Oroville Retail Leakage Analysis

Analysis of Current Retail Potential and Leakage in the City of Oroville, California

Analysis and Report Prepared by the Applied Research Program at the Center for Economic Development, California State University, Chico.

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Summary of Results

The Oroville Area is experiencing residential growth pressures from Chico and Sacramento, primarily because of its attractiveness as a place to live with its lower housing costs and proximity to outdoor recreational activities. However, one of the disadvantages of choosing Oroville is its lack of retail services available for existing residents. New retail development will be necessary in order for Oroville to continue to attract new residents, particularly new residents with money to spend.

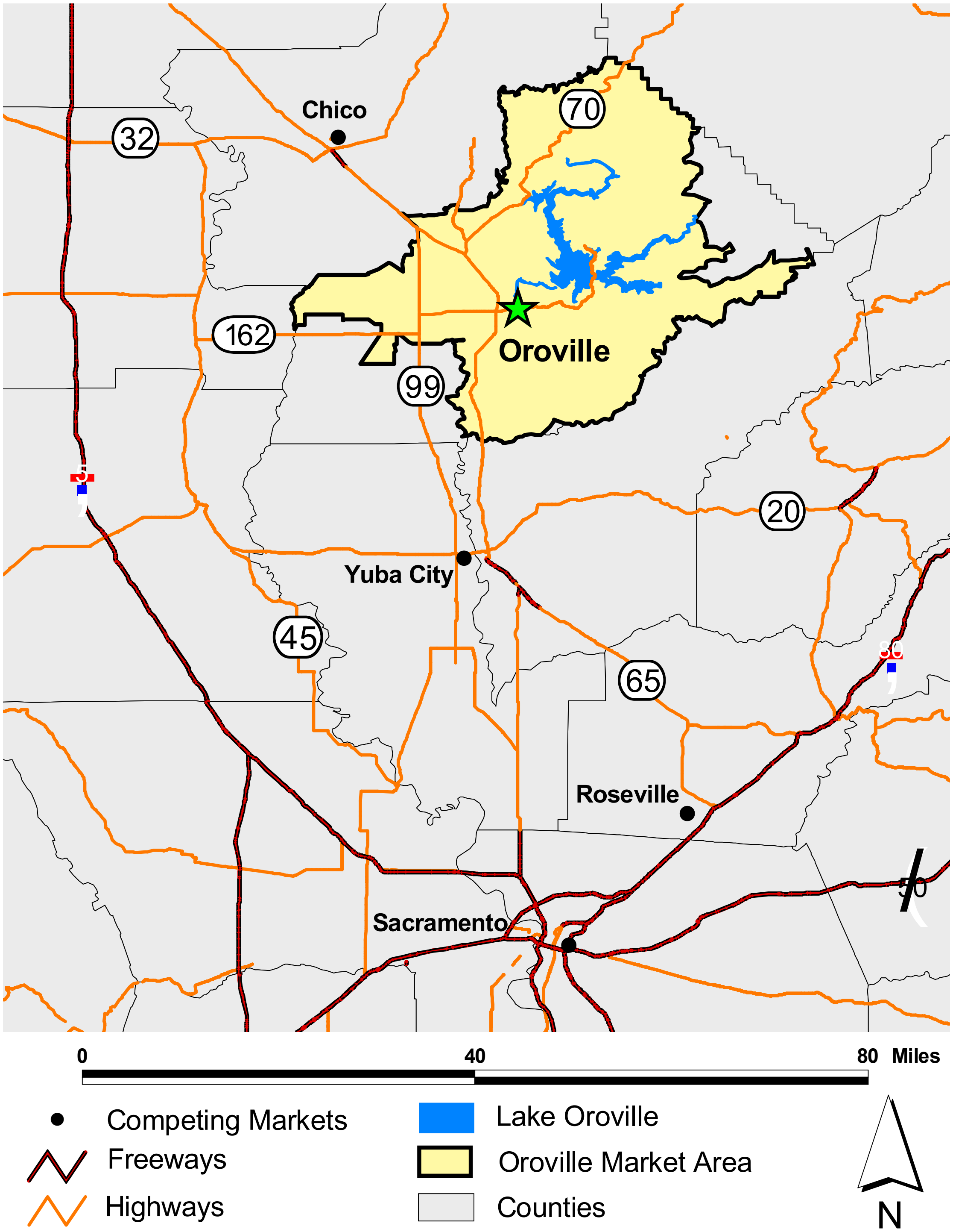
Opportunities already exist in Oroville to expand current retail availability and capture current markets for retail goods and services. As of 2003, the City of Oroville captured over $209 million in taxable retail sales. While impressive, this figure is dwarfed by the calculated taxable retail potential of over $368 million in Oroville's market area. This means that Oroville may be losing nearly $159 million in taxable retail sales to competing retail markets, which include Chico, Yuba City, Roseville, and Sacramento. As will be shown in this report, retail potential in Oroville encompasses most retail sectors.

