

October 9, 2014

Ms. Donna Olson, Mayor
City of Stoughton
381 E. Main Street
Stoughton, WI 53589

RE: Economic Impact on Grocery Sales from the Kettle Park West Development

This letter is in response to a letter that was received from Yahara River Cooperative Grocery regarding the estimated economic impact to Yahara's gross revenue based on data collected and reviewed by Maxfield Research Inc.

Estimated gross revenues were collected using Dun and Bradstreet's InfoGroup Business database which collects information on more than 24 million businesses in the United States. The information presented in the database is 2013-2014 data. Information from this database was collected for a number of businesses in Stoughton including the Cooperative.

We understand that the revenues for Yahara River Cooperative were overstated according to the database and are currently less than \$1.0 million. The overstatement of revenues was due to a consolidation of revenues with another business entity.

The projected economic impact of a Walmart Supercenter opening in Stoughton on the revenues for Yahara River Cooperative depends, in part, on the types of products and merchandise lines that are similar to those carried by Walmart. Since opening, the Cooperative has expanded their merchandise lines and reallocated their product mix to have a broader appeal in the market.

In considering the potential impact that the grocery component at the Walmart Supercenter store would have on the Yahara River Cooperative, Maxfield Research Inc. reviewed the following articles and research reports:

Dr. Kenneth Stone, Professor Emeritus at Iowa State University in Ames, Iowa. Dr. Stone has completed several analyses regarding the impact of Walmart stores on smaller cities in Iowa and in counties in Mississippi.

"The Effect of Walmart Stores on Businesses in Host Towns and Surrounding Towns in Iowa"

"Impact of Walmart Phenomenon on Rural Communities"

"Competing with Discount Mass Merchandisers"

"The Economic Impact of Walmart Supercenters on Existing Businesses in Mississippi"

"How do you deal with the entry of a new Walmart supercenter into your town? ICMA Publications, PM Magazine, March 2005, Volume 87, No. 2

“Impact of Walmart Supercenter on a Traditional Supermarket: An Empirical Investigