

October 26, 2017

Memo

To: City of Novato

From: Philip King, Ph.D.

Re: Proposed Novato Village Project

I have been asked to conduct an economic/fiscal analysis of the proposed Novato Village project for the City of Novato. This memo estimates the sales and property taxes generated from the project as well as the additional costs of City services for new residents. Additionally, it estimates the total economic impact of the project on the local economy. This memo will also analyze the impacts of the 14,000 square feet of retail proposed by this project on the City of Novato.

Briefly, here are my conclusions:

- When one factors in property, sales and other taxes that would be generated by this project, the projected taxes generated would be slightly higher than the costs to the City—the project pays for itself fiscally.
- The project generates over \$89 million in economic activity and 450 jobs.
- The project would help Novato plug some of its retail leakage, most likely with a few smaller retail stores such as a florist or home flooring store.
- The apartments are located within walking distance or easy biking distance from downtown. The projected additional 272 people will generate more economic activity for Novato's historic downtown.
- The site is currently slated for a lifestyle retail center. While Novato does have some leakage in these retail areas, downtown Novato or the Pacheco Plaza would be a better place for this type of retail.

Fiscal Impact of Apartment Complex

The proposed project includes 170 apartments, 77 one-bedroom, 84 2 BR, and 9 three-bedroom units; 34 units are affordable. Our economic/fiscal analysis for the apartment complex consists of two parts: (1) estimating the taxes generated by the new project (as well as some property tax from retail), (2) estimating the cost of City services.

Tax Impacts of Proposed Project

Table 1 below presents our estimate of the number of residents who will live at Novato Village. Ed McCoy of Fairfield properties has informed us that, based on similar apartment properties they have built/managed elsewhere, one should expect the average household size to be 1.6 per unit, which is the estimate we have used; this implies 272 new residents.

Table 1: Estimated Residents at Proposed Novato Village Project

Unit Size	Persons/Unit	Units	Totals
All	1.6	170	272

According to the City of Novato's most recently published Comprehensive Annual Financial Report (CAFR) close to 80% of the City's general Fund Revenues come from either sales taxes or property tax revenues.¹ Consequently, this analysis estimated the property and sales taxes generated by this project at full build out and sale. (The appendix to this analysis has these figures for the build out phase of the project.)

Our estimates of property taxes came directly from Fairfield Residential and are based on actual land costs and projected construction costs.² To estimate sales tax dollars, we used data from the U.S. Bureau of Labor Statistic's Consumer Expenditure survey³ to estimate the incomes of households in these apartments as well as spending on local retail, which generates sales taxes. Table 2 presents estimated spending by residents of the Novato Village project.

¹ See City of Novato, Comprehensive Annual Financial Report (CAFR) for the year ending June 2016.

² Should I mention that constructions costs and hence 2-taxes may go up due to the fires?

³ See <https://www.bls.gov/cex/>.

Table 2: Total Spending per Year by Novato Village Residents (2017 dollars)

Spending Type	At Sale
Housing/Rent	\$6,898,452
Grocery	\$916,536
Restaurant/Alcohol	\$1,305,831
Auto	\$1,617,631
Retail	\$3,185,037
Public trans	\$393,724
Total	\$14,317,212

As one can see in Table 2, at full development and sales, this project will generate \$14.3 million in spending per year. To estimate sales tax dollars one also needs to account for several other factors: (1) many of the categories above (e.g., rent, public transportation) are not subject to sales tax; (2) not all of the sales tax dollars generated by the Novato Village residents will be captured by the City of Novato. Overall, the proposed project will generate \$14.3 million in new sales revenues per year for the City of Novato.

Table 3 below estimates sales tax dollars generated by this additional spending in the City. We used the City’s share of the sales tax 1.25% and applied it to all relevant categories. For grocery spending, we assumed that 30% of sales will be subject to sales tax for an effective rate of 0.38%. Following the City of Novato’s 2013 Retail analysis, approximately 70% of Novato’s retail sales are “captured” by the City and 30% of sales “leak” to other communities.⁴ Consequently, some sales tax dollars generated by Novato residents will be captured outside of the City. Consequently, we assumed that only 80% of sales tax revenues will be captured by the City. Overall, the project will generate an additional \$55,860 in additional sales taxes.