The Oroville Retail Market Area

The retail market area for Oroville includes populated areas for which it is the nearest retail center. Retail centers that attract Oroville residents include Chico, Yuba City, Sacramento, and Roseville. Some potential retail dollars from people living farther up in the Sierra Nevada mountains may also be lost to Reno, although this would represent a very small portion of the Oroville Retail Market Area's population.

In addition to the Oroville urban area, communities included in the Oroville Retail Market Area include Bangor, Berry Creek, Concow, Feather Falls, Forbestown, Palermo, Richvale, Yankee Hill, and parts of Butte Valley, Challenge, and Clipper Mills. Residents of these communities are expected to shop at their local stores for most of their basic retail needs such as milk, eggs, and bread, which are not subject to sales tax. However, most of their taxable transactions would have to be made somewhere else because of a lack of demand in their local community to support stores that sell taxable items. Because Oroville is the nearest community that can support such stores, the City should endeavor to capture this source of potential taxable retail sales.

Figure 1 – Regional and Study Area Map



Analysis in Detail

Table 1 shows a comparison between potential and captured retail sales. Most sectors have potential to capture additional retail sales. Each sector is discussed in detail below, including which detailed Board of Equalization sectors are included in each category.

Table 1 - Taxable Retail Potential in the Oroville Market Area

Retail Category	Potential Retail Sales[1]	Actual Retail Sales[2]	Retail Leakage (-) or Surplus (+)[3]
Specialty apparel stores	$ 12,262,261	$ 3,068,000	- $ 9,194,261
Gift, art good, & novelty stores	$ 1,072,334	$ 204,000	- $ 868,334
Florists	$ 1,183,544	$ 548,000	- $ 635,544
Musical instrument stores	$ 1,370,343	$ 905,000	- $ 465,343
Stationary & book stores	$ 4,959,909	$ 399,000	- $ 4,560,909
General merchandise & other specialty stores	$ 69,910,692	$ 67,978,000	- $ 1,932,692
Food stores selling all types of liquor	$ 20,090,012	$ 15,488,000	- $ 4,602,012
All other food stores	$ 10,585,212	$ 8,035,000	- $ 2,550,212
Restaurants w/ no alcohol	$ 19,037,973	$ 19,878,000	+ $ 840,027
Restaurants w/ beer and wine	$ 10,285,546	$ 4,101,000	- $ 6,184,546
Restaurants w/ full bar	$ 8,390,012	$ 3,824,000	- $ 4,566,012
Household & home furnishings	$ 10,307,498	$ 2,837,000	- $ 7,470,498
Household appliance dealers	$ 6,402,942	$ 3,029,000	- $ 3,373,942
Building materials & farm implements	$ 49,276,643	$ 11,209,000	- $ 38,067,643
New & used motor vehicle dealers	$ 53,431,783	$ 31,249,000	- $ 22,182,783
Automotive supplies & parts	$ 8,864,465	$ 10,764,000	+ $ 1,899,535
Service stations	$ 26,703,983	$ 22,387,000	- $ 4,316,983
Packaged liquor stores	$ 2,990,235	$ 1,227,000	- $ 1,763,235
Second-hand merchandise	$ 1,209,017	$ 553,000	- $ 656,017
Farm & garden supply stores	$ 5,044,610	$ 786,000	- $ 4,258,610
Fuel, ice, & misc. vehicle dealers	$ 9,210,727	$ 1,305,000	- $ 7,905,727
Retail Stores Totals	$ 368,391,793	$ 209,774,000	- $ 158,617,793

[1]Source: Center for Economic Development at California State University, Chico
[2]Source: California Board of Equalization
[3]Actual retail sales minus potential

Specialty apparel stores

The potential in this sector is currently captured by general merchandise stores and competing retail markets. It is comprised of four detailed sectors: women's apparel, men's apparel, family apparel, and shoes.

Gift, art good, & novelty stores

This is a detailed specialty store sector. It likely includes some of the antique stores downtown along with the "second-hand merchandise" sector discussed below.

Florists

This is another detailed specialty store sector. Demand for florists is estimated to be twice that captured, although this may be partially due to some Internet sales, of which local deliverers only receive a portion.

Musical instrument stores
This is another detailed specialty store sector. There are four permits in this sector—just enough to be published by the Board of Equalization. These stores capture a good amount of the area's potential.

Stationary and book stores
This is another detailed specialty store sector. This sector includes the assortment of used book stores in town. Much of the potential from this sector may be captured by a large office supply store (which is a different specialty store sector) included in "general merchandise and other specialty stores."

General merchandise and other specialty stores
This is a mammoth category containing a wide variety of stores. It exists in this analysis because a general merchandise store (Wal-Mart), and an office supply store (Staples) are responsible for more than 80 percent of sales in their sectors and must be combined in order to have their sales data published here (see the Retail Potential Methodology section for more information). This sector also includes all specialty store sectors for which there are too few stores to report sales data. Sectors included here are general merchandise stores; drug stores; sporting goods stores; photographic equipment and supply stores; jewelry stores; office, store, and school supply stores; and "other specialty stores," which include all types of specialty retail stores not included elsewhere. Leakage in this sector is a small portion of potential capture, although this is likely because general merchandise stores capture much of the potential from specialty retail stores.

Food stores selling all types of liquor and *All other food stores*
These two sectors are detailed Board of Equalization sectors. Food stores selling liquor are normally grocery stores while "all other food stores" are normally convenience stores. This analysis includes only the taxable sales component of purchases at these stores, which are more likely to occur at a retail center than a corner grocery store in a small town. Much of the leakage in these sectors are captured by competing retail centers.

Restaurants (all)
These three sectors are detailed Board of Equalization sectors. Net surplus in "restaurants w/ no alcohol" is likely capture of potential for other types of restaurants. Leakage for restaurants serving alcohol is large and mostly captured by competing retail centers.

Household furnishings and appliances
These two sectors are detailed Board of Equalization sectors. Some of their leakage is captured by general merchandise and some by competing retail markets, although it is difficult to determine which factor is greater without surveying residents, which is beyond the scope of this study.

Building materials and farm implements
Farm implement dealers are included in building materials by the Board of Equalization—there was only one farm implement dealer permit in the City of Oroville. Specialized sectors included in this category are lumber and building materials, hardware stores, plumbing and electrical supplies, and paint, glass, and wallpaper stores. Because this analysis was based upon 2003 data, the leakage figure for this sector does not take into account the new Home Depot in town, which opened in late 2004. The City will have to wait until the 2005 annual data is available in 2007 to measure the impact Home Depot will have on this leakage number.

New and used motor vehicle dealers
This category includes two detailed sectors: new motor vehicle dealers and used motor vehicle dealers. Consumers tend to travel farther to purchase automobiles than any other taxable retail commodity, making leakage in this sector more difficult to analyze. There are many automobile sellers in all of Oroville's competing retail markets, so it is likely that there is leakage in this sector to all of these places.

Automotive supplies and parts
This is a detailed automotive store sector. The net capture in this sector may be due to the large number of automotive repair shops in Oroville in need of supplies, rather than people from competing retail markets traveling to Oroville to purchase auto parts, particularly given the large amount of leakage in other sectors.

Service Stations
This is a detailed automotive store sector. This is a difficult sector to analyze because so much of its potential comes from passers-by on Highway 70 while some of its leakage is due to Oroville residents traveling elsewhere for vacation or family trips. In addition, gasoline prices in Oroville tend to be lower than average in Butte County. Because there is so much leakage in other sectors with people traveling to neighboring communities to shop, it is likely that there is net leakage in this sector from people buying gasoline where they shop for other goods and services.

Packaged liquor stores
This is a detailed specialty store sector. Analysis of leakage in this sector is inconclusive because lower capture may be due to purchasing liquor in grocery stores, local and non-local, or there may be less demand for liquor in Oroville.

Second-hand merchandise
This is a detailed specialty store sector. This sector mostly includes antique stores (although some antique stores may be classified elsewhere if they specialize in a particular kind of antique such as furniture and gifts) and consignment shops. With the large number of antique stores available in Oroville, reasons for leakage calculated in this sector are unknown without further study.

Farm and garden supply stores
This is a detailed specialty store sector. Much of the potential in this sector is likely captured by general merchandise stores because of the difficulty in transporting some of the goods available in these stores from other communities, although some leakage is likely captured by competing retail markets. Some of this leakage will also be captured by the new Home Depot store.

Fuel, ice, and misc. vehicle dealers
This category is comprised of three detailed specialty store sectors: fuel and ice dealers; mobile homes, trailers, and campers; and boat, motorcycle, and plane dealers. Leakage in this sector is likely from the two types of vehicle dealers because fuel, such as propane, is usually delivered by a local vendor.

Retail Potential Methodology
In order to analyze the retail potential in the City of Oroville to compare to existing sales to calculate retail leakage, The Center for Economic Development at California State University, Chico (CED) prepared a retail potential model. The model assumes that, on average, each person demands a fixed set of retail goods in the local region. CED uses regional average retail spending per person to take into account the likelihood that consumers in the North State, for example, have different retail spending patterns than those in Los Angeles (if a statewide average is used) or New York City (if a national average is used).

In order to estimate a regional average, CED uses a market area larger than, but nearest to, the study region that experiences almost no net retail capture or leakage. Fortunately, Butte County, meets these criteria and can be used to develop a retail spending model for the average consumer in the Oroville Retail Market Area.

Taxable retail sales in Butte County was collected from the California Board of Equalization in the most detailed retail sector breakdown available. These totals were divided by the total population in Butte County, resulting in regional retail demand per capita. Regional retail demand per capita was adjusted downward to reflect lower per capita income in the Oroville Retail Market Area, which demonstrates the area's lower level of disposable income.

Expressed in equation form, retail potential for each retail sector is defined as follows:

$$\begin{array}{c}\text{Study Area}\\\text{Potential}\\\text{Retail Sales}\end{array} = \frac{\text{Regional Retail Sales}}{\text{Regional Population}} \times \frac{\text{Study Area Per Capita Income}}{\text{Regional Per Capita Income}} \times \begin{array}{c}\text{Study Area}\\\text{Population}\end{array}$$

Retail surplus or leakage is the difference between actual retail sales and potential retail sales. Retail leakage is the same as negative retail capture.

Retail Surplus (or Leakage)	=	Actual Retail Sales	-	Potential Retail Sales

CED used taxable retail sales data by retail sector for the City of Oroville to analyze retail potential in each sector. CED only analyzed retail sector data that could be published without compromising the confidentiality guidelines set forth by the California Board of Equalization. These guidelines stipulate that no data in a sector with three or fewer sales permits, or in which one business is responsible for 80 percent of all sales in that sector, shall be made public. CED used retail sector combinations that comply with these guidelines. This is the reason why many of the sectors analyze are general in nature (like general merchandise and other specialty stores), while some remain general (such as general merchandise and other specialty stores). The Wal-Mart in Oroville captures such a large volume of sales that it is responsible for more than 80 percent of retail sales in general merchandise and many detailed specialty retail sales sectors have three or fewer stores. Combined, however, these sectors meet the criteria for publication. This is acceptable because large general merchandise stores, such Wal-Mart, will end up capturing much of the potential from individual specialty retail stores.

Analysis of the potential for non-retail taxable sales is difficult to determine because the California Board of Equalization does not break these sales down to a sector level, and because demand for non-retail taxable sales is not normally tied to population (usually tied to business activity). Therefore analysis of non-retail taxable sales is beyond the scope of this project.

Conclusion

Currently, there is a tremendous potential for additional retail stores in Oroville. Much of the potential for specific types of stores is captured by existing general merchandise stores or competing retail market areas because of the lack of other options within Oroville. This does not include other consumer goods and services, like most groceries or housekeeping services, which are not subject to sales tax in California. This does not mean that any new store in any of these sectors is guaranteed sales of any kind, only that there is a gap between estimated retail demand and actual retail sales in the City of Oroville. Individual store owners, both new and existing, will need to address the reasons for this leakage in order to capture any of the leakage estimated in this report.