
V. GENERAL IMPACT CATEGORIES

A. SUMMARY OF SIGNIFICANT UNAVOIDABLE IMPACTS

Section 15126.2(b) of the CEQA Guidelines requires that an EIR describe any significant impacts which cannot be avoided. Specifically, Section 15126.2(b) states:

“Describe any significant impacts, including those which can be mitigated but not reduced to a level of insignificance. Where there are impacts that cannot be alleviated without imposing an alternative design, their implications and the reason why the project is being proposed, notwithstanding their effect, should be described.”

Based on the analysis contained in this Draft EIR and the Initial Study included in Appendix A, implementation of the proposed project would result in significant unavoidable environmental impacts related to:

- Air Quality and Greenhouse Gas Emissions – a) Grading/Construction Impacts, b) Operation Period GHG Emissions
- Noise – a) Cumulative Traffic Noise Levels
- Transportation and Traffic – a) Existing Plus Project Intersection Operation Impacts at East Washington Street/North McDowell Boulevard, b) Existing Plus Project Vehicle Queuing Impacts at East Washington Street/North McDowell Boulevard, Southbound Right-turn Lane; c) Existing Plus Pipeline Plus Project Intersection Operation Impacts at Corona Road/North McDowell Boulevard, Corona Road/Petaluma Boulevard North and East Washington Street/North McDowell Boulevard, d) Existing Plus Pipeline Plus Project Vehicle Queuing Impacts, e) Existing Plus Pipeline Freeway Operation Impacts, f) Cumulative Plus Project Intersection Operation Impacts at Rainer Avenue/North McDowell Avenue and Rainer Avenue/Project Access and Corona Road/North McDowell Boulevard, g) Cumulative East Washington Street/North McDowell Boulevard, Southbound Right-turn Lane Vehicle Queuing Impacts, and h) Cumulative Freeway Operation Impacts

B. GROWTH INDUCING IMPACTS OF THE PROPOSED PROJECT

Section 15126.2(d) of the CEQA Guidelines requires a discussion of the ways in which a proposed action could be growth inducing. This includes ways in which the project would foster economic or population growth, or the construction of additional housing, either directly or indirectly, in the surrounding environment. Section 15126.2(d) of the CEQA Guidelines reads as follows:

“Discuss the ways in which the proposed project could foster economic or population growth, or the construction of additional housing, either directly or

indirectly, in the surrounding environment. Included in this are project which would remove obstacles to population growth (a major expansion of a waste water treatment plant might, for example, allow for more construction in service areas). Increases in the population may tax existing community service facilities, requiring construction of new facilities that could cause significant environmental effects. Also discuss the characteristic of some project which may encourage and facilitate other activities that could significantly affect the environment, either individually or cumulatively. It must not be assumed that growth in any area is necessarily beneficial, detrimental, or of little significance to the environment.”

The proposed project would foster economic growth by adding new employees and customers to the project site, who could, in turn, also patronize local businesses and services in the area. Additionally, as described in the Initial Study (See Appendix A), short-term employment opportunities would be provided during the construction phase of the proposed project. It is also estimated that operation of the proposed project would provide employment for over 500 persons. However, the proposed project does not include housing and therefore would not include (direct) permanent population growth. No significant population, housing or employment impacts would be created by the proposed project. In addition, as discussed below, the proposed project would not induce growth in an area that is not already developed with infrastructure to accommodate such growth. Furthermore, development of the project site with a mix of uses very similar to those proposed with the project were previously analyzed in the Program EIR for the City of Petaluma General Plan 2025.

The project site is located within a developed urban setting. Off-site water and sewer mains, storm drains, and utility infrastructure adjacent to the site would service the proposed project. In addition, the General Plan 2025 EIR analyzed the impacts to local water, sewer and related public utilities infrastructure for up to 400,000 square feet of retail and office uses at the project site and determined that the public utilities infrastructure was adequate to support this level of development, which is greater than the total square footage currently proposed with the project. Further, the proposed project would be adequately served by existing public services such as fire/emergency and police services in the vicinity of the project site. Therefore, the project would not result in significant growth inducing impacts.

C. SUMMARY OF URBAN DECAY ANALYSIS

During the scoping phase of this Draft EIR, concerns were raised that implementation of the proposed project, which includes a Lowe's Home Improvement Center ("Lowe's"), could result in urban decay in retail districts within Petaluma's defined retail trade area. To analyze the potential economic impacts of the proposed project, the Deer Creek Village Urban Decay Analysis was prepared by Economic & Planning Systems, Inc. in September 2010. The Urban Decay Analysis addressed three primary areas of concern: 1) individual and cumulative effects of the proposed Deer Creek Village project on the performance of the retail sector in Petaluma and broader regional retail market; 2) indirect adverse physical effects caused by those

economic impacts, such as blight, and the possibility of deterioration or urban decay; and 3) the project's effect on the city's sales tax forecast. Although not a CEQA impact, sales tax information is discussed in detail in the Urban Decay Analysis, Section 5 (Appendix C).

Ultimately the purpose of the economic impact study is to determine whether the proposed project would result in significant adverse physical impacts from urban decay. For CEQA analysis, the question is not whether there will be retail competition resulting from a project, but whether the project is reasonably likely to cause physical changes to the environment as a result of that retail competition. For example, significant urban decay impacts would occur if the project would induce abnormally high business vacancies that result in widespread deterioration of buildings and property, abandonment of buildings or buildings that are unsafe or unhealthy for occupancy within the Petaluma retail trade area. The urban decay process generally takes a number of years to fully materialize and is reinforced by declining economic conditions in a broader area. It is generally not the result of a single property standing vacant for one or two years in an otherwise vibrant market.

Urban Decay and Impacts on Existing Primary Market Area Retailers

Economic & Planning Systems, Inc. (EPS) considers the primary market area for the project as the Petaluma Trade Area. A trade area is a geographic region that contains the elements of demand and supply that will determine the performance of a particular retail store or project. Trade areas are influenced by a variety of factors, including the location and density of the targeted residential population, the location of key competitors, the relative distance or travel time for each of the above geographic and psychological barriers, and existing commute and shopping patterns. Retail establishments outside of a given trade area are not considered to be at risk of urban decay from development within the trade area. Further detailed information and a map of the trade area are provided in Appendix C.

Paralleling national trends, Petaluma's retail market has experienced declining sales in recent years that resulted in increasing vacancy rates and declining lease rates. Despite the decline in retail spending and difficulties maintaining tenancy, the City's retail market has performed relatively well, especially in downtown Petaluma. This performance is attributed to the City's attractive setting within a regional tourist market, relatively high capture of retail expenditures from Petaluma's residents, and a diversified retail mix.

Along with good retail performance, the City has experienced a net inflow of consumer spending above demand generated by its residents, also known as "retail capture." This regional demand is captured in retail areas such as apparel, food stores, auto dealers and supplies, service stations, and general merchandise. However, the City "leaks" sales in the apparel, restaurants service stations, building materials and construction categories. For example, the closure of Home Depot Yardbirds in the spring of 2009, has added to building and construction sales losses. The City captures an estimated \$62 million in net retail, which suggests that as a whole, local establishments sold 12 percent more than would be expected from demand from local

trade area residents alone. The City's retail sales are estimated at \$817 million a year based on the normalized 10-year average.

Success of the retail sector's performance is heavily influenced by the trade area's population and employment growth and ability to continue competing with neighboring jurisdictions by taking full advantage of the remaining retail opportunities while upgrading existing ones. With continued growth in population and employment, demand for new retail space is expected to increase. Future retail demand will support some of the retail space currently on the City's horizon, such as the proposed Deer Creek Village project. The impact of future retail supply on the market will depend on the degree to which it meets or exceeds this level of growth in demand.

