

Economic Analysis of a  
Proposed Hanford Station Planned Commercial  
Development Project in  
Hanford, California

Prepared for Jim Watt  
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Signature

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Date

## EXECUTIVE SUMMARY

- Three economics Professors reviewed the Environmental Impact Report prepared for the Hanford Station Wal-Mart project and conducted an independent study of the grocery and retail market in Hanford. We relied on official government data wherever possible. We also carefully examined the Market Impact Analysis prepared by the Natelson Company, a consulting firm, and appended to the EIR.
- Our analysis of the grocery market indicates that the eight grocery stores (and multiple convenience stores) in Hanford are currently serving the shopping needs of Hanford residents.
- Natelson assumes, unrealistically, that after the Supercenter is built, people in Hanford will make *all* of their general retail purchases locally, though this assumption is contradicted by economic theory and empirical reality. We make a more reasonable assumption that the amount of local shopping will increase from 76% to 85%.
- For several reasons, stated in our report, we conclude that the new grocery sales generated by the Wal-Mart Supercenter will likely displace at least two anchor grocery stores creating potential urban decay in Hanford.
- We relied on Natelson's data regarding retail demand, but corrected several *serious* deficiencies and oversights. In particular, they fail to account for the new Home Depot in their analysis, or the build-out of the Target shopping center and their own Supercenter. They also fail to account for current vacancies in Hanford.
- The EIR omits from its analysis of grocery store impacts, the addition of a grocery section in the Lemoore Supercenter project currently under review only about 9 miles away. This omission creates a defective cumulative impact analysis in that the cumulative effects of these two Supercenters will be disastrous to the Hanford grocery store retail landscape, thus exacerbating decay.
- This project will create substantial excess retail space which likely will close down and become decayed or even blighted. CEQA requires that potential "physical deterioration" or urban decay – and not just "blight" – be accounted for and mitigated in an EIR.
- The Natelson report contains several other inconsistencies and omissions (e.g., failure to analyze commissary sales) which appear to have been designed to strengthen the case for a Wal-Mart Supercenter. Although paid for by Wal-Mart, the Environmental Impact Report and economic analysis was prepared for the City of Hanford and must be objective. The biased EIR fails in its legal obligation to serve as a full disclosure information document.

## INTRODUCTION

We have been retained by Save Mart Supermarkets to review and comment the Environmental Impact Report (“EIR”) prepared for the 25.5 acre Hanford Station Planned Commercial Project that include approval of a 205,800 square foot Wal-Mart Supercenter near the 12<sup>th</sup> Avenue/Lacey Blvd. Intersection.

According to the State of California’s Resource Agency:

- “The basic goal of the California Environmental Quality Act (CEQA) ([Pub. Res. Code §21000 et seq.](#)) is to develop and maintain a high-quality environment now and in the future, while the specific goals of CEQA are for California's public agencies to:
  - 1) identify the significant environmental effects of their actions; and, either:
  - 2) avoid those significant environmental effects, where feasible; or
  - 3) mitigate those significant environmental effects, where feasible.”

It is our professional opinion that there will be significant negative environmental effects to the City of Hanford stemming from the approval of this project. In this report, we have applied the same methodology used in the EIR for the City of Hanford, but corrected two significant errors. Our report demonstrates that the creation of the Supercenter will generate over capacity in both grocery and GAFO retail space. Consequently, the proposed project will likely close other local businesses, lending to physical deterioration and physical decay conditions, adversely affecting public safety and orderly development of the city. This physical deterioration, sometimes referred to as “urban decay”, can impair the physical and social environment, create conditions that foster and exacerbate crime and poverty, and create an environment, which is not conducive to economic development.

### **Evidence Upon Which This Report is Based.**

Dr. King visited the proposed Hanford Station site on March 5, 2004. The visit included the following:

- An examination of the proposed site for the Hanford Station project;
- An examination of retail space near the proposed center;
- An examination of the downtown Hanford area;
- An examination of competing supermarkets as well as other related retail stores in the City of Hanford including interviews with a number of local managers;
- An examination of other retail stores such as the Home Depot, the Hanford mall, and the new Target-anchored shopping center currently under construction.

Dr. King took several photographs of the proposed site and of the shopping areas near the proposed site.

In addition, we examined the following materials:

- The Final EIR
- The “Market Impact Analysis for Hanford, CA Retail Project” prepared by the Natelson Company on Nov. 11, 2003.
- Site Plans for the proposed new Hanford Station site and the center where the Target is being built.
- Various other data from the U.S. Census, the California Board of Equalization, the City of Hanford, data and analysis of Hanford from Claritas, and other public documents.
- Other reports where relevant.

### **Project Description**

The proposed Hanford Center would create 242,400 square feet of retail space, 205,800 square feet of this development would be used for a new Wal-Mart Supercenter which includes 60,000 square feet of space devoted to grocery sales.<sup>1</sup> A typical Wal-Mart Supercenter includes the following items:

- General merchandise (including apparel, toys, gifts, consumer electronics, appliances and household items)
- Groceries
- Pharmacy goods
- Vision care
- Photo center and developing film
- Banking services
- Tires and lube; auto supplies
- Outdoor sales
- Garden tools, nursery supplies and plants; garden center.

The site plan also specifies approximately 35,000 square feet of retail/food service space including 600 sq. ft. for a gas center. This project also includes the abandonment of 125,000 square foot Wal-Mart discount store which anchors the Centennial Plaza in Hanford.

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<sup>1</sup> The report states that the amount of square footage devoted to groceries in the new Supercenter will be 60,000 square feet, though other reports (e.g., Retail Forward’s Special Report on Wal-Mart) state that a typical center has 70,000 or more square feet of grocery space. The average Hanford supermarket only contains about 35,000 square feet of retail area.

## IMPACTS TO EXISTING RETAILERS AND POTENTIAL URBAN DECAY

### Effect of a Wal-Mart on Grocery Retailers in Hanford

The table below contains relevant data on the City of Hanford, obtained from the US Census Bureau's 2000 Census.

**Table 1: Demographics for the City of Hanford, CA<sup>2</sup>**

Demographic Item	Census Estimate
Population	41,686
Number of Households	13,931
Number of Families	10,383
Percent of Families below Poverty Line	14.2%
Median Family Income	\$41,395
Hanford med. income/CA med. Income	87%

Hanford is a small city with just over 41,000 people, 10,383 families and 13,931 households. Hanford is slightly poorer than the rest of California, with a median income of \$41,395, 87% of the average for California. Its poverty rate, at 14.2%, is in line with the average for the State of California.

### The Grocery Market in Hanford

We visited all of the major Supermarkets in Hanford, estimated the total square footage and sales and interviewed many of the store managers to assess sales as well. Most were cooperative.

**Table 2: Supermarkets in Hanford with Estimated 2004 Sales**

Store	Gross Square ft. (thousands)	Revenue per sq. ft./yr.	Est sales/wk (thousands)	Est sales/yr. (thousands)
Cost Less	35	\$ 409	\$ 275	\$ 14,300
FoodsCo	55	\$ 355	\$ 375	\$ 19,500
R & N	44	\$ 502	\$ 425	\$ 22,100
Save Mart	42	\$ 669	\$ 540	\$ 28,080
Monte Mart	58	\$ 359	\$ 400	\$ 20,800
Simply Foods	23	\$ 226	\$ 100	\$ 5,200
Smart & Final	15	\$ 607	\$ 175	\$ 9,100
Grocery Outlet	20	\$ 234	\$ 90	\$ 4,680
<b>Total Supermarket</b>	<b>292</b>	<b>\$ 424</b>	<b>\$ 2,380</b>	<b>\$ 123,760</b>
Other Food Sales	30		\$ 300	\$ 15,600
<b>Total</b>	<b>322</b>	<b>\$</b>	<b>\$ 2,680</b>	<b>\$ 139,360</b>
Commissary	35		\$ 350	\$ 18,200
Super Wal-Mart Grocery	60	\$ 594	\$ 685	\$ 35,640

Table 2 summarizes our findings. Hanford has eight significant supermarkets with a total square footage of 292,000 square feet and sales of \$123.7 million per year. In addition,

<sup>2</sup> U.S. Census 2000, U.S. Census Bureau

Hanford has a number of smaller food stores. We estimate these generate an additional \$15 million in food sales which brings our total to \$139 million per year. We are quite confident in this estimate for several reasons:

- Our own assessment was quite similar to that of store managers.
- The average sales per square foot (\$424) for all Hanford supermarkets is in line with the national average.<sup>3</sup>
- According to the State Board of Equalization, taxable sales in food stores were \$33.8 million in 2002. Taxable sales typically run about 22-23% of grocery sales at these stores, which corresponds to \$147 million (23%) to \$153 million (22%) in total sales. Our estimate of \$139,600 implies that taxable sales are 24% of all grocery sales.
- Our assessment indicates that the demand for food is in equilibrium with supply, which is what one would expect.

Finally, the authors interviewed several managers who indicated that the Commissary at the Navy base in Lemoore also generates a substantial amount of sales. A typical commissary generates \$20 million in sales per year. We estimate the Commissary in Lemoore generates \$18 million, though not all of this comes from Hanford. The EIR inexplicably omits the Commissary from its analysis, thus creating a skewed baseline.

The Market Impact Analysis for Hanford prepared by the Natelson Company indicates a demand of \$137 million in 2002. If we update this demand using the 2.8% yearly increase in population that the Natelson Company uses, we estimate a total demand of \$145 million in 2004 and \$153 in 2005. As one can see in Table 2, this demand is being met currently. **The evidence and data upon which the EIR is based indicates that the grocery market in Hanford is currently in equilibrium and that the creation of a large Supercenter will alter this equilibrium in the grocery market.**

Our analysis indicates that, except for the purchases at specialty stores such as Costco, Trader Joe's and the commissary, there is little leakage in the grocery market in Hanford. Our analysis is also consistent with what grocery store managers told us—that Hanford residents shop for groceries locally. Given that there are no better grocery shopping activities within thirty miles of Hanford (except for the specialty stores mentioned above), and that the vast majority of grocery sales nationwide are local, the Natelson report's conclusion that \$27 million of current grocery sales are leaked is not supported by the data. Indeed, the Natelson report discusses, "individual's propensity to shop for food goods as close as possible to their place of residence" (p. 16) and they decide to **exclude** food sales in LeMoore because "the grocery component draws the vast majority of its support from the immediate vicinity..." (p. 7, footnote 4). In short, their analysis seems inconsistent and more designed to advocate for the Hanford Station project than to be objective and "provide more meaningful public disclosure."

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<sup>3</sup> Data from From *The Progressive Grocer* as cited in Supercenters and the Transformation of the Bay Area Grocery Industry, Bay Area Economic Forum, January 2004.

**Table 3: Grocery Demand in Hanford 2002-2006<sup>4</sup>**

Year	2002	2003	2004	2005	2006
Grocery Demand (\$000)	\$ 137,134	\$ 140,974	\$ 144,921	\$ 148,979	\$ 153,150

### **Impact of opening a Wal-Mart Supercenter**

Table 2 also includes our estimate of grocery sales at the new Wal-Mart Supercenter. We assumed that sales per square foot would be \$594, which is the national average for grocery sales at Wal-Mart.<sup>5</sup> Most experts in the industry believe that grocery sales at Super-Centers are higher on a square foot basis than at traditional Wal-Marts, so we believe our estimate is conservative.<sup>6</sup>

We estimate that the new Wal-Mart Supercenter would generate at least \$35.6 million in grocery sales per year, and quite possibly a substantially higher figure. This corresponds to the combined sales of several grocery stores in the area.<sup>7</sup> We believe that the opening of the Supercenter will lead to the closing of at least two supermarkets in Hanford. These stores seem most vulnerable: FoodsCo, Simply Foods, and Cost Less. All of these stores are anchor tenants and we believe that the closing of the anchor tenant will place severe pressure on the adjacent smaller tenants—urban decay will occur subsequently.

### **Retail Sales in Hanford**

The Natelson Company also conducted an analysis of the demand for retail in Hanford. In particular, the company estimated the difference between actual sales and potential sales. Their analysis relies on one critical yet fatally flawed assumption: They assume that after the Wal-Mart Supercenter (and Target) are built, that consumers in Hanford will make 100% of their purchases in Hanford, even though they currently consume only 76% of all GAFO and hardware retail purchases in Hanford (Natelson, p. 18, Table III-7). This assumption is critical to their analysis and has no basis in economic theory or empirical reality. After the new Wal-Mart and the Target are built, a large number of items will still not be available at retail stores in Hanford. In particular, a number of specialty items will not be available and consumers will have to shop outside of Hanford, or by mail-order or Internet (currently 1.5% of retail sales nationwide and growing rapidly). Indeed, since a Wal-Mart already exists in Hanford, and Target sells many of the same products as Wal-Mart, the net increase in variety to customers in Hanford will be relatively small, despite a large increase in retail space.

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<sup>4</sup> From Natelson report.

<sup>5</sup> From The Progressive Grocer as cited in “Supercenters and the Transformation of the Bay Area Grocery Industry,” Bay Area Economic Forum, January 2004. Available at:

<sup>6</sup> For example see Retail Forward, “Wal-Mart Food: Big and Getting Bigger,” September 2003.

<sup>7</sup> Our analysis is also consistent with the industry rule of thumb, that a Wal-Mart Supercenter displaces two supermarkets.

In other words, we are assuming that 85% of all GAFO and hardware sales from the primary and secondary Hanford trade area are spent in Hanford—not the 100% assumed by Natelson. Given the existence of other shopping alternatives in outlying towns and cities (e.g., Kmart in Lemoore and Visalia and the commissary and PX in Lemoore) as well as many other choices many choices in Visalia and Fresno, a 15% leakage rate seems conservative.

