey, 2009 Edition*, published by the Eureka Group ("Survey"). The Survey provides detailed reports on each of California's 58 counties and 272 of the largest cities. The Survey also provides summary coverage on 210 smaller cities across the state. Retail sales data contain eleven years of sales data for up to 45 individual retail store categories. In addition to historical sales and outlet trend data, the Survey also includes a wide range of statistical measurements that evaluate past performance of individual markets and the prospects for future growth. Moreover, we also relied upon the most up-to-date California population statistics as provided by the California Department of Finance's City/County Population Estimates with Annual Percentage Change for January 1, 2009.⁴

In order to best utilize the available data from the Survey, we also determined that a comparative analysis of historical and relevant data was warranted. Relevant data in this case was determined to be related *Taxable Retail Sales* figures for Northern California communities that had either Lowe's and/or Target stores similar to those proposed for Deer Creek Village and East Washington Place. First, we identified the opening dates for each of the Northern California Lowe's and Target stores analyzed in this report. For the best comparisons, we focused solely upon those Lowe's and Target stores opened in Northern California from 2003 to 2007. Second, we reviewed and compiled the *Taxable Retail Sales* data from the one year prior to the opening of each Lowe's and/or Target store. Third, we

⁴ <http://www.dof.ca.gov/research/demographic/reports/estimates/e-4/2001-2009/>, downloaded 11/10/2009.

reviewed and compiled the *Taxable Retail Sales* data from the year after the opening of the Lowe's and/or Target store. Finally, we compared and analyzed this year-over-year data to come up with our results to determine the impacts upon each community due to the opening of the Lowe's and/or Target stores. The results were then used for comparative purposes for possible impacts of such store openings in Petaluma.

B. Scope of Analysis

As of the date of the writing of this report, fiscal year budgets for the City were available for the five-year period from 2006 through 2010, and General Fund data from those years are reviewed. The FEIA's for Deer Creek Village and East Washington Place were completed in January 2009, utilizing data through the end of 2007. In addition, local *Taxable Retail Sales* data for California was available through the end of 2008. Therefore, the comparative *Taxable Retail Sales* analysis includes 11 communities in Northern California where Lowe's has opened stores since 2004; the analysis also includes 9 communities in Northern California where Target has opened stores since 2003. These include the Lowe's cities of Antioch, Cotati, Dublin, Fremont, Gilroy, Jackson, Lincoln, Lodi, Los Banos, Stockton, and Yuba City; and the Target cities of Albany, Antioch, Gilroy, Hayward, Lincoln, Manteca, Morgan Hill, Napa, and Riverbank.

C. Data

We relied primarily upon the Budget Summaries from the City of Petaluma's Fiscal Year Budgets for 2006 through 2010, with principal focus upon the General Fund Summaries for each year.

Additionally, we reviewed the FEIA's prepared for the City by Bay Area Economics for the Deer Creek Village and East Washington Place shopping centers, with particular

emphasis on the *Retail Sales Analysis* and *Fiscal Impact Analysis* sections of the FEIA reports.

As outlined above, we also relied upon historical data regarding *Taxable Retail Sales* compiled in the Survey. The Survey defines *Taxable Retail Sales* as those sales that include all retail transactions subject to California’s sales tax. For the purposes of this comparative analysis and review, we identified the most appropriate individual retail store category which best correlates with the items sold in a Lowe’s store (Building Materials) and Target store (General Merchandise stores). The Survey defines these as follows:

Building Materials stores – includes retailers offering lumber, plumbing goods, electrical goods, tools, hardware, lawn and garden supplies, and related home improvement supplies.

General Merchandise stores—includes larger scale retailers, offering a broad range of consumer goods, including apparel for all ages, furniture and home furnishings, electric appliances, jewelry, and personal care products.

For purposes of this analysis, we relied upon the aforementioned store categories to remain consistent with those utilized in the FEIA’s.

V. Results of Analysis

A. Changes in the City’s General Fund Fiscal Year Budgets

The City of Petaluma has continued to rely upon a “bare bones” budget as referenced in the City Manager’s Budget message for the past five years. The approach to the General Fund budget process was consistent from year to year. The budget is

formulated and based on the “Revenue Approach,” whereby an estimate of General Fund Revenues is first determined. Fixed Costs, based on existing staffing levels, including salaries, benefits, and intergovernmental charges are then determined. Therefore, the City’s budget is dependent upon the level of revenues generated each year. As a result in four of the past five years, the City’s revenues have dramatically declined.

CHART 1

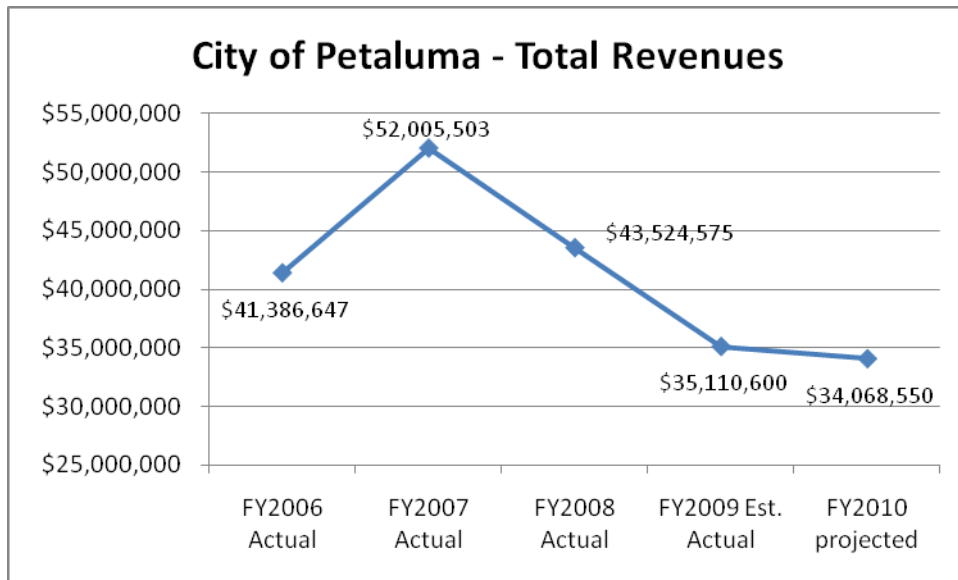


Chart 1 highlights the changes in *General Fund Total Revenues* from FY2006 through FY2010. The City’s General Fund revenues have dropped from a high of \$52million in FY2007 to a projected low of \$34million in FY2010 or a decline of 34.6%. As seen in the above Chart, revenues have declined continuously from FY2007 to FY2008 (-16.3%), from FY2008 to FY2009 (-19.3%), and again from FY2009 to FY2010 (-3.0%). These drops are the reflection of the declining national, state and local economies during this period.

With drastic reductions in the City’s revenues, General Fund Expenditures and Expenses have been negatively affected as well.

CHART 2

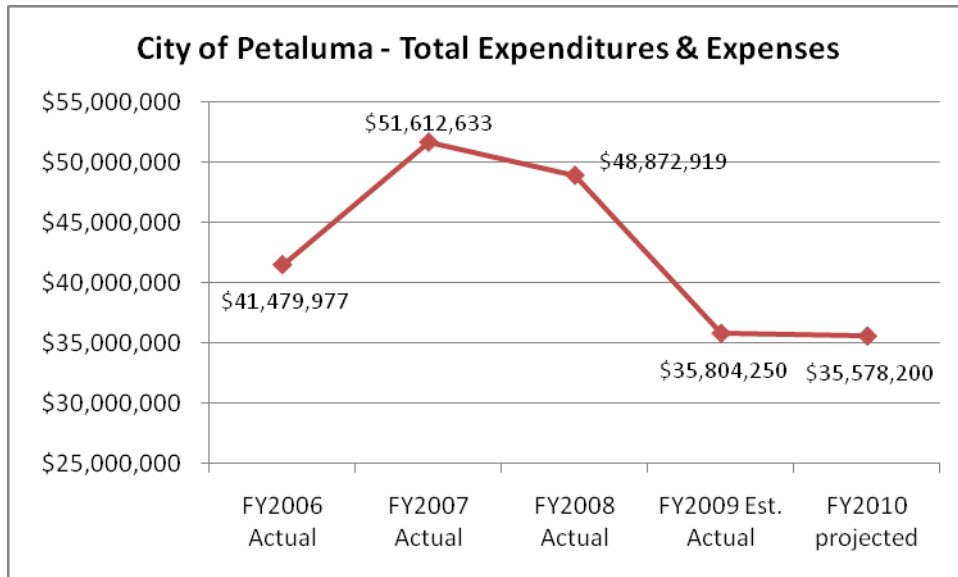


Chart 2 highlights the changes in the City’s General Fund Total Expenditures and Expenses. The City’s General Fund Total Expenditures and Expenses have declined from a high of \$51.6 million in FY2007 to a low of \$35.6 million in FY2010, or a drop of 31.2%. Total Expenditures have dropped continuously from FY2007 to FY2008 (-5.3%), from FY2008 to FY2009 (-26.7%), and again from FY2009 to FY2010 (-0.6%).

B. Changes in the City’s Sales Tax Revenues

The largest portion of the City’s General Fund Revenues comes from the sales tax collected each year. Over the past five years, Sales Taxes have made up 22.0% (FY2007) to nearly 30.0% (FY2009) of the overall revenues generated by the City. Therefore, **any**

fluctuations in Sales Tax receipts in a given year has an enormous impact upon the City’s General Fund and corresponding ability to deliver programs and services.

CHART 3

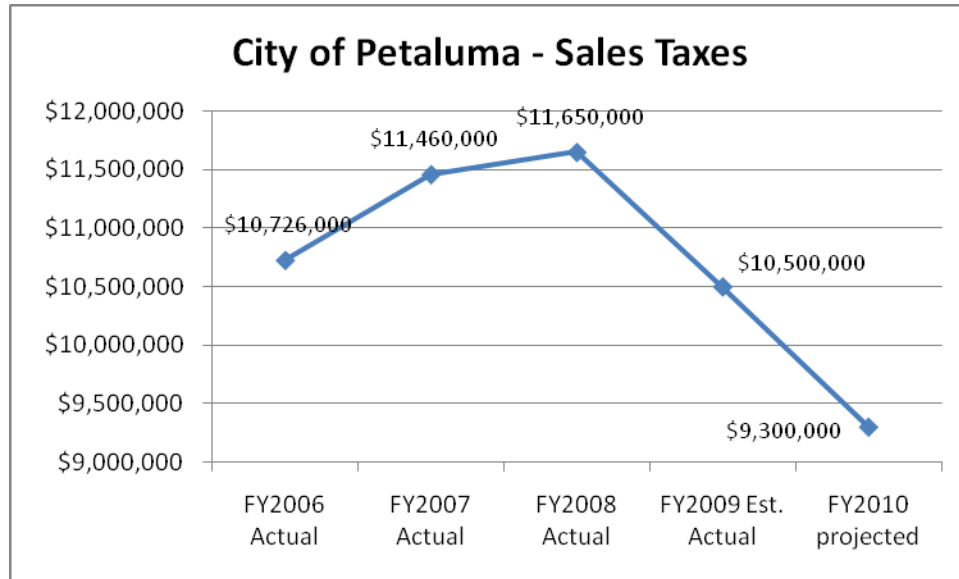


Chart 3 highlights the changes in the City’s Sales Taxes over the last five years. The City’s Sales Taxes have declined from a high of \$11.65 million in FY2008 to a projected low of \$9.3 million in FY2010, or a drop of 20.2% in the past two years. The City attributes the decline in Sales Taxes to a combination of depressed auto sales, prolonged economic recession, persistent housing mortgage crisis, and increases in the cost of petroleum products.⁵ In contrast, this compares with an anticipated modest increase in statewide Sales and Use Taxes of 16.8% between FY2008-09 and FY2010-11 across California⁶, as a result of a slowly recovering state economy (and after two years of declining statewide

⁵ City of Petaluma Fiscal Year 2010 Budget, pg. 5-13.

⁶ “California’s Fiscal Outlook: The 2010-11 Budget,” California Legislative Analyst’s Office, November 18, 2009, pgs. 19-22.

taxable retail sales). **Therefore, Petaluma appears to be in a much more dire declining sales tax situation than other parts of the State.**

C. Changes to the City's Expenditures—Programs and Services Reduction

The drop in City revenues has resulted in corresponding reductions in *General Fund Expenditures and Expenses* (as noted in Chart 2 above). It is the City's goal to balance the budget each year which is accomplished by adjusting expenditures to match the incoming revenues. However, when revenues diminish to unexpected levels experienced recently, the City has had to achieve a balance through the use of remaining reserves. An analysis of the current FY2010 budget actually begins with FY2008 and FY2009. The City Council approved a temporary spending plan in June 2008, upon learning FY2008 year-end imbalances would deplete reserves by \$1.85 million. By October 2008, when the FY2009 budget was adopted, reserves were found to have actually been depleted by \$5.5 million, due to under-budgeting expenditures during the year, revenue projections that failed to fully anticipate the economic downturn, and lower than projected transfers to the General Fund from Capital Improvement Projects for overhead charges. **The adopted FY2009 budget was \$7 million less than the prior year's, resulting in the loss of 37 positions in the City's staff.**⁷

Declining projections have continued for FY2010, with Sales Tax estimates expected to be almost \$1 million less than FY2009. Despite actions taken to reduce costs in FY2009, General Fund expenditures are still estimated to exceed available resources by nearly \$1.1 million by the end of FY2010. Reserves, which are nearly depleted, will again offset the deficit. In order to meet the needs of the FY2010 budget, additional cuts to essential City programs have been adopted, including the loss of additional positions

⁷ City of Petaluma Fiscal Year 2010 Budget, pg. I-2.

such as three unfilled vacancies in the police department and two unfilled vacancies in the fire department. In addition, shortfalls in revenues need to be offset with more cuts to salary and benefit costs. An amount equal to approximately five percent is needed, and has been reduced from salary and benefit accounts to balance the FY2010 budget.

CHART 4

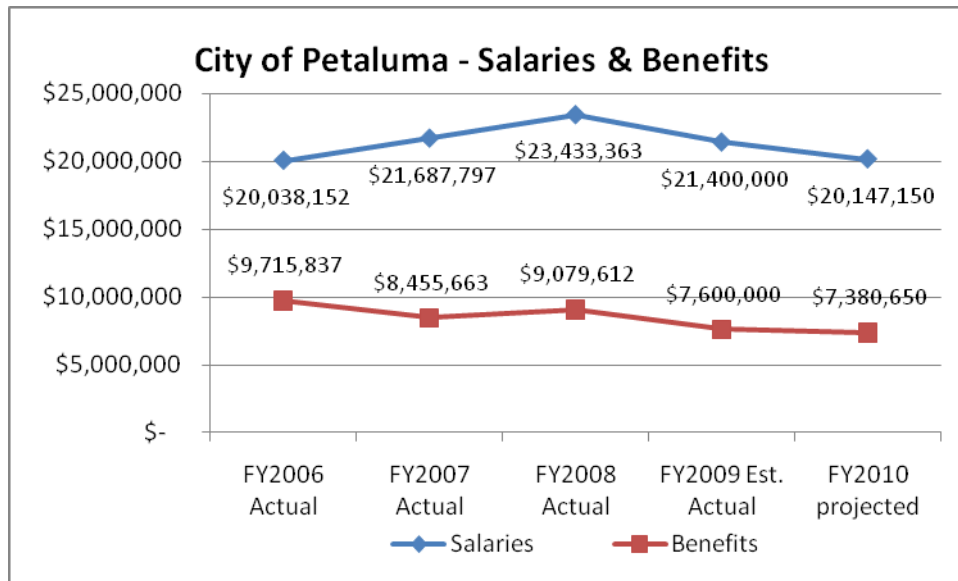


Chart 4 represents the changes in the City’s annual budget for salaries and benefits. FY2010 reflects the proposed 4% reduction in salary for all employees with an approximately 1% savings achieved from benefit reductions. *Salaries and Benefits* make up the largest portion of the *General Fund Expenditures*—81% in FY2009, and 77.4% in FY2010. Salaries have been reduced by over \$2 million from FY2008 to FY2009, and another decrease of \$1.3 million from FY2009 to FY2010. **Therefore, with declining revenues and the need for corresponding reductions in expenditures, Salaries and Benefits (staff positions) have borne the brunt of these devastating cuts.**

D. Potential Revenue Enhancement to the City with the Development of Deer Creek Village and East Washington Place Shopping Centers