Table 3: Estimated City Sales Taxes Generated by Proposed Project⁵

Spending Type	City Tax	At Sale
Housing/Rent	0.00%	\$0
Grocery	0.38%	\$3,437
Restaurant/Alcohol	1.25%	\$16,323
Auto	1.25%	\$20,220
Retail	1.25%	\$39,813
Public trans	0.00%	\$0
Total Retail Spending		\$79,800
Novato Retail Spending (80%)		\$63,840

⁴ See City of Novato, 2013 Retail Analysis.

⁵ This analysis assumes that 30% of groceries are subject to sales tax, which implies an effective sales tax rate of 0.38%.

In addition to property taxes and sales taxes generated by residents in the Novato Village project; approximately 22% of the City’s general fund revenues come from other sources, such as Transient Occupancy Taxes, business license taxes, etc. Since increasing the City of Novato’s population also increases these taxes, we pro-rated other taxes by population, which implies an additional \$153 per person generated.⁶

Table 4: Estimated City Taxes Generated by Novato Village Residents per Person⁷

Tax Type	At Sale
Sales/Person	\$235
Property/Person	\$192
Other Taxes/Grants	\$153
Total	\$579

Table 4 above combines the information/analysis from Tables 1-3 in order to estimate the total taxes generated per person for the proposed project: \$579.

Taxes generated by the Retail Component of the Project

In addition to taxes generated by spending per person, the proposed Novato Village Project will create 14,000 square feet of new retail space. This retail is in an attractive location easy to get to and close to downtown. It’s also adjacent to the City’s Trader Joe’s, which generates a great deal of traffic and as does Starbucks.

We used the same assumptions about sales per square feet as employed in the City’s 2013 analysis, but updated these figures for inflation in order to estimate the sales per square feet. The actual sales will depend on the type of retail but give that it will be a new building with higher rents, we believe that the blended average of \$405 per square foot that is employed here is reasonable.

Table 5: Estimated City Taxes Generated by Proposed Project per Person

Proposed Retail		14,000
Estimated Sales per sq. ft.	\$	405.00
Total Sales per Year	\$	5,670,000.00
Estimated Sales Tax @ 1.25%	\$	70,875.0000
Estimated Sales Tax per Resident	\$	260.57

⁶ City of Novato, Comprehensive Annual Financial Report, 2016.

⁷ *Ibid.*

If we combine estimates from Table 4 with those from Table 5, we get Table 6, which also includes taxes generated by the retail but also divided by the number of residents--\$839 per person.

Table 6: Estimated City Taxes Generated by Proposed Project per Person

Tax Type	At Sale
Sales/Person	\$235
Property/Person	\$192
Other Taxes/Grants	\$153
Sales Taxes Generated by New Retail	\$261
Total	\$839

Cost of City Services per Resident

Table 7 below summarizes information from the City’s Comprehensive Annual Financial Report (CAFR). Since the project does include fees to cover capital costs per resident, the table below looks at the City’s general fund expenditures per capita. Dividing total general fund expenditures (\$42.7 million) by population (55,005) yields a per capital cost for City services of \$776. Since the project will generate \$839 in revenues, it’s reasonable to say that this project is fiscally neutral.

Table 7: Estimated Cost of City Services per Person

Total City of Novato Expenses on Services (2016)	\$	42,686,544.00
Novato Population 2016		55,005
Cost of Services Per Capita	\$	776.05

Economic Impact of Apartment Complex

The proposed Novato Village Project will also generate jobs and economic activity while the project is being built. Table 8 below examines the direct and indirect spending created by the project (i.e., in addition to employing people directly, the project also helps local businesses adding jobs/economic activity), particularly in the year 2020 when construction is at its peak.