Development of the proposed project in conjunction with other approved and proposed projects in the City's pipeline except for the East Washington Place project is not likely to have a significant impact on the existing retail space performance. EPS, in their Deer Creek Village Urban Decay Analysis, assumes that approximately 31,000 square feet of other new retail will be entering the market by 2015 in addition to the 282,000 square feet of new retail from the proposed Deer Creek Village project. This space would increase citywide retail supply by about 12 percent (measured in terms of sales) and it would also capture a portion of new demand because of further diversification in the citywide retail mix. Overall, it is projected that the development of the proposed Deer Creek Village project would result in \$58.1 million in net new sales to the City out of \$94.0 million in total new sales by 2015. This sales figure would require about a four percent capture of sales from existing (or future) retail establishments in the City in 2015, reducing to below one percent by 2025. This level of shift in sales from existing businesses is considered below a level that would significantly impact the long-term viability of existing retail properties. Therefore, the cumulative impact of the proposed Deer Creek Village project, excluding the addition of the East Washington Place project, is not likely to overwhelm the market and create market conditions conducive to urban decay and impacts are considered ***less than significant***.

Development of the proposed Deer Creek Village project, as well as other proposed projects in the City's pipeline including the East Washington Place project, is likely to have a significant impact on the existing retail space performance and potentially create conditions that temporarily (i.e. 3 to 5 years) could be conducive to urban decay. The East Washington Place project proposes approximately 362,000 square feet of retail, including a 139,000-square foot Target anchor. Combined with other projects within the trade area, new retail would need to generate \$106.6 million in net new sales out of \$215.5 million in total sales by 2015, including nearly \$120 million in sales attributed to the East Washington Place project, to achieve typical sales targets for new retail of the type envisioned. This represents a 26 percent increase over existing supply (measured in terms of normalized sales) compared to a 4 percent increase in population and a 2 percent increase in employment by 2015. Thus, new cumulative retail's capture of 12 percent of existing trade area retail sales in 2015 would reduce to nine percent by

2020 and to 5.5 percent by 2025. In other words, the Urban Decay Analysis suggests that the cumulative retail, when including the East Washington Place project, would capture approximately 12 percent of the sales of existing trade area retailers in 2015, reducing to 9 percent by 2020 and further reducing to 5.5 percent by 2025.

Although the Urban Decay Analysis states that temporary conditions conducive to urban decay will likely result from the project due to the fact that anticipated figures exceed the general threshold of 10 percent, the report also states that “[u]rban decay is by no means guaranteed under this scenario.” There are a number of other factors that lessen this potential that were not analyzed in depth in the Urban Decay Analysis. As outlined below, factors such as flexible zoning regulations, property management requirements, comparatively high real estate values, and proactive economic development all contribute to the Petaluma scenario and lessen the likelihood of physical deterioration. Therefore, each of these factors lessens the potential of a significant physical impact due to urban decay.

The potential retail sales shift as a result of the cumulative plus project scenario are not likely to impact the retail market in downtown Petaluma. Downtown Petaluma is made up of small specialty retail shops and services and provides a traditional downtown shopping experience. As discussed in the City’s Economic Development Strategy, vacancy rates in the downtown have remained low despite current economic conditions and the downtown continues to attract specialty and tourist shopping. City economic development strategies, the continued development of Petaluma River amenities in the downtown area, seasonal farmers markets and numerous special events such as parades, Cruisin’ the Boulevard, Santa’s arrival and other annual events will continue to bring attention and potential customers to downtown Petaluma. The Downtown Business Improvement District annually collects set amounts from downtown merchants to spend on marketing, security and beautification activities to attract customers to downtown businesses. The vibrancy of the downtown as a destination and its regional draw is not likely to be threatened by the eastside shopping center design and tenants proposed as part of Deer Creek Village.

An important factor in minimizing the potential for extended vacancies due to retail sales shifts is flexible zoning. Zoning districts that provide a greater array of potential uses allow property owners more flexibility in attracting different uses to respond to market demands. Those areas likely to be more vulnerable to the potential sales shifts as a result of the cumulative plus project scenario are older shopping center properties on the east side of Highway 101. A number of these properties are located on North McDowell and are currently zoned C2. This zoning designation allows a range of different commercial and service uses. The table below shows the variety of both permitted and conditionally permitted uses allowed within the C2 zone and illustrates the flexibility currently available for property owners to re-tenant and redevelop to avoid higher vacancy rates, extended vacancies, and ultimately to lessen the potential for urban decay.

**Table V-1
C-2 Zoning District**

Permitted Uses	Conditional Uses
Catering Service	Commercial Recreation – Indoor or Outdoor
Lodging – Hotel/Motel	Religious facility
Fitness/Health Facility	Residential Care
School – Specialized Education and Training	Bar, tavern, night club
Studio – Art, dance, martial arts, music, etc	Parking facility
Residential in mixed use building	
Artisan Shop	
Gas station	
Specialty Foods	
Bank, financial services	
Medical Services	
Office	
Adult Day Program	
Child Care Center	
Personal Services	

On December 6, 2010, the City Council adopted Ordinance No. 2385 N.C.S., which established a new property maintenance ordinance within the Petaluma Municipal Code. The new ordinance replaced, clarified, and strengthened previous requirements for maintenance of both residential and non-residential properties within the Petaluma city limits. Petaluma's new ordinance sets standards exceeding state law and allows existing code enforcement staff to more readily enforce those standards. The adoption of this ordinance is a proactive step that the City of Petaluma has taken to encourage regular upkeep of properties and minimize the visual impacts of increased vacancies. This tool in concert with other existing programs and regulations further lessens the potential for the physical impacts associated with urban decay.

In November 2010 the Petaluma City Council adopted the Petaluma Economic Development Strategy that was prepared by Applied Development Economics (final report dated November 15, 2010). The purpose of the strategy was to guide the City in laying the ground work for long-term economic sustainability, through the current economic recession and toward the City's long-term economic development goals as expressed in the General Plan 2025. With a list of ten short term action items, number three on the list is the development of a business retention and expansion program to focus on re-tenanting existing building space.

Another important piece of the Economic Development Strategy was its recommendation for the creation and staffing of a City position focused on economic development and the needs of businesses. The position was approved by the City Council and the City is currently recruiting for the position. This further points to the proactive stance of the City of Petaluma in assisting existing businesses during the economic downturn as well as drawing new businesses to town.

This type of position will play an important role in working with businesses to re-tenant existing retail spaces and allow the City to stay proactive in maintaining Petaluma's vitality during potential shifts in retail vacancies.

During the current economic downturn the City of Petaluma has experienced a significant increase in office vacancies, with vacancy rates approaching 40% for office space and 13% for industrial space. Housing values have also experienced significant decreases. Despite these numbers, these vacancies have not resulted in physical signs of urban decay throughout the City. This illustrates that building vacancies do not by themselves constitute urban decay. The high property values overall in Petaluma and the North Bay Area lead to a greater long term investment in property and fewer examples of property abandonment. Despite vacancies or declining home values, property owners have generally kept property maintained as a long term investment. Based on these same factors, this trend would be anticipated with retail/commercial properties and further lessen the likelihood of shifts in retail vacancies to manifest in physical signs of urban decay in the short term period anticipated.

The EPS analysis points out that the anticipated shift of retail sales as a result of the cumulative plus project scenario is relatively short term, with the capture of sales from existing retailers exceeding 10 percent for less than five years and returning to 5.5 percent within ten years. The uncertainty of timing of key developments (East Washington Place and Deer Creek Village) also plays into these figures, with any delay in projected openings further lessening the impact. The fact that potential impacts are temporary and relatively short term, that physical decay or blight takes years to materialize, and that there are numerous conditions, regulations, and incentives in place to minimize physical deterioration related to retail vacancies, combine to reduce the physical impact from potential urban decay and/or blight to **less than significant**.

Long-Term Sales Tax Implications

The Deer Creek Village Project is estimated to generate \$407,000 a year to the City's General Fund in net new sales tax revenue. This equates to 42 percent of net new sales tax revenues generated by new retail growth. These proceeds will be available to fund City services or reduce certain taxes or fees under City control. The City's retail sales revenues will depend on the actual amount of new retail space development, which would be driven by the broader market conditions, development timing, and the City's priorities and policies related to new retail growth.

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