7. ECONOMIC DEVELOPMENT

ECONOMIC DEVELOPMENT ELEMENT

INTRODUCTION

The purpose of the Economic Development Element is to provide guidance for actions by the City that will foster economic stability and promote economic growth. A healthy local economy is crucial in maintaining and enhancing the quality of life in a community. The availability of jobs within a community not only allows residents to earn a living, it also gives them a stake in the well-being of the community. Existing businesses have the opportunity to grow and expand, while new businesses broaden both employment and shopping opportunities. The local government collects increased revenues, which would allow it to offer improved and expanded services for the community. In short, economic development affords a community a greater opportunity to shape its quality of life.

The importance of a healthy and diverse economy to the City was realized fully in the early 1990s, with the statewide recession and the closure of Castle Air Force Base. Although the City's economy is recovering, these events have impressed upon the City the need to attract and retain businesses and to diversify its economic base. The City also recognizes that regional activities have an influence upon the local economy. Therefore, the Economic Development Element sets forth goals, policies, and implementation programs that will guide the City in its decisions that will affect both local and regional economic development.

The Economic Development Element complements and supplements many of the other elements of the General Plan. The Land Use Element designates commercial and industrial areas, as well as various types of residential areas. The Housing Element

ensures a variety of housing opportunities for potential employees. The Circulation Element plans for a transportation and public service system that will support businesses. The Conservation and Open Space Element enhances the local environment, improving the quality of life for the community, and making it more attractive to prospective businesses and investors.

The Economic Development Element is not a mandatory element. However, California Government Code Section 65303 states that a local government may include in its general plan any elements which, in its judgment, relates to the physical development of its jurisdiction. Once adopted, according to the state's *General Plan Guidelines*, an optional element has the same force and effect as the mandatory elements.

BACKGROUND

The City of Atwater was founded as an agricultural center, and agriculture still has a significant role in the local economy. Until recently, Castle Air Force Base was a major source of employment and customers for local businesses. With the closure of Castle Air Force Base, the City experienced a drastic change in its economy. The City has responded by seeking to attract new businesses, to retain its existing businesses, and to diversify its economic base.

Employment

There is no recent data on the composition of the work force in the City. The 1990 U.S. Census data have become dated with the closure of Castle Air Force Base; nevertheless, the data are the most recent available. Table 7-1 breaks down the Atwater labor force in 1990. Some manufacturing companies have located at the CAADC site since then, which means that manufacturing could have a larger role in City employment.

Table 7-1 Composition of Atwater Labor Force, 1990

Employment Field	Percent of Workforce
Agriculture, forestry, and fisheries	8.3
Construction and mining	5.8
Manufacturing	11.7
Transportation, communications, other public utilities	5.4
Wholesale trade	3.1
Retail trade	18.5
Finance, insurance, and real estate	4.9
Services	35.3
Public administration	6.9

Source: U.S. Census Bureau

The largest employer in the Atwater area is J.R. Wood, a frozen fruit processing and distribution company that employs 2,500 workers. Other large employers are Pacific Telesis (800), Atwater Canning Company (350-500), Joseph Gallo Farms (500), and Pace Setter Industries (500+). The largest public sector employer is the Atwater Elementary School District, with 500-600 workers.

The California Employment Development Department (EDD) monitors and maintains records on employment for cities and counties. Table 7-2 below shows the average annual unemployment rates in the City in the 1990s, along with those for Merced County and the state. It must be noted that the unemployment rates for the City were calculated using an EDD methodology which assumes that the rates of change in employment and unemployment since 1990 were exactly the same in each city as at the county level. Also, some of the rates were calculated on unrounded data and were not seasonally adjusted.