Table 4 below summarizes the analysis that Natelson presents along with our own analysis. The first four columns are taken directly from their Table III-7 (p. 18) of the report. The final two columns include our own estimate of the likely increase in demand created by the build-out of the Wal-Mart Supercenter, the new Target and adjacent shops and the opening of the Home depot in late 2002.

**Table 4: Potential Increase in Sales in Hanford**

Retail Category	2002 Demand (\$thousands)	2002 Sales (\$thousands)	Percent Demand/Potential Sales	Est. increase with New Retail	Est. increase in Sales
Apparel	\$ 29,125	\$ 19,526	67.0%	10%	\$ 2,913
General Merchandise	\$ 196,539	\$ 163,519	83.2%	8%	\$ 15,723
Furniture/Appliances	\$ 29,276	\$ 14,078	48.1%	8%	\$ 2,342
Specialty	\$ 146,298	\$ 119,065	81.4%	5%	\$ 7,315
GAFO subtotal	\$ 401,238	\$ 316,188	78.8%	7%	\$ 28,293
Building/Hardware	\$ 91,051	\$ 57,380	63.0%	20%	\$ 18,210
<b>Total</b>	<b>492,289</b>	<b>373,568</b>	<b>76%</b>	<b>9%</b>	<b>\$ 46,503</b>

Our own analysis indicates that the build-out of these two new centers will indeed increase the capture rate from 76% of the retail items (GAFO and Hardware) to 85%. This 9% increase is substantial, but significantly less than the (unrealistic) 100% assumed. Our estimate of the potential sales in the area is correspondingly lower than Natelson’s. For example, while Natelson (assuming that residents in both the primary and secondary trade area will spend *all* of their GAFO and hardware retail dollars in Hanford) estimates the increase in GAFO sales to be \$85 million in 2002, we estimate the increase will be about \$28 million. For building materials and hardware, we estimate an increase in \$18 million compared to their estimate of \$33.6 million.<sup>8</sup>

### Potential Available Retail Space in Hanford

Natelson uses its estimates of excess demand for retail in Hanford to generate “Net Supportable Retail Space” in Hanford. **Their analysis includes the addition of a new Target and the Wal-Mart Supercenter. However, it does not include a number of other existing or planned retail space including its own closed Wal-Mart, the Wal-Mart garden center and adjacent shops or the build-out of the Target shopping center or the closed Sears downtown.** Any adequate analysis of potential retail space in

<sup>8</sup> We believe that the new Home Depot, which the Natelson report ignores, will account for the large (20%) increase in hardware sales in Hanford. Wal-Mart and Target will likely generate few new net sales, though some substitution (away from Home Depot and Orchard) is likely.

Hanford should honestly disclose the true retail space available or soon to be available in Hanford. Furthermore, their analysis depends critically on taxable sales data from the four consecutive quarters (one year) ending in the third quarter of 2002 (Natelson, p. 18, Table III-7, Note 1). Without this type of objective analysis, the estimates are inaccurate. In particular, the retail space in Table 5 needs to be incorporated in Natelson's analysis. Overall, we estimate that 442 thousand square feet of space will be available by 2005. If one adds in the downtown Sears, which has been closed for some time and is contributing to potential deterioration downtown, then the figure increases to 508 thousand square ft.

**Table 5: Available Retail Space in Hanford with Estimated dates<sup>9</sup>**

<b>Store/Location</b>	<b>Est. Retail Space (thousands square feet)</b>	<b>Est. Date Available</b>
Build out of Target Mall	231.1	2005
Build out of Wal Mart		
Supercenter	18.7	2005
Closed Wal-Mart	125	2005
Vacant Space at Hanford Mall	48	Immediately
Other vacancies	20	Immediately
<b>Total</b>	<b>442.8</b>	<b>Various</b>
Downtown Sears	65	Immediately
<b>Total including Sears</b>	<b>507.8</b>	<b>Various</b>

Natelson next used their estimated excess demand for retail in Hanford and used a \$300 dollar per square ft./year to determine the amount of additional retail space that could be supported. Natelson also increased the demand per year by the rate of population growth. We also use their \$300/sq. ft. estimate, even though it is rather low for most GAFO sales, and especially low for Wal-Mart.<sup>10</sup> Our best estimate of Wal-Mart sales per square ft., from a Supercenter is \$467 per square ft.<sup>11</sup> Despite this discrepancy, we have used the Natelson assumption for all non-grocery retail sales, including Wal-Mart, though it should be noted that this assumption will likely under-estimate the true retail capacity in Hanford. We also use Natelson's assumption that demand will increase with population.