The total construction costs of the project are \$61.2 million. **Over the three-year life of the project, it will generate 450 jobs and a total economic activity of \$89.2 million.**

Table 8: Estimated Economic Impact of the Project

Year	Direct Spending	Employment	Labor Income	Value Added	Output
2019	\$2,000,000	14.9	\$1,100,000	\$1,400,000	\$3,000,000
2020	\$44,800,000	329.9	\$23,500,000	\$31,900,000	\$65,300,000
2021	\$14,300,000	105.5	\$7,500,000	\$10,200,000	\$20,900,000
Totals	\$61,200,000	450.3	\$32,100,000	\$43,500,000	\$89,200,000

Retail

Analysis of Retail Leakage

Table 9: Retail Surplus and Leakage for the City of Novato⁸

By Establishments	Consumer Demand	Market Supply	Opportunity Gap/Surplus	2017 Sales/Sq. Ft.	Potential Retail Space
Grocery Stores	\$108,219,515	\$65,907,330	(\$42,312,185)	\$441	96,011
Other General Merchandise Stor	\$109,024,386	\$85,619,237	(\$23,405,149)	\$339	69,042
Clothing Stores	\$47,802,993	\$34,438,119	(\$13,364,874)	\$418	31,966
Furniture Stores	\$10,969,706	\$1,820,400	(\$9,149,306)	\$0	
Other Motor Vehicle Dealers	\$11,128,922	\$4,193,001	(\$6,935,921)	\$441	15,738
Special Food Services	\$11,141,217	\$5,404,936	(\$5,736,281)	\$0	
Vending Machine Operators (Noi	\$5,934,321	\$275,204	(\$5,659,117)	\$0	
Gasoline Stations	\$86,622,510	\$81,372,612	(\$5,249,898)	\$0	
Direct Selling Establishments	\$6,118,530	\$1,620,324	(\$4,498,206)	\$0	
Book/Periodical/Music Stores	\$4,238,274	\$623,033	(\$3,615,241)	\$244	14,812
Department Stores	\$28,635,587	\$26,191,763	(\$2,443,824)	\$339	7,209
Shoe Stores	\$6,193,270	\$3,883,295	(\$2,309,975)	\$418	5,525
Health/Personal Care Stores	\$54,952,661	\$52,686,254	(\$2,266,407)	\$339	6,686
Specialty Food Stores	\$6,274,987	\$4,478,573	(\$1,796,414)	\$441	4,076
Lawn/Garden Equipment/Suppli	\$6,267,228	\$5,198,165	(\$1,069,063)	\$396	2,703
Jewelry/Luggage/Leather Goods	\$6,198,588	\$5,588,813	(\$609,775)	\$339	1,799
Bar/Drinking Places (Alcoholic Be	\$2,931,115	\$2,372,197	(\$558,918)	\$520	1,075
Office Supplies/Stationary/Gift	\$6,623,366	\$6,116,334	(\$507,032)	\$339	1,496
Florists/Misc. Store Retailers	\$1,362,787	\$909,561	(\$453,226)	\$339	1,337
Other Misc. Store Retailers	\$14,175,438	\$14,287,445	\$112,007	\$339	
Limited-Service Eating Places	\$51,089,016	\$52,399,046	\$1,310,030	\$520	
Beer/Wine/Liquor Stores	\$8,617,767	\$12,176,152	\$3,558,385	\$441	
Used Merchandise Stores	\$3,215,663	\$7,278,760	\$4,063,097	\$339	
Sporting Goods/Hobby/Musical I	\$12,298,819	\$18,006,407	\$5,707,588	\$339	
Full-Service Restaurants	\$54,851,295	\$61,469,936	\$6,618,641	\$520	
Automotive Dealers	\$197,585,219	\$204,544,249	\$6,959,030	\$0	
Home Furnishing Stores	\$9,368,485	\$17,068,006	\$7,699,521	\$339	
Building Material/Supplies Deale	\$52,741,146	\$61,264,018	\$8,522,872	\$339	
Electronics/Appliance	\$20,966,756	\$30,605,513	\$9,638,757	\$0	
Electronic Shopping/Mail Order I	\$121,715,584	\$136,773,154	\$15,057,570	\$0	
Automotive Parts/Accessories/Ti	\$16,510,888	\$32,096,411	\$15,585,523	\$339	

⁸ Insight Market Analytics, Analysis of Novato City Retail, Sept. 11, 2017.

The City sponsored an analysis of its retail in 2013⁹ which indicated that while Novato's retail was relatively healthy, there were some gaps/leakages. Since sales tax dollars generate revenue for cities in California, this leakage has fiscal consequences for the City.