Table 7-2 Unemployment Rates, 1990-1997

Year	Unemployment Rates		
	Atwater	Merced Co.	California
1990	10.9%	12.2%	5.8%
1991	13.2%	14.8%	7.7%
1992	14.8%	16.5%	9.3%
1993	15.3%	17.0%	9.4%
1994	13.9%	15.5%	8.6%
1995	15.4%	17.1%	7.8%
1996	14.6%	16.3%	7.2%
1997	13.9%	15.5%	6.3%

Source: California Employment Development Department

With these cautionary notes, some trends in employment can be discerned. In the early 1990s, unemployment rates in Atwater and the county followed state trends, which worsened as a result of the economic recession that occurred. But while California's unemployment rate has decreased since its peak in 1993, Atwater and Merced County experienced another rise in 1995. This is likely to be attributable to the closure of Castle Air Force Base, with a subsequent loss of jobs associated with or dependent upon the facility. While the unemployment rate in the City has declined over the past two years, it is still well above the state average, and the difference between the City and state rates is greater than it was at the beginning of the decade.

Assuming no drastic change in economic conditions, it is anticipated that the unemployment rate in the City will continue to decline. As the former Castle Air Force Base is more fully utilized, more jobs are expected to be generated. The EIR for the Castle Air Force Base Reuse Plan indicated that under the Initial Phase of reuse, the number of employees at the site would be 7,325, equal to the number present at the Air Force base in 1990. In addition, Atwater will likely benefit from the opening of the University of

California campus near Merced. Nevertheless, given the relatively high unemployment rate, it is important that the City continue to support efforts that increase employment opportunities for its residents.

GOAL ED-1. Attract new employment generating businesses to the Atwater Planning Area and continue to diversify the community's economic base.

Policy ED-1.1. Prepare a new Target Industry Analysis to identify opportunities for attracting businesses to the City.

Implementation Program ED-1.a. The City shall hire a consultant with economic development and marketing experience to prepare an updated Target Industry Analysis.

GOAL ED-2. Retain existing businesses within Atwater and help facilitate their expansion.

Policy ED-2.1. Consider preparation of a Business Retention and Expansion Plan that provides strategies to support existing businesses in the City.

Policy ED-2.2. Consider the compatibility of proposed land uses when discretionary development projects are proposed adjacent to existing businesses or employment generating industries.

Implementation Program ED-2.a. The City shall consult with the Chamber of Commerce and other appropriate agencies and groups regarding the preparation of a Business Retention and Expansion Plan for the City. If a plan is determined to be desirable, the City shall pursue funding and authorize its preparation.

Household Income

The median household income for Atwater in 1998 is estimated to be \$28,295, compared with \$27,180 for Merced County. However, it is significantly lower than the state's median household income of \$43,396. The

distribution of incomes in 1998 shows that 19.14 percent of Atwater's households earn less than \$15,000 per year. This is greater than the state percentage of 15.92 percent, but it is less than Merced County's 24.40 percent. The percentage of households in Atwater with an income of \$50,000 or greater is 20.12 percent, compared with 21.10 percent for Merced County and 43.08 percent for the state. For middle incomes (\$25,000-\$49,999), the percentage of households in Atwater is 35.56 percent, compared to 32.26 percent for Merced County. It can be concluded that Atwater is relatively more affluent than Merced County as a whole, but only slightly more, and less affluent than the state overall.

Retail Sales

Table 7-3 presents historic retail sales in the City of Atwater and in Merced County. The table clearly shows the impact of the base closure on retail sales in the City of Atwater. The City was capturing additional market share every year between 1985 and 1992. However, since 1992, sales within the City have declined dramatically.

Table 7-3
Retail Sales in Atwater and Merced
County, 1990-1996

1						
	Year	Atwater	Merced County			
	1990	\$60,162,000	\$746,779,000			
	1991	\$63,389,000~	\$729,929,000			
	1992	\$66,619,000~	\$748,055,000			
	1993	\$62,107,000	\$781,418,000			
	1994	\$57,951,000	\$832,451,000			
	1995	\$58,159,000	\$848,801,000			
	1996	\$58,929,000~	\$880,012,000			

Source: California Board of Equalization

Increase from previous year

🥆 - Decrease from previous year

However, the base closure explains only part of this decline. Total retail sales in the market area increased almost \$84 million between 1992 and 1994. Approximately \$77 million of this growth was captured by the City of Merced, whereas the City of Atwater's share decreased by almost \$9 million. This is directly attributable to the development that has occurred in the City of Merced since 1992, which includes the arrival of "big box" retailers such as Target, Wal-Mart, and Costco.