At the request and requirement of the City, Bay Area Economics performed FEIA's for both Deer Creek Village and East Washington Place in January 2009. The results of both studies are significant, especially in light of the current fiscal condition of the City. The key findings are summarized as follows:⁸⁹

- The *Leakage Analysis* is similar in both studies and indicates that Petaluma is significantly under-retailed in many major retail categories, including Building Materials stores and General Merchandise stores among others.
- Deer Creek Village and East Washington Place have the potential to capture a sizable portion of these sales leakages, which are local resident expenditures going to and benefitting neighboring communities.
- Taking into account local tax and fee revenues generated by Deer Creek Village and city costs to provide services, the project will generate an estimated net fiscal surplus of approximately \$681,000 annually to the City's General Fund, mainly from the Sales Taxes generated.
- Taking into account local tax and fee revenues generated by East Washington Place and city costs to provide services, the project will generate an estimated net fiscal surplus of approximately \$1 million

⁸"*Fiscal and Economic Impact Analysis for Proposed Deer Creek Village Shopping Center in Petaluma, CA,*" prepared for the City of Petaluma by Bay Area Economics, January 2009.

⁹"*Fiscal and Economic Impact Analysis for Proposed East Washington Place Shopping Center in Petaluma, CA,*" prepared for the City of Petaluma by Bay Area Economics, January 2009.

annually to the City's General Fund, mainly from the Sales Taxes generated.

If the potential revenue enhancement generated by both projects under the FEIA's and BEA's analysis were totaled, they could possibly add approximately \$1.7 million in annual revenues to the City's General Fund. Had either or both developments been built over the past two years, City revenues would have been enhanced which could have mitigated or eliminated much of the reductions in City services and programs. A more detailed analysis of the potential for this revenue enhancement follows below.

E. Comparison and Validation of FEIAs' Results

In order to determine the validity of the FEIA's results regarding the *Fiscal Impact Analysis* and potential General Fund Revenue enhancements, we performed an alternative comparative analysis of the potential for added sales taxes with the development of the Deer Creek Village and East Washington Place Shopping Centers within the City limits. In our independent comparative model, we identified and quantified *Taxable Retail Sales* for specific California cities by analyzing detailed data provided by the California Board of Equalization in quarterly and annual reports and further compiled in the *California Retail Survey, 2009 Edition*, published by the Eureka Group. This comparative data provides a baseline of fiscal impacts upon similar communities around Northern California that can be appropriately applied to Petaluma. We focused solely on the potential *Taxable Retail Sales* added to the City with the opening of a **Lowe's** store at Deer Creek Village and a **Target** store at East Washington Place.

The results and key findings of our analysis are as follows:

- *Taxable Retail Sales* in the category of *Building Materials* stores increased by an average of 41.9% the year following the opening of a **Lowe's** store as compared to the year prior to the opening in eleven Northern California communities. These stores were opened from 2003 to 2007 (See Table 1 below).
- *Taxable Retail Sales* in the category of *General Merchandise* stores increased by an average of 58.9% the year following the opening of a **Target** store as compared to the year prior to the opening in 9 Northern California communities. These stores were opened from 2003 to 2007 (See Table 2 below).
- If the **Lowe's** store had been opened in Petaluma in the past two years or into the future, the City could generate an additional \$240,000 in sales tax per year. This figure is solely the result of the opening of the **Lowe's**. Sales tax revenues would be greater with the addition of other retailers within the development.
- If the **Target** store had been opened in Petaluma in the past two years or into the future, the City could generate an additional \$290,000 in sales tax per year. This figure is solely the result of the opening of the **Target**. Sales tax revenues would be greater with the addition of other retailers within the development.
- The impacts of the recession and declining economy are reflected in these numbers since we relied upon data up to and including 2008. Therefore,

these are conservative estimates of the potential fiscal impacts upon Petaluma.

- Our independent analysis further affirms and validates the FEIA conclusions that additional retail development in Petaluma would result in significant revenue enhancement to the City.
- In addition, Building Materials stores (**Lowe's**) and General Merchandise stores (**Target**) opened in Northern California communities from 2003-2007, were among the top 7 sales tax generators in each city the year following their opening and continuing in successive years. As a result, these types of stores not only add greatly to the retail mix of a community, but also provide a steady source of sales tax revenue.

If the potential revenue enhancement generated by both projects under our alternative Taxable Retail Sales analysis were totaled, they could possibly add approximately \$550,000 in annual revenues to the City's General Fund with just the openings of Lowe's and Target stores. **Had either or both stores been built over the past two years, City revenues would have been enhanced which could have mitigated or eliminated much of the reductions in City services and programs.**

TABLE 1
Taxable Retail Sales of Northern California Cities
With Lowe’s Stores Openings, 2003-2007

City	County	Current Population (1/1/2009)	Opening Date	Retail Sales Year Prior to Opening of Lowe’s (\$000)	Retail Sales Year After Opening of Lowe’s (\$000)	% Change From Year Prior to Year After
Antioch	Contra Costa	100,361	7/26/2005	105,087	123,619	17.6
Cotati	Sonoma	7,409	5/5/2006	78,678	131,900	67.6
Dublin	Alameda	47,922	12/15/2007	86,231	69,060	-19.9
Fremont	Alameda	213,512	1/18/2005	160,215	208,007	29.8
Gilroy	Santa Clara	51,508	5/2/2003	85,520	118,686	38.8
Jackson	Amador	4,319	5/14/2006	37,842	62,037	63.9
Lincoln	Placer	40,060	8/18/2007	136,743	201,140 est.	47.1
Lodi	San Joaquin	63,362	10/29/2004	43,081	92,242	114.1
Los Banos	Merced	36,198	11/4/2006	12,290	30,614	149.1
Stockton	San Joaquin	290,409	1/20/2006	538,219	306,327	-42.7
Yuba City	Sutter	63,647	1/7/2007	113,786	97,862	-14.0
Average Change						41.9

Source: California Board of Equalization in quarterly and annual reports and further compiled in the *California Retail Survey, 2009 Edition*, published by the Eureka Group. Taxable Retail Sales figures include only those from Building Materials stores.