Since the analysis completed for the City of Novato is several years, old, Insight Market Analytics conducted an analysis in September 2017¹⁰. Table 9 above summarizes their results. This analysis added the potential retail area that would be necessary to stem this leakage given industry standard measures of sales per square feet.

The analysis indicates that the City of Novato still has retail leakage in some retail areas. For example, the leakage in grocery stores indicates that, even though they City has a wide variety of grocery stores, the City could support two more 50,000 sq. ft. stores. Further, the leakage analysis indicates some additional need for general merchandise stores (69,042 sq. ft.) and department stores (7,209 sq. ft.). The analysis also indicates some leakage in clothing and shoe stores as well as several other categories.

Existing Shopping Opportunities in Novato

The City of Novato has a wide variety of retail options including a well preserved downtown, several healthy neighborhood and strip malls, and a large regional center (Vintage Oaks) with a number of big box stores (e.g., Costco, Target) as well as a number of smaller service oriented stores.

Novato's retail supply has remained fairly stable since it's 2013 report, which identified 2.2 million sq. ft. of retail space with a low vacancy rate. Novato has 14 neighborhood shopping centers as well as one regional shopping center (Vintage Oaks) as well as a substantial downtown.

The neighborhood shopping centers identified in Novato are listed below; the square footage of retail of each center are listed in parentheses; the anchor stores for each store are listed below each center.

- Novato Fair Shopping Center (133,362)
 - Safeway
 - Rite-Aid
- Nave Shopping Center (121,692)
 - Grocery Outlet
 - Post Office
- Downtown Novato Shopping Center (105,781)
 - Lucky Supermarket
 - CVS

⁹ See City of Novato, 2013 Retail Analysis.

¹⁰ Insight Market Analytics, Analysis of Novato City Retail, Sept. 11, 2017.

- Hamilton Marketplace (89,525)
 - Safeway
 - Pet Food Express
- The Square Shopping Center (78,272)
 - CVS
 - Oasis Natural Foods
- Pacheco Plaza
 - Nugget Foods
 - Woodlands Per Food
- San Marin Plaza (70,257)
 - Apple Market
 - Tuesday Morning
- Rowland Plaza (35,377)
 - Cinemark Theatres
- Ignacio Center
 - Dollar Tree
 - Hardware
- 6100 Redwood
 - Chiropractor
- Tresch Triangle Shopping Center
 - Vitamins
 - Dollar Store
- 7049 Redwood Shopping Center (21,296)
 - Marin Tile Supply
- Del Prado Square (20,433)
 - Farmers Insurance
- The Village at Novato (20,043)
 - Trader Joe's
 - Starbucks

The main change since this report was written is that a Nugget Supermarket now anchors Pacheco Plaza, and the center is now home to a fairly upscale mix of retail tenants.

In addition, the Vintage Oaks Shopping Center serves as a regional center anchored by Target, Costco, Macy's furniture; their website¹¹ lists a large number of "Health and Beauty" stores as well as a number of dining options.

Downtown Novato

Novato has a sizable downtown with a wide variety of stores, mostly small and locally owned. The vacancy rate is low and the overall appearance/upkeep of the stores is good. This analysis did not examine the viability/robustness of downtown

¹¹ See <http://www.shopvintageoaks.com/shopsandrestaurants.html>.

businesses, however it should be noted that nationally and within California, many downtowns are struggling to maintain viability.¹² Many other downtowns have seen store vacancies increase while local businesses lose out to retailers in other shopping areas.

Fortunately, the City of Novato has managed to maintain a vital downtown and has established a Whole Foods Supermarket in the downtown area, which helps anchor downtown Novato. The City of Novato should encourage retail in the downtown area.

Analysis of retail

The above description/analysis of Novato's retail indicates that Novato's retail is quite healthy—vacancies are low, the City has a wide variety of retail, and it has a healthy downtown. However, the City also has a few significant gaps and challenges in terms of retail. In particular:

- The retail leakage analysis indicates a significant need for more grocery retail space. The analysis indicates a leakage equivalent to 96,000 square feet. Since the average size of a new larger supermarket is 50-60,000 sq. ft., this indicates the City could potentially add up to two new supermarkets. Since supermarkets traditionally anchor neighborhood shopping centers, it would probably make sense for the City to either consider a new neighborhood center, or encourage refurbishing an older one to bring in a new supermarket. Note that the Pacheco Plaza has acquired Nugget Market in the past ten years as a tenant that helps keep the center vital. Note also that the recent trend in supermarkets has been towards markets with smaller footprints and the merger of Whole Foods and Amazon may increase this trend.
- The City of Novato has some opportunities in the General Merchandise space. There is an opportunity for a couple of small or one medium-sized stores to fill up some of the leakage, which is just under 70,000 square feet.
- One notable absence in Novato's mix of retail is a Home Depot, Lowe's Orchard Supply Hardware, or other big box home supply store. The City may want to encourage local businesses in this space. However, it's likely that the absence of such a store contributes to some of the leakage in a number of related categories (e.g., lawn/garden equipment).
- The City of Novato may want to consider certain policies to further encourage downtown businesses.

¹² See, for example., The Social and Fiscal Consequences of Urban Decline Evidence from Large American Cities, 1980–2010, Urban Affairs Review, 2016, pp. 1-39., Revisiting Main Street: Balancing Chain and Local Retail in a Historic City's Downtown, Litvin and Rosenthal, Journal of Travel Research, 2017, pp. 821-831., Retail Planning and Urban Resilience, Cities, 2014, Special Edition.

Impact of Proposed Novato Village Project on Existing Retail

The proposed project is close to downtown Novato. In a recent site visit, I walked from the proposed site to downtown in 10-15 minutes. The distance can also be covered easily by bicycle (5 minutes) or by car. I understand the City plans to make improvements that will encourage both pedestrian traffic and bicycling. The demographic for the proposed apartment buildings—younger households with some young families—is precisely the type of demographic that many of the small businesses downtown should appeal to. I spoke with Andy Podshadley of Novato’s downtown business association and he informed me that, in his opinion, the proposed project would help downtown businesses.

Comments on a Proposed “Lifestyle Center”

I’ve also been asked to comment on the current proposal for the Novato Village project, which includes plans for a retail “Lifestyle Center” at that location. This center would contain a number of upscale shops filling some retail gaps for the City of Novato. Although the retail leakage demand indicates some need for some of these types of stores, the most reasonable location for such retail would either be in downtown Novato or possibly the Pacheco center, which already has several stores which could be classified as “lifestyle’ (the center’s website lists a large number of stores under “Health and Beauty”).

The development of lifestyle retail in downtown Novato may require refurbishing older buildings and would almost certainly involve recruiting national retailers (e.g., Athleta, Banana Republic) to downtown, which may meet with a mixed response from downtown retailers. Cities that have successfully integrated national retailers with local businesses have created thriving downtowns.¹³ In northern California, a number of small to medium sized cities have welcomed national chains to their downtown; examples include Palo Alto, Davis, and Walnut Creek. It should also be noted that increasing Novato’s population will also make the City more attractive to national retailers. The City’s population is just shy of 60,000 people, which is a critical mass for some national retailers.

The proposed site is too small and not well situated for a lifestyle center. The proposed 14,0000 square feet of new retail can be used to plug important gaps in the City’s composition of retail. For example, the location would be good for a florist or a specialty home supply store.

¹³ See, for example, Revisiting Main Street: Balancing Chain and Local Retail in a Historic City’s Downtown, Litvin and Rosenthal, *Journal of Travel Research*, 2017, pp. 821-831., *Retail Planning and Urban Resilience*, Cities, 2014, Special Edition.

Conclusion

The proposed apartment complex and retail will provide the City of Novato and Marin County with much needed new housing as well as new retail opportunities. The project will generate sufficient tax revenue to pay for itself which is challenging in California. The influx of younger households should also help continue to keep downtown Novato vital and active.

The proposed Novato Village Project will also generate jobs and economic activity while the project is being built. The total construction costs of the project are \$61.2 million. **Over the three-year life of the project, it will generate 450 jobs and a total economic activity of \$89.2 million.**