Table 7-4
Sales by Retail Category and Sales
Leakage

Retail Category	Percent of Total Sales	Sales Leakage Rate
Apparel	2.69%	45.72%
General Merchandise	13.77%	25.57%
Drug Stores	3.70%	#
Food Stores	12.88%	1.93%
Liquor Stores	1.29%	#
Eating, Drinking Places	11.95%	-1.33%
Home Furnishings, Appliances	3.07%	51.89%
Building Materials	12.71%	80.23%
Auto Dealers, Supplies	18.83%	80.25%
Service Stations	13.14%	10.64%
Other Retail Stores	5.98%	6.95%
Total	100.00%	38.54%

- Data not available

Source: Castle Air Force Base Annexation Feasibility Study, Pacific Municipal Consultants (1996)

Table 7-4 presents a detailed breakdown of retail sales and the potential sales leakage from the City. In total, the City of Atwater is losing approximately 38 percent or \$36 million of potential retail sales to areas outside the City. Most of these sales are going to the City of Merced. Some of the lost sales are very significant, but they do not all necessarily relate to the large general merchandise and "big box" retailers that have located in the City of Merced. For example, Building Materials,

Auto Dealers, and Auto Supplies are losing approximately 80 percent of the estimated demand to areas outside Atwater.

The City is concerned about sales leakage, since it equates to money not being spent in the local economy - money that could stimulate local business expansion and local employment, along with increased City revenues. Therefore, it is one of goals of the City to stimulate the expansion of retail commercial activities, particularly in those areas in which sales leakage is severe. This goal is one of the reasons that the City has designated land for commercial development along the proposed Castle Parkway and the proposed Westside Boulevard/SR interchange. With the installation of frontage roads, the proposed Castle Parkway corridor would provide access to land that could be used for expanded commercial activities. such as "big box" retailers, factory outlet centers, auto dealerships, and regional shopping malls. The Westside area also provides an opportunity to accommodate both local and region serving commercial uses.

GOAL ED-3. Reduce the occurrence of retail sales leakage to other communities.

Policy ED-3.1. Provide opportunities for a full range and scale of retail development within Atwater.

Implementation Program ED-3.a. As part of the City's marketing program, actively recruit businesses that provide goods and services currently lacking in Atwater.

Implementation Program ED-3.b. Pursue annexation of the Castle Parkway and Westside areas. Consider the preparation of Specific Plans that emphasize retail commercial development for both locations.

Business Development Programs

The City is involved in several programs to attract and retain businesses. Portions of the

City are within the Merced/Atwater/Planada Enterprise Zone (Figure 7-1). These include the Applegate and Atwater Business Parks, and other parts of the Atwater Redevelopment area. An Enterprise Zone offers several incentives for businesses. including state sales tax credits, hiring credits, net operating loss carryovers, and net interest deduction for lenders. Atwater is 1 of 41 Enterprise Zone communities in California. The City also provides some incentives: waiver of public facility impact fees, fasttracking of permits, underwriting of public improvements as necessary, City- or Redevelopment Agency-owned property at below-market rates, and technical assistance by City staff to existing and proposed businesses.

The U.S. Department of Commerce approved the designation of Merced County as a Foreign Trade Zone Area in 1997. Portions of both the Applegate and Atwater Business Parks are proposed to be included in the planned Atwater General Purpose Foreign Trade Zone. The Castle Airport and Aviation Development Center will also be included in the zone. Businesses that import or export materials may defer or waive duties paid on goods. Each individual business included in the zone is required to pay activation fees to Merced County before taking advantage of the program.

All sites within the Applegate and Atwater Business Parks are located in the Merced County Recycling Market Development Zone (RMDZ). This program allows recycling-based businesses to qualify for very low interest rate loans, special technical assistance through the California Integrated Waste Management Board, fast-track permit processing, and special research and development tax credits.

In an effort to facilitate the reuse of the former Castle Air Force Base, the CAADC site in 1996 received the designation of a Local Agency Military Base Recovery Area (LAMBRA). The LAMBRA designation is a state and local economic incentive program used to attract businesses to the sites of former military installations. State incentives include the following:

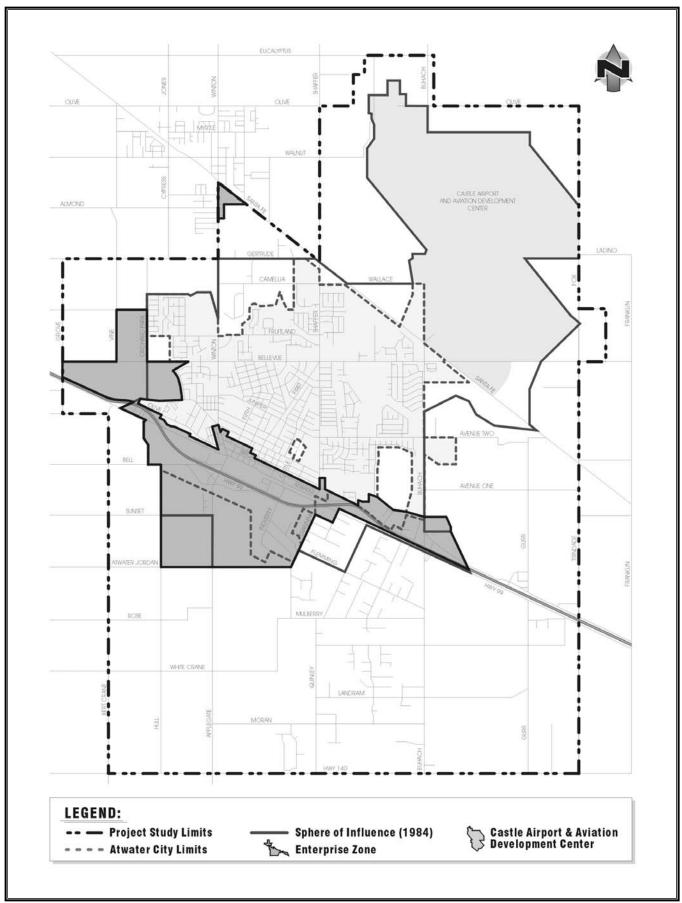
- Tax credits for sales and use tax paid on certain qualifying equipment and property.
- Tax credits for wages paid to qualifying employees.
- Fifteen-year net operating loss carryover.
- Election to treat the cost of certain property as an expense not chargeable to the capital account and allowable as a deduction against income.
- Priority and technical assistance from the Trade and Commerce Agency, the California Environmental Protection Agency, and the Office of Permit Assistance.

Local incentives that communities are asked to provide include streamlined permit processes. The LAMBRA designation expires seven years after it is conferred.

GOAL ED-4. Increase the number of locations where economic incentives are available within the Atwater Planning area.

Policy ED-4.1. Explore the feasibility and desirability of expanding the Enterprise Zone.

Implementation Program ED-4.a. The City shall investigate the procedures for expansion of the Enterprise Zone, and determine which areas within the Planning Area would be best assisted with inclusion in the Zone. Expansion of the Zone shall be pursued as determined appropriate.





Redevelopment Programs

In 1976, the Atwater Redevelopment Agency was created. The Agency is a tool to assist in the elimination of blighting conditions within its Project Area, and it seeks to ensure that the City's economic base will grow and remain healthy through the provision of new public improvements, commercial and industrial development, and affordable housing. The Project Area, which is approximately 806 acres in size, consists of the Downtown commercial core, the Applegate Business Park, the Atwater Business Park, two public parks, and several residential neighborhoods.

The goals of the Atwater Redevelopment Agency that pertain to economic development are as follows:

- Improve the existing infrastructure supporting the Project Area, particularly streets, sewerage, water, storm drainage, curb, gutter and sidewalk, railroad crossings, parks and playgrounds, and parking. Remove existing impediments to the economic development of the community.
- Eliminate or mitigate other existing blighting conditions, including incompatible land uses, obsolete or substandard structures, inadequate public facilities, and small, irregular landlocked parcels.
- Ensure and maintain an attractive, viable downtown Business District which provides economic incentives that create new job opportunities.
- Encourage and assist industrial and commercial development to ensure adequate job opportunities, a stable tax base in the community, and new investments in the Project Area.

Redevelopment projects that have been carried out include the Downtown Revitalization Project, the Southwest

Infrastructure Project, and the Atwater Business Park. Nevertheless, some blighted conditions remain. Specifically, dilapidated buildings between Broadway and Atwater Boulevard from First Street to Shaffer Road need redevelopment assistance, as do underutilized parcels on Sycamore Avenue and parcels elsewhere in the Project Area. The City has placed a high priority on the revitalization of Downtown and its role as an active part of the community.

In its 1994-1999 AB 1290 Implementation Plan Review, the Redevelopment Agency discussed the following projects:

- Redevelopment of the Atwater Municipal Airport. In 1995, construction began on the conversion of the Atwater Municipal Airport, closed in anticipation of reuse of the Castle airfield, to a business park. The completed business park has City infrastructure stubbed to each site available to accommodate potential users.
- 2) Applegate Business Park Storm Drainage. In the 1992 General Plan update, one mitigation measure listed for future development of southwest Atwater was the provision of a comprehensive and master storm drainage system to Applegate Business Park. Agency staff completed an application for an Economic Development Administration grant, with the Agency providing the remaining necessary funds for the project.
- 3) Atwater Canning Company. The Atwater Canning Company approached the Agency with a proposal to divert its process water from the City's wastewater treatment plant to an off-site land application process (that is, the wastewater would be used to irrigate fields, rather than be treated at the City's plant). The intent was to keep the company competitive while freeing treatment capacity to service the CAADC site and new developments. The Agency assisted in the financing of pipeline construction by successfully completing a

loan application to the Rural Economic Development Infrastructure Program and pledging an additional loan.

- 4) Downtown "Bits and Pieces" Project. In 1979, the Agency adopted a Downtown Business District Revitalization Plan. Several downtown infrastructure improvement projects were phased over several years, forming the "bits and pieces" approach. In 1995, the final phase was completed in the Downtown Atwater Core. The final phase consisted of the installation of new sidewalk, new street tree wells, curb, gutter, and handicap access ramps.
- 5) NCI Building Systems. An incentive package was offered to NCI Building Systems to locate its manufacturing and sales design office to the Atwater Business Park. The package included a land write-down, off-site improvements, permit discounts, and "fast-tracking" of the development process. The company's operations generate



approximately \$200,000 per year in sales tax revenues to the City, and more than \$40,000 annually in tax increments to the Agency.

The Implementation Plan Review also discusses future projects involving the Redevelopment Agency. Improvements of the aesthetics and value of the Atwater Boulevard corridor will continue to have a high priority. Another project is the provision of infrastructure improvements and housing

rehabilitation or new construction on Broadway and Atwater Boulevard east of First Street. The Agency will seek to stimulate business interest in the Applegate Business Park by providing storm drainage improvements, improving the Applegate Overpass and Highway 99 interchange, and actively marketing the business park. At the Atwater Business Park, the Agency shall be the lead and set forth improvement plans for its development, provide all basic infrastructure needs for light industrial activities, and employ active marketing strategies.

GOAL ED-5. Ensure that all eligible areas are included within the City's Redevelopment Area.

Policy ED-5.1. Evaluate the feasibility and desirability of expanding the Atwater Redevelopment area.

Implementation Program ED-5.a. The City shall conduct a study that determines if additional areas within Atwater meet the conditions for blight set forth in the state's Redevelopment Law. Upon completion of the study, the City shall determine if the Redevelopment Area boundaries can feasiblely be expanded and pursue those activities as determined appropriate.

Downtown Revitalization

A downtown is a focal point for community activity and pride. As described within the Land Use Element, it is a place where businesses operate and cultural and entertainment opportunities may be found. A healthy, active downtown not only provides a center for the community, but it conveys a positive message to prospective businesses about the quality of life in the community.

The City has been engaged in efforts to make Downtown Atwater a more attractive and active part of the community. Much of the activity undertaken by the Redevelopment Agency has been focused upon improving the appearance and the infrastructure of Downtown. As described earlier, further improvements are proposed for the Downtown area via redevelopment projects. Additional goals and policies regarding desired land use mixtures and activities in Downtown Atwater are described within the Land Use Element.

GOAL ED-6. Promote Downtown Atwater as the activity and cultural center of the community.

Policy ED-6.1. Actively support cultural activities and special events in the Downtown area.

Policy ED-6.2. Encourage the establishment of an entertainment facility in Downtown, such as a movie theater or a performing arts center.

Implementation Program ED-6.a. The City shall facilitate the use of Downtown as a cultural center by measures such as expediting permit procedures, improving parking availability, and renovating buildings that can be used for cultural events.

REGIONAL ECONOMIC SETTING

The City of Atwater is located within Merced County, in the northern portion of the San Joaquin Valley. The county seat, Merced, is a commercial as well as a governmental center. As previously described, Merced has attracted several large retail commercial outlets. Merced County is a predominantly agricultural county, and agriculture employs more people than any other economic sector. Government has also accounted for a significant share of employment in the County. However, both sectors have had a reduced share in employment in recent years. In particular, governmental employment has decreased for reasons that include tighter government budgets and military base closures.

Three sectors have had an increase in share of employment in Merced County: manufacturing, services, and retail trade. The

rise in service and retail trade employment reflect both changes in the state and national economy and increases in population. Manufacturing businesses may be attracted to Merced County because of its central location in California, lower land and business costs, good transportation network, and available business sites. Despite this growth, unemployment in Merced County remains high, compared with California overall. The unemployment rate for the County was 15.5 percent in 1997, compared with 6.3 percent for the state.

Economic activities in the County can influence the economy of the City, and vice versa. One example was Castle Air Force Base, which employed people from throughout Merced County as well as the City of Atwater. It is anticipated that the new University of California campus will also have a beneficial impact on the economy of the City. Some City residents will likely be employed by the university, and it is hoped that both students and staff members of the university will look for housing in the City, with attendant increases in spending within the local economy.

On an even larger perspective, the San Joaquin Valley has become one of the fastest growing regions within the state. Residents from the San Francisco Bay Area have been moving into the northern San Joaquin Valley, encouraged by lower housing costs and a good transportation system connecting the two regions. Businesses have also been relocating to the San Joaquin Valley due to lower land and business costs, as well as its central location in the state and the existence of a good transportation network. The cities of Modesto and Fresno, both near Merced County, have experienced significant growth in recent years. This growth is expected to extend to locations including Merced County and the incorporated cities within the County.

GOAL ED-7. Promote a cooperative and coordinated approach among all local and regional economic development entities.

Policy ED-7.1. Work with the Chamber of Commerce, Merced County Economic Development Corporation (MCEDCO), and other appropriate agencies to promote economic development in the City.

Implementation Program ED-7.a. The City shall continue to participate in MCEDCO both financially and in developing strategies to attract and maintain businesses in Merced County.

ECONOMIC GROWTH PROSPECTS

The City of Atwater has undergone a difficult economic transition caused by the closure of Castle Air Force Base. Closure of the base has had numerous economic impacts on the community, affecting aspects such as vacancy rates, construction, and retail sales. It also contributed to a decline in the City's population. However, there are indications that Atwater is recovering from this blow and is resuming a growth trend in both its population and its economy. Among the indicators are an increase in residential and commercial building permits and the opening of more businesses.

While the closure of Castle Air Force Base had a negative impact on the Atwater area, it also provided an opportunity. The land and facilities have become available for civilian commercial and industrial use. With its centralized location in the state of California, its below-market land prices and its LAMBRA incentives, the CAADC site is particularly attractive. Several businesses, most notably Pacific Telesis and Pace Setter Industries, have located there, bringing jobs to the community.

There are other advantages on which Atwater can capitalize. Besides the CAADC site, the Applegate and Atwater Business Parks in the southern portion of the City offer commercial and industrial space. Atwater's proximity to the San Francisco Bay Area, its lower land costs, and its location along major transportation lines are other positive features. However, Atwater also suffers

some disadvantages. Among these are inadequate infrastructure (especially at the CAADC site), its reputation as a bedroom community for military personnel, and competition from other cities in the San Joaquin Valley. In particular, the nearby city of Merced has been successful in attracting numerous retail outlets, which contributes to the leakage of retail sales from Atwater.

Nevertheless, the outlook for Atwater's economy appears bright. With the reuse of the former Castle Air Force Base and the opening of the UC Merced campus in 2005, Atwater may expect some spillover benefits. An increasing population will fuel construction of residential buildings and provide a growing market for retail and other commercial businesses. Greater sophistication in marketing and recruitment will enable Atwater to attract industries that would fit into the local economy and bring jobs. With careful planning and success in recruiting new businesses, Atwater may achieve a healthier and more diverse economy than it had before the base closure.

GOAL ED-8. Enhance Atwater's community identity and image within the region.

Policy ED-8.1. Support efforts to more aggressively market Atwater as a place for business and for family living.

Policy ED-8.2. Promote cultural activities and special events that spotlight the City's cultural amenities and attract visitors to the City.

Implementation Program ED-8.a. The City shall cooperate with the Chamber of Commerce and other appropriate agencies and groups to develop a comprehensive marketing program aimed at targeted industries, based on the results of the Target Industry Analysis.

GOAL ED-9. Actively promote commercial and/or industrial development opportunities at the CAADC, Atwater and Applegate Business

Parks, Downtown Atwater, and proposed growth areas.

Policy ED-9.1. Promote the availability of commercial/industrial space with infrastructure and special incentives at CAADC, the business parks, Downtown, and other applicable locations.

Implementation Program ED-9.a. Incorporate the promotion of CAADC, the business parks, Downtown, and proposed growth areas within any marketing plan developed by or supported by the City.

ECONOMIC DEVELOPMENT STRATEGY

In summary, the overall objectives for the City concerning economic development are as follows:

- Increase awareness of the advantages Atwater offers to prospective businesses and their employees.
- Attract new industries to Atwater, using incentives and available sites at the business parks and CAADC.
- Assist in retaining existing businesses and encouraging their expansion.
- Provide expanded shopping opportunities for City residents.
- Make Downtown Atwater a significant area for activity within the community.
- Provide the necessary infrastructure for new businesses to start and existing businesses to expand.

The City has already implemented various programs designed to encourage the start or relocation of new businesses and the retention of existing businesses. There are also plans for redevelopment of specific areas and for reuse of the former Castle Air Force Base, as well as the City's Capital Improvement Plan. These plans and

programs have often been prepared independently of each other and by various agencies. Thus, the potential exists for uncoordinated actions which could conflict with specific economic development goals and could hamper overall economic development efforts.

GOAL ED-10. Integrate the community's economic development plans and programs.

Policy ED-10.1. Consider the designation of an Economic Development Coordinator on City staff to coordinate all economic development programs and pursue financing opportunities.

Implementation Program ED-10.a. The City shall consider the designation of a person to function as a full-time Economic Development Coordinator for the City. This person shall have the responsibility for coordinating all programs for economic development implemented by the City, and coordinating with other agencies in business retention and marketing programs.