Table 1 highlights the changes in Taxable Retail Sales in Building Materials stores in Northern California cities that have had Lowe’s store openings from 2003-2007. On average, each community experienced a significant **41.9% increase** in Taxable Retail Sales

in this retail segment the year after the opening of the Lowe's. The only cities that experienced declines in Taxable Retail Sales -- including Stockton, Yuba City, and Dublin -- had Lowe's stores opening in either late 2006 or the end of 2007, which was the beginning or in the midst of the economic recession. More importantly, each of these cities was also at the epicenter of the subprime mortgage lending crisis and has experienced the highest or nearly the highest rates of home foreclosures and home loan defaults in the nation.

TABLE 2
Table Retail Sales of Northern California Cities
With Target Store Openings, 2003-2007

City	County	Current Population (1/1/2009)	Opening Date	Retail Sales Year Prior to Opening of Target (\$000)	Retail Sales Year After Opening of Target (\$000)	% Change From Year Prior to Year After
Albany	Alameda	16,884	10/6/2004	86,594	141,043	62.9
Antioch	Contra Costa	100,957	10/8/2003	201,952	243,363	20.5
Gilroy	Santa Clara	51,508	10/8/2003	60,404	147,240	143.8
Hayward	Alameda	150,878	10/4/2006	239,640	301,442	25.8
Lincoln	Placer	43,020	10/4/2006	93,634	174,226	86.1
Manteca	San Joaquin	67,754	3/5/2003	107,580	126,615	17.7
Morgan Hill	Santa Clara	39,814	7/25/2007	53,813	61,932	15.1
Napa	Napa	77,831	10/6/2004	129,649	145,826	12.5
Riverbank	Stanislaus	21,805	10/5/2005	58,177	142,855	145.5
Average Change						58.9

Source: California Board of Equalization in quarterly and annual reports and further compiled in the *California Retail Survey, 2009 Edition*, published by the Eureka Group. Taxable Retail Sales figures include only those from General Merchandise stores.

Table 2 highlights the changes in Taxable Retail Sales in General Merchandise stores in Northern California cities that have had Target store openings from 2003-2007. On average, each community experienced a **58.9% increase** in Taxable Retail Sales in this retail segment the year after the opening of the Target.

The detailed calculations and model for this analysis are attached in Appendices B and C.

F. Petaluma's Fiscal Situation with and without Additional Retail Development

It is clearly evident from an analysis of the City's current fiscal situation that severely declining revenues over the past several years has created a downward spiraling effect upon essential city services and programs. City employees have been laid-off, positions eliminated, and vacancies unfilled. In the current fiscal year, remaining City employees are expected to take a 4% cut in pay with another 1% reduction to their benefits. Not only have significant reductions in City services and programs been mandated by the decreasing revenues, but City reserves are also being depleted with no future alternative but to eliminate services, programs, and people even further. Without alternative sources of revenues or revenue enhancements, this dire fiscal situation is expected to continue into the unforeseeable future with recovery for the state and local economy months, if not years away.

However, with the current development proposals of the Deer Creek Village and East Washington Place Shopping Centers under consideration, Petaluma's fiscal condition could be improved with an injection of much needed additional revenues through increased sales taxes. Under the FEIA's analysis, capturing the leakage of retail

dollars already spent by Petaluma residents (in other cities with a greater variety of retail choices), could result in nearly \$1.7 million in additional sales tax revenues.

Chart 5

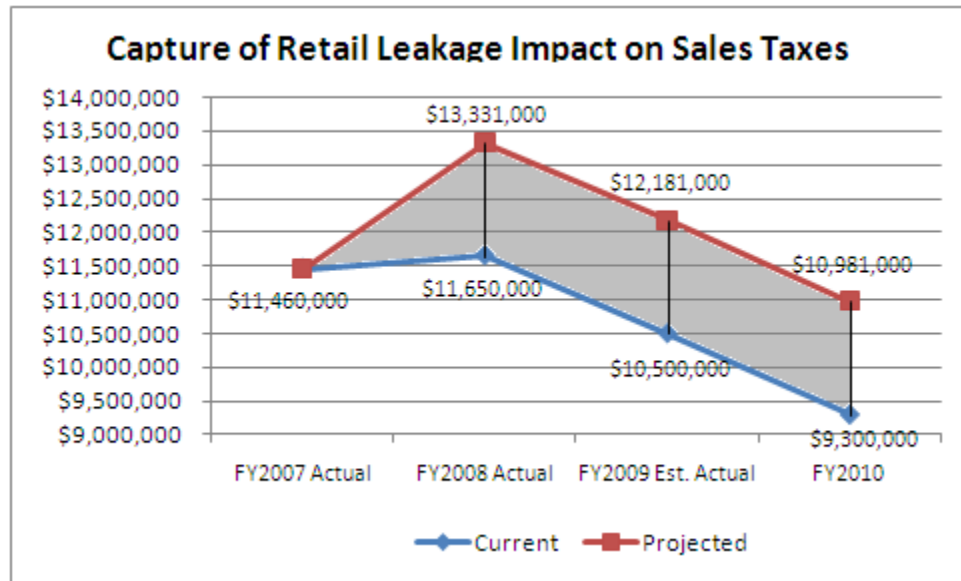


Chart 5 graphically represents the difference in potential versus actual Sales Taxes collected by the City of Petaluma in just the last three fiscal years. Had the Deer Creek Village and East Washington Place Shopping Centers been opened in any of the last three fiscal years, Sales Taxes in Petaluma would have remained stronger. Rather than a dramatic 20.2% reduction from FY2008 to FY2010, there would have been a slight 5.7% decline.

Moreover, our independent Taxable Retail Sales analysis which solely focuses upon the potential additional benefits of opening both a Lowe’s store and a Target store could also result-- at a minimum-- in over \$550,000 in new sales tax just from those two stores.

Chart 6

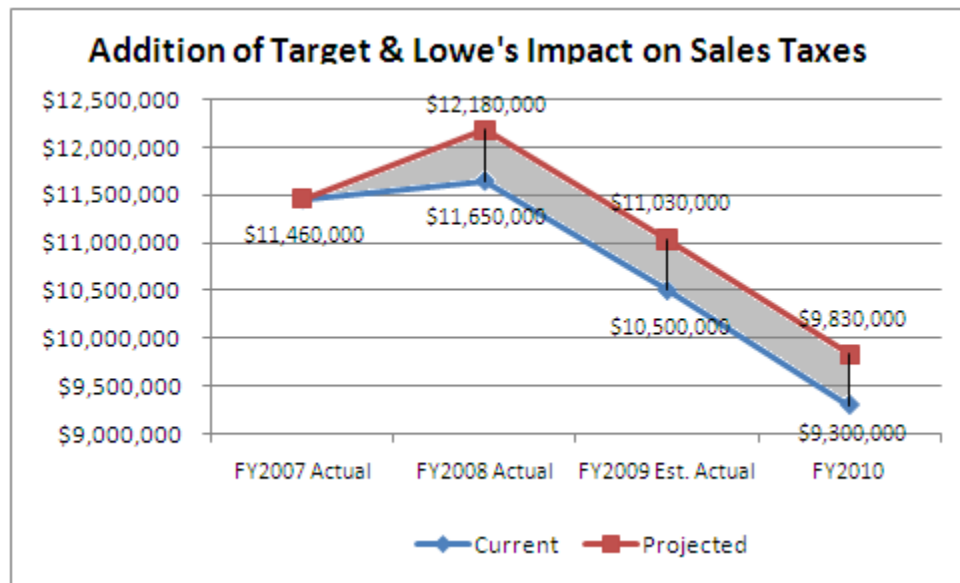


Chart 6 represents the alternative range of increased Sales Taxes to the City from the opening of a Lowe's or Target store during any of the last three fiscal years. **Simply by opening the Lowe's and Target stores, at the very least the City would be able to save three police officer positions and two firefighter positions slated to be eliminated or left vacant in the FY2010 budget.** With the greater revenue enhancement projected in the FEIA's of Deer Creek Village and East Washington Place, at best the City could have saved the previously eliminated 37 positions in Community Development, Parks and Recreation, and other important program areas with the additional \$550,000 to \$1.7 million in annual added sales tax revenues.

VI. Summary of Analysis

Based upon our analysis of the available data and information, we believe that the current fiscal crisis faced by the City of Petaluma will remain challenging for the foreseeable future. Revenues will remain stagnant or continue to decline resulting in further reductions

in City expenditures, programs, and personnel. Without dramatic changes to the City's revenue streams and/or resurgence in the local economy, the City will be faced with ongoing budgetary problems and further difficult decisions.

However, these fiscal difficulties could be remedied with the opening of the proposed Deer Creek Village and/or East Washington Place Shopping Centers. Painful fiscal, programmatic and personnel decisions by the Petaluma City Council could have been greatly lessened, delayed, or more likely, averted. Deer Creek Village and East Washington Place would inject increased sales tax revenues into the City of Petaluma by diversifying the retail base and available choices for consumers. These sales tax revenues would come mainly from retail expenditures already being made by Petaluma residents, but elsewhere in other cities. Most importantly, by providing greater retail choices for its residents, Petaluma will not only benefit from improved convenience and efficiency, but it will also benefit from greater sales tax revenues which will ensure the protection of essential City services and programs during a critical period of budgetary and economic uncertainty.

All in all, the results of this analysis clearly indicate that the City of Petaluma would be better off financially and commercially with greater retail availability.

Appendix A

Lon S. Hatamiya

Lon Hatamiya
Director

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Professional History

- Director, Navigant Consulting
- Director, LECG, LLC.
- Secretary, California Technology, Trade and Commerce Agency
- Administrator, Foreign Agricultural Service, United States Department of Agriculture
- Administrator, Agricultural Marketing Service, United States Department of Agriculture
- Founder and President, BHP Associates, Inc.
- Attorney, Orrick, Herrington & Sutcliffe
- Marketing Analyst, Sony Corporation
- Purchasing Manager, The Procter and Gamble Company

Education

- B.A., Economics, Harvard University
- M.B.A., Entrepreneurial Studies and International Business, UCLA Anderson Graduate School of Management
- J.D., UCLA School of Law

Professional Associations

- State Bar of California
- American Bar Association
- International Input-Output Association

Honors and Fellowships

- United States Department of Defense, Joint Civilian Orientation Conference, Class 64
- California Agricultural Leadership Program, Class XXII
- UCLA School of Public Policy, Senior Fellow

Lon S. Hatamiya is a Director with Navigant Consulting, Inc. in Sacramento, California. As an economist, Hatamiya specializes in banking and financial institutions, international, national and regional economic analysis, econometrics, intellectual property valuation, government and public policy, entertainment and sports, and litigation support. He assists businesses and public agencies analyze existing and proposed government policies, develop strategic policy alternatives and communicate the results to decision-makers. He has testified over a hundred times before the World Trade Organization, U.S. Congress, California State Legislature, and federal, state and local courts, boards, and commissions on a wide variety of issues. He is also an accomplished public speaker, having been invited to address hundreds of gatherings around the world.

In addition, he has extensive government management experience serving at both the state and federal levels. He served as Secretary of the California Technology, Trade and Commerce Agency, the state's primary promoter of economic development, job creation, and business retention efforts. In that capacity, he also served as Chairman of the California Infrastructure and Economic Development Bank, as well as Chairman of the California Travel and Tourism Commission and the California Defense Retention Council. He also served as Administrator of the Foreign Agricultural Service at the United States Department of Agriculture ("USDA"), where he oversaw global obligations concerning international trade agreements, negotiations, trade policy development, and promotion for all U.S. food and fiber products. Hatamiya also served as Administrator of the Agricultural Marketing Service at USDA, where he was principally responsible for over 50 federal programs dealing with the marketing, grading, and inspection of various agricultural products.

Secretary Hatamiya was also founder and President of BHP Associates, Inc., an international management consulting firm, practiced law with the international firm of Orrick, Herrington and Sutcliffe, and worked for both The Procter and Gamble Company in Cincinnati, Ohio, and The Sony Corporation in Tokyo, Japan.

As an academic, he previously served as Executive-in-Residence and Adjunct Professor at the UC Davis Graduate School of Management, where he taught a course on organizational change. He was also selected as a Senior Fellow at the UCLA School of Public Policy. He currently serves as a lecturer at the International Masters in Law Program at the UC Davis School of Law, and as a Senior Fellow at the University of Denver International Career Advancement Program. He has been a visiting lecturer at Harvard University, Stanford University, UCLA, USC, UC San Diego, Golden Gate University, San Diego State, San Francisco State, CSU Chico, CSU Sacramento, and Cal Poly Pomona.

He currently serves on the Board of the Directors for the Environmental Power Corporation, an alternative energy, renewable biogas company, where he is also the Chair of the Compensation Committee. In addition, he serves on the Advisory Boards of US Bank and the Central Valley Fund.

Professional Experience

Secretary Hatamiya has advised numerous banks and financial institutions on various economic and strategic initiatives. These have included economic forecasting, demographic and market analyses, and econometric impact studies. In addition, he has extensive experience in advising Fortune 100 companies, real estate development firms, trade associations, and local governments on their economic development and growth strategies. He has performed economic impact studies for retail, professional sports, agriculture, energy, and transportation industry clients, measuring and analyzing their respective contributions to the local and regional economy. He has also conducted substantial economic and statistical analysis of government budgets to determine their compliance with mandates and program effectiveness, as well as extensive experience with public finance.

Secretary Hatamiya has also assisted life sciences companies in the valuation of start-up firms and new technologies. He has also computed option values and 409A analyses for privately-held biotechnology, alternative energy, insurance, and medical device companies.

He is also well versed in litigation matters, including commercial damages, intellectual property, valuation, trade secrets, labor and employment, and sports, tourism, and entertainment. He has provided expert witness testimony at trial and deposition.

Publications, Reports and Studies

“Los beneficios del libre comercio (The Benefits of Free Trade),” with Harold Lantan. [El Diario De Hoy, El Periodico de El Salvador](#) 26 March 2008:23.

“Economic Outlook Report 2007 -- U.S., California, and Selected Counties: Fresno, Madera, Merced, Sacramento, San Joaquin, and Stanislaus,” with Tapan Munroe and Mark Westwind, December 2006.

“Deconstruction of Structures: An Overview of Economic Issues,” with Tapan Munroe and Mark Westwind. *International Journal of Environmental Technology and Management (IJETM)*, Vol. 6, No. 3/4, 2006.

“Evaluation of Competing Rate Projections in SMUD’s Proposed Annexation within Yolo County,” with William Hamm, April, 2006.

“Economic Outlook Report 2006 – U.S. California, and Selected Counties: Fresno, Madera, Merced, Sacramento, San Joaquin, and Stanislaus,” with Tapan Munroe, January 2006.

“Economic Outlook Report 2005 – U.S. California, and Selected Counties: Fresno, Madera, Merced, Sacramento, San Joaquin, and Stanislaus,” with Tapan Munroe, January 2005.

“The Shafter Advantage: The California Integrated Logistics Center,” with Tapan Munroe, November 2004.

“California Fast Facts 2003, 2002, 2001, 2000, and 1999: Statewide and Regional Tourism Facts and Figures,” 2003-1999.

“California Workforce Development: A Policy Framework for Economic Growth,” with Delaine Eastin, Grantland Johnson, and Thomas Nussbaum, 2000.

Expert Retentions

Mitchell Andreini and Robert M. Belles v. Sierra Pacific Power Company
United States District Court, District of Nevada, Reno, NV. April 2009.

The City of Philadelphia v. West Philadelphia Financial Services Institution, et al.
Pennsylvania Court of Common Pleas, Philadelphia County. January 2009.

The City of Seattle v. The Professional Basketball Club, LLC.
United States District Court, Western District of Washington, Seattle, WA. June 2008.

The City of Anaheim v. Angels Baseball LP.
Superior Court of the State of California, County of Orange. January 2006.

Taxable Retail Sales for Cities with Lowe's Stores Opened in Northern California, 2004-2007

Appendix B

Taxable Sales Data: http://boe.ca.gov/news/tsalescont.htm and <i>California Retail Survey, 2009 Edition, by the Eureka Group</i>									Year prior to opening of Target		
Population Data: http://www.dof.ca.gov/research/demographic/reports/estimates/e-1/2008-09									Year after opening of Target		
									% Change		
City	County	Current Population (1/1/2009)	Opening Date	2002* Retail Sales (\$000)	2003* Retail Sales (\$000)	2004* Retail Sales (\$000)	2005* Retail Sales (\$000)	2006* Retail Sales (\$000)	2007* Retail Sales (\$000)	2008* Retail Sales (\$000)	% Change from year prior to year after*
Antioch	Contra Costa	100,361	7/26/2005		94,252	105,087	132,698	123,619	95,416	95,155	17.6
Cotati#	Sonoma	7,409	5/5/2006		71,385	74,230	78,678	122,040	131,900	122,118 est.	67.6
Dublin	Alameda	47,922	12/15/2007		80,480	88,365	95,520	86,231	69,575	69,060	-19.9
Fremont	Alameda	213,512	1/18/2005		143,264	160,215	204,222	208,007	174,616	175,750	29.8
Gilroy	Santa Clara	51,508	2/7/2003	85,520	102,242	118,686	109,564	105,294	90,542	90,017	38.8
Jackson^	Amador	4,319	5/14/2006		31,963	36,113	37,842	62,434	62,037	62,448	63.9
Lincoln#	Placer	40,060	8/18/2007		61,386	74,046	93,634	136,743	174,226	201,140 est.	47.1
Lodi	San Joaquin	63,362	10/29/2004		43,081	57,130	92,242	83,070	68,954	68,550	114.1
Los Banos	Merced	36,198	11/4/2006		8,754	9,934	12,290	17,301	30,614	30,931	149.1
Stockton	San Joaquin	290,409	1/20/2006		381,828	525,053	538,219	499,491	306,327	304,647	-42.7
Yuba City	Sutter	63,647	1/7/2007		84,051	107,992	118,262	113,786	98,092	97,862	-14.0
Petaluma	Sonoma	57,739			55,855	59,108	61,075	56,379	59,550	59,135	
w/41.9% year after growth						83,874	86,665	80,002	84,501	83,913	
difference						24,766	25,590	23,623	24,951	24,778	
Sonoma County		486,630			540,393	614,786	645,396	659,948	611,581	609,858	
Additional sales tax with Lowes @ 41.9% growth~						\$ 241,468	\$ 249,503	\$ 230,324	\$ 243,272	\$ 241,586	
AVERAGE PERCENTAGE CHANGE											41.9%
Basic Assumptions:											
*These figures include only Taxable Retail Sales for Building Materials stores (unless exceptions below apply).											
#Includes all Taxable Retail Sales for the city since no sector breakdown provided by BOE.											
^Includes Taxable Retail sales for Building Materials stores for all of Amador County since BOE provides no city breakdown.											
-Sales Tax is .975% in the City of Petaluma											

Taxable Retail Sales of Target Stores Opened in Northern California, 2003-2007

Appendix C

Taxable Sales Data: http://boe.ca.gov/news/tsalescont.htm and <i>California Retail Survey, 2009 Edition, by the Eureka Group</i>									Year prior to opening of Target		
Population Data: http://www.dof.ca.gov/research/demographic/reports/estimates/e-1/2008-09									Year after opening of Target		
									% Change		
City	County	Current Population (1/1/2009)	Opening Date	2002* Retail Sales (\$000)	2003* Retail Sales (\$000)	2004* Retail Sales (\$000)	2005* Retail Sales (\$000)	2006* Retail Sales (\$000)	2007* Retail Sales (\$000)	2008* Retail Sales (\$000)	% Change from year prior to year after*
Albany#	Alameda	16,884	10/6/2004	85,609	86,594	104,471	141,043	154,314	159,051	170,340 est.	62.9
Antioch	Contra Costa	100,957	10/8/2003	201,952	213,758	243,363	254,672	258,433	244,883	244,212	20.5
Gilroy	Santa Clara	51,508	10/8/2003	60,404	116,860	147,240	165,756	180,781	179,814	178,771	143.8
Hayward	Alameda	150,878	10/4/2006		231,258	238,851	239,640	285,948	301,442	304,858	25.8
Lincoln#	Placer	43,020	10/4/2006		61,386	74,046	93,634	136,743	174,226	201,140 est.	86.1
Manteca	San Joaquin	67,754	3/5/2003	107,580	121,683	126,615	131,542	128,824	123,332	122,728	17.7
Morgan Hill	Santa Clara	39,814	7/25/2007		61,037	54,236	53,668	53,813	61,517	61,932	15.1
Napa	Napa	77,831	10/6/2004		129,649	136,156	145,826	149,072	152,439	152,674	12.5
Riverbank	Stanislaus	21,805	10/5/2005		52,169	58,177	74,844	142,855	171,483	192,776 est.	145.5
Petaluma	Sonoma	57,739				56,841	54,905	54,693	51,054	50,699	
w/58.9% growth year after opening						90,320	87,244	86,907	81,125	80,561	
Difference						33,479	33,327	32,214	30,071	29,862	
Sonoma County						702,329	718,477	734,051	735,953	733,879	
Additional sales tax with Target w/58.9% growth after one year-						\$ 326,420	\$ 324,938	\$ 314,087	\$ 293,192	\$ 291,154	
AVERAGE PERCENTAGE CHANGE											58.9%
Basic Assumptions:											
*These figures include only Taxable Retail Sales for General Merchandise stores similar to Target (unless exceptions below applies).											
#Includes all Taxable Retail Sales for the city since no sector breakdown provided by BOE for smaller cities.											
-Sales Tax is .975% for the City of Petaluma											