Table 6 presents our estimate of net supportable retail space in Hanford from 2002-2007. As discussed above, our methodology is the same as Natelson, however our analysis baseline differs on two counts: (1) we use a much more realistic capture rate of 85%, not

<sup>9</sup> Estimates for Target and Wal-Mart centers taken from the site analyses submitted to the City of Hanford. Estimates of existing Wal-Mart from DEIR. Estimates of Hanford Mall, Monte Market and FoodsCo taken from site visits and interviews. We assume that 10% of the 483,214 sq. ft. of retail space in the Hanford mall is currently vacant. Interviews with management indicate the actual percentage is higher.

<sup>10</sup> The average sales per square foot in 2000 was \$355 according to the International Council of Shopping Centers. See Douglas Casey, 2001 U.S. Retail Sales, Mall Sales, and Department Store Sales Review, April 2002, p. 12, Table 8.

<sup>11</sup> See "Wal-Mart Food: Big and Getting Bigger", published by Retail Forward, September 2003

100%, (2) we have accounted for the other retail space not mentioned in the Natelson report (see table 5 above). **Our analysis indicates that the growth in demand is not sufficient for all of the planned new construction. The development of the Hanford Station would create an excess supply of retail space.** This excess is roughly the equivalent of two medium sized shopping center or the entire downtown and a center. **Following Natelson’s analysis, we conclude that the projected demand would not be sufficient to meet existing square footage until 2012.**

**Table 6: Estimated Net Supportable Retail Space in Hanford 2002-2007 (\*000 sq. ft)**

Year	Cumulative Demand for new Retail Space	New Retail Space or Space not in Study	Est. Net Supportable Retail Space	Est. Net Supportable Retail Space Including Sears
2002	155.0	133	22.01	(42.99)
2003	192.69	133	59.69	(5.31)
2004	231.42	133	98.42	33.42
2005	271.23	507.8	(236.57)	(301.57)
2006	312.16	507.8	(195.64)	(260.64)
2007	354.24	507.8	(153.56)	(218.56)

### Urban Decay

For all of the reasons stated above, **we believe there is a serious and significant possibility that the commercial space created by this proposed plan would create physical deterioration in the immediate area surrounding the site as well as lead to a less healthy business climate in the rest of the City. This effect is often referred to as Urban Decay.**<sup>12</sup>

Decay in urban areas can include several possible adverse impacts on the quality of life in the local community. This includes visible symptoms of physical deterioration, capital stock and buildings in impaired condition, and involves aspects of “broken window” theory—that run-down, abandoned buildings signal lack of public policy concern and invite vandalism, loitering, graffiti, high crime rates, and arson for profit. This impact cannot be adequately evaluated by only looking for “blight” as defined by California Redevelopment Law. Such sites may also pose significant policing problems and fire protection issues. They could become sites for dangerous rodent infestation and avoidable public health issues. The outward manifestations and visual evidence of urban decay include, but are not limited to, such markers as:

- Vacant or abandoned storefronts;

<sup>12</sup> The EIR, in assessing physical impacts from over-storing Hanford, adopts the limited and constrictive Redevelopment Law definition of “Blight” as its basis for analysis. This label is too constrictive for a CEQA which should analyze whether potential physical deterioration – not blight – may occur as a result of the project.

- Plywood boarded doors and windows;
- Parked trucks and long term unauthorized use of property and parking lot;
- Gang graffiti and offensive words painted on the buildings;
- Dumping of refuse on site;
- Overturned dumpsters;
- Broken parking barriers;
- Broken glass, litter of liquor or beer bottles;
- Dead trees and shrubbery together with weeds;
- Unsightly and permanent ‘for lease’ signs;
- Homeless encampments on the property or doorways; and
- Lack of building maintenance, paint peeling, or property encased in an unsightly chain-link fence.

Another sign of urban decay is “brownfields”—abandoned, urban industrial sites that have become little more than neighborhood eyesores and that are typically accompanied by pollution. In cities throughout the country, dark factories tower over lots littered with garbage and scrap, neglected by their owner until the Environmental Protection Agency (EPA) takes notice. Through a unique urban renewal program, the EPA is targeting 50 brownfields it wants to clean up. It plans to provide the seed money, the expertise, and a legal green-light to cities looking to restore life to these dying urban areas. The EPA’s website provides insight and definitions/guidelines to urban decay and brownfield conditions.

### **Existing Decay in the City of Hanford**

A number of shopping centers as well as the downtown area are already experiencing some decay conditions. We believe that the addition of even more retail space to an area that is already heavily retailed will accelerate this effect and could potentially create much worse conditions.

In particular, while the center of the downtown area of Hanford shows a significant degree of vitality, the segments in the downtown area surrounding the center are already showing signs of urban decay. A number of stores have closed and are boarded up (see appendix) while others (e.g., Harold’s, California Club, the pawn shop, and several furniture stores) are marginal and may close after the Hanford Station and/or the Target Center opens.

Most notably, the old Sears has been closed and boarded up for several years and there is no sign that a new tenants will be found. This fact is omitted from the EIR’s analysis. The authors also observed some marginal stores such as pawn shops and thrift shops in the downtown area. While we think the current downtown is reasonably healthy, the introduction of close to 600 thousand square feet of new retail space is likely to have a serious negative impact on the downtown area. Many of the stores are likely to move out or face competition from the retailers at these new shopping centers.

A number of other shopping centers within a five to ten minute drive of the proposed site are currently relatively healthy, but we believe that the probable closing of two anchor

grocery stores as well as the potential for other store closings once Wal-Mart and Target centers open is serious. In particular, **we believe that two of the following shopping centers will lose an anchor grocery store and suffer potential decay** (rank in order of likelihood):

1. The Centennial Plaza, where the FoodsCo and current Wal-Mart exist.<sup>13</sup>
  - a. The existing Wal-Mart space will be vacated and it will be hard to find a tenant for 125,000 square feet, especially since (as noted above) Hanford will face an excess supply of retail space.
  - b. The FoodsCo will face severe pressure once the old Wal-Mart closes and the new Supercenter opens since i) there will be less traffic in the Centennial Plaza, and while Centennial Plaza currently contains a Wal-Mart discount store and a supermarket under separate ownership, the Hanford Station project will effectively relocate the Wal-Mart discount store while bringing in a new 60,000 square foot supermarket, to join the relocated store, ii) FoodsCo will face direct competition from the Hanford Station Wal-Mart Supercenter.
  - c. The Dollar or Less store and other stores in the shopping center will also face increasing pressure. One of Wal-Mart's new initiatives, "Hey Buck" is designed to compete directly with dollar stores.
2. The shopping center containing the Monte Mart. This store is close to the proposed site and would compete directly with Wal-Mart customers. The Staples in the same center would also face significant pressure from Wal-Mart since they compete for many of the same products. Reduced traffic at the Monte Mart would hurt Staples as well.
3. The shopping center containing Simply Foods is already filled with marginal tenants and is run down.
4. The shopping center containing the Cost Less supermarket is based on a low price format and many customers may shift to Wal-Mart grocery shopping.

As noted elsewhere, once an anchor tenant goes dark, smaller tenants within the same center are significantly affected by the resulting loss of "pass by" traffic from the vacant anchors. This effect exacerbates the onset of urban decay. Moreover, even where a vacated grocery or department store anchor is replaced, it is often done so with a non-traditional use such as an athletic club, hardware stores, or furniture stores do not supply adequate pass-by traffic to keep the smaller tenants viable.

Finally, we believe that the new Wal-Mart Supercenter would likely also lead to the closing of one or two gas stations in town. In addition to potential decay, one must also consider the environmental damage from large gasoline tanks which are not maintained, as well as the potential for other toxic waste. To our knowledge, such an analysis has not been completed.

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<sup>13</sup> Natelson argues that the Shopping center can exist w/o the Wal-Mart. While this may be true, the loss of another anchor store (FoodsCo or Dollar or Less) would likely cause physical deterioration in the center.

The full build-out of the Wal-Mart will also drive business away from downtown and from the shopping centers discussed above creating decay. We believe that the downtown area is particularly at risk since once a downtown becomes decayed it is more difficult for it to recover.

This pattern has been observed in many other cities. Numerous studies of the impacts of retail superstore development have been conducted. The Shils Report (Edward B. Shils, *Measuring the Economic and Sociological Impact of the Mega-Retail Discount Chains on Small Enterprise in Urban, Suburban and Rural Communities*, The Wharton School, University of Pennsylvania, 1997) cites predatory pricing and **overall economic decline among the possible impacts**. Kenneth E. Stone studied superstore development in a large sample of Iowa cities and found that the location of a superstore can have delayed impacts on the viability of commerce in the surrounding area (a loss of 7,326 businesses in small Iowa towns between 1983 and 1993).

Two studies of Supercenters in California conducted by Ph.D. economists also concluded that Supercenters are, at best, a mixed blessing. One study, conducted for the Orange County Business Council by professors at UC Irvine and UCLA,<sup>14</sup> concluded that:

- The economic loss due to lower wages and benefits paid by Wal-Mart would create a negative economic impact on southern California equal to \$2.8 billion per year.
- “The fiscal impacts of a facility are often seen as clear-cut, but they are not, particularly when a big box retailer expands into food sales. This threatens to lower the taxable sales per square feet for a land use that is already riddled with inefficiencies and great risks should market conditions become unfavorable” (p.93).

Another similar study of San Diego County<sup>15</sup> also came up with similar conclusions, including the following:

- “Wages and benefits can be expected to decline in San Diego County by \$105 million to \$221 million annually” (p. i).
- “Lost pension and retirement benefits will impact the region negatively by an additional \$80-170 million per year” (p. i).
- Taking into account multiplier effects, this loss could amount to \$440 million a year (p. i).
- “Fiscal benefits, in the form of sales and property taxes, are frequently less than originally expected and are not likely to cover the costs of traffic, police, fire protection, among others. **Ultimately the net cost of these public services for Supercenters could exceed \$700,000 per year**” (p. ii).

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<sup>14</sup> “The Impact of Big Box Grocers on Southern California: Jobs, Wages and Municipal Finance,” by Marlon Boarnet and Randall Crane, prepared for the Orange County Business Council, September 1999.

<sup>15</sup> “The Potential Economic and Fiscal Impact of Supercenters in San Diego,” by Rea and Parker Research, prepared for the San Diego Taxpayers Association.

The report also concludes that a number of other negative results may result from poor land use planning and the closing down of other businesses; we will discuss these issues later in this report.

Applying the methodology used in similar studies of the effect of Wal-Mart Supercenters on losses in wages and benefits in San Diego and Southern California, which we believe is comparable, **we estimate that the City of Hanford could lose up to \$500,000 in wages and benefits**, with a corresponding (negative) effect on tax revenues and increased demand for social services that taxpayers would be expected to pay for.

### **Cumulative Economic Impacts**

The Authors are of the opinion that the EIR does not adequately evaluate potentially significant cumulative impacts in terms of store closures and physical decay.

As Section 4.16 of the EIR explains, CEQA Guidelines section 15130 requires that an EIR evaluate cumulative impacts from a project. An EIR must include “reasonably foreseeable probable future projects in its analysis” which, according to the Guideline, should be set forth in either “a list of past, present, and probable future projects producing related cumulative impacts, including, if necessary, those projects outside the control of the agency” or “a summary of projections contained in an adopted general plan or related planning document...”

Section 4.16 – the EIR’s analysis of cumulative impacts – contains no such baseline for analysis. On the other hand, Section 3.6 provides a table identifying “other relevant projects in the area.” This list identifies six projects – only one of which is a commercial in nature (the Target Center). The other five projects include three residential subdivisions, an office complex, and a high school. The 216,244 square foot Lemoore Wal-Mart Supercenter proposed to be located only about 9 miles from this project site and currently under environmental review by the City of Lemoore, is all but ignored in the text of the EIR. The EIR states that the “grocery component” of the Lemoore Supercenter was not accounted for in the EIR’s analysis because it draws shoppers from the immediate vicinity and because the date of development of that component of the project is unknown (footnote 2 at page 4.9-10). This conclusion is flawed for two reasons. First, the initial study prepared by the City of Lemoore for the Lemoore Wal-Mart project clearly identifies the project as the development of a Supercenter. Although the date of development of the “grocery component” is unknown, the entire Supercenter is reasonably foreseeable and there is no basis to exclude this project from the EIR’s cumulative impacts analysis. Second, there is no data or evidence to justify the assumption that the “discount store” component of the Lemoore Supercenter will have a regional draw but the “grocery component” will not. To the contrary, as with the to the Lemoore Commissary, Supercenters typically draw shoppers from farther markets than a typical grocery store (the EIRs flawed premise essentially concludes that a shopper may drive 15 miles to the Lemoore Supercenter to buy garden supplies, but will not purchase groceries at the Supercenter because she is too far from home).

Based upon available evidence, this very similar project combined with the Hanford Station project will have a cumulatively significant effect on existing grocery and general retail operations in the vicinity which has not been evaluated in this EIR. While the effect of adding one Supercenter to a community can be significant in and of itself, developing two within ten miles of one another (for a total of 422,044 square feet of Supercenter) in a County that has a population of only 93.1 persons per square mile (only 43% of California's average -- 217.2)<sup>16</sup> significantly increases the impacts discussed throughout this report. This effect occurs because as a single retailer's grasp on a retail market gains momentum, it draws the remaining life from competing retailers whose share of the market is insufficient to compete. These retailers are forced to close their doors and the cycle continues. The ultimate effect is the onset of urban decay, and potentially blighting conditions. As an example of this effect, one need only look to Oklahoma City where since 1997 ten Supercenters have been added to the to the greater metropolitan area, in turn closing and vacating 31 existing supermarkets in the area in that time.<sup>17</sup>

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<sup>16</sup> U.S. Census 2000, U.S. Census Bureau

<sup>17</sup> Dr. David Rogers, DSR Marketing Systems, Inc., "Wal-Mart's Impacts on the American Supermarket Industry," February 10, 2004.

## CONCLUSION

We have used the same type of economic analysis as that provided by the Natelson Company (and upon which the EIR is based), but our conclusion is quite different. In particular, Natelson's analysis is flawed in several key respects:

- It claims, unrealistically, that people in Hanford shop elsewhere for groceries, when all the data we collected indicate that the current market is in balance. We confirmed and double-checked our own estimate using multiple sources. In particular, official State tax data supports our analysis that the Hanford grocery market is not underserved.
- It assumes that after a Supercenter is built, consumers in Hanford will increase their local consumption of GAFO and hardware sales from the current 75% to 100%. This assumption is unrealistic. We use a more reasonable assumption, that these GAFO and hardware sales will increase from 75% to 85%.
- It ignores the already planned retail space in the new Target shopping center as well as the proposed new retail space which would accompany the new Supercenter.
- It ignores the retail space that would be created by the closing of the old Wal-Mart.
- It ignores currently available space, in particular the Sears and other vacant stores downtown as well as vacancies at the Hanford mall and other shopping centers in town.

### **Other inconsistencies in the report**

There are numerous other inconsistencies in the report which we have not altered in our analysis, but we believe these, if fully analyzed, would increase our estimate of excess retail space in Hanford:

- Their use of the square footage involved with the garden center appears to be inconsistent, in a way which favors Wal-Mart.
- They analyze grocery sales in Lemoore in a way which is inconsistent with their own analysis of Hanford. They also assume that the Wal-Mart in Lemoore will not be a Supercenter, though the plan currently proposed allows the development of a Supercenter.
- The report does not discuss a proposed 58,000 square ft. shopping center in Coalinga which would affect GAFO sales in the region.
- The report fails to take into account Commissary sales.
- The report does not take into account two existing Kmart's in the secondary Hanford trade area, the military PX and many small stores in the secondary market.

- The report assumes that Wal-Mart sales of \$300 square ft., even though it is well known that Wal-Mart has significantly higher sales per square ft. Indeed Supercenters are estimated to have \$467 sq. ft. Accounting for this discrepancy alone would add about 50,000 sq. ft. of excess retail space to our analysis.
- The Natelson report assumes a \$300 sq. ft. GAFO sales average, though the nationwide average is \$350 sq. ft. This assumption overestimates the need for retail space and hence favors Wal-Mart's position.

Our own analysis indicates that even without the construction of the Supercenter, Hanford will face an excess supply of retail space for a few years. The creation of the Supercenter would create an excess of retail space far greater than the existing downtown retailing and equivalent to three medium sized shopping centers. We conclude that decay in the downtown will be seriously exacerbated and that at least two mid-sized shopping centers (Centennial and one other) face decay.

The downtown area in Hanford and at least one medium sized shopping center (with Simply Foods) already are experience pre-decay conditions which could quickly turn to full scale decay representing a significant negative environmental impact.

See Appendix 1: Photos

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## Qualifications

**Dr. Philip King** is Associate Professor and Chair of the Department of Economics at San Francisco State University. He received his Ph.D. in Economics from Cornell and has published numerous articles in scholarly journals and edits a book on Economic Policy for McGraw-Hill. His major fields are Applied Microeconomics and Economic Development. He has conducted over a dozen studies of local economic conditions as a consultant to the State of California and for various city governments in the State including two major Economic Impact Reports covering the State of California and six local economic impact reports for City governments in California. He prepared a report on *San Francisco's Economic Growth 1995-2000: The Fiscal Health of the City and Implications for the Future,* for the San Francisco Committee on Jobs Summer 2001, available at <http://online.sfsu.edu/~pgking/newpage22.htm>. This report was widely cited in the San Francisco press including front-page articles by the *Chronicle* and *Examiner*. He consulted for the City Council of Davis California on the impact of planned conference site development.

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**Dr. Vencill** is Professor of Economics and Director of the Criminal Justice Program at San Francisco State University, where he has been employed since 1974. His Ph.D. is from Stanford University. He has served as Chairman of the Economics Department, Associate Director of the Employment Studies Program, on the Academic Senate, and in numerous campus-wide capacities, such as Search and Affirmative Action Committees. His major fields include macroeconomics, microeconomics, corporate finance, money and banking, capital markets, labor economics, economics of crime and criminal justice, statistics, and econometrics. He has received numerous awards for excellence in teaching and university service. He has published in professional journals, books, and government reports related to social and economic policy. His primary areas of research deal with applications of economics to a wide variety of social problems, including crime, labor market analysis, and business development. He has consulted for state governments and a variety of federal agencies.

Since 1976, Dr. Vencill has done consulting and expert witness work, appearing in State and Federal courts in several states. He has testified on economic damages, markets, antitrust matters, restraint of trade, and business loss. He conducted a study of downtown deterioration and blight potential, and the impact of the sex industry in the City of Alameda, California. He conducted a study of the impact of "big box" development in Auburn California. He consulted for the City Council of Davis California on the impact of planned conference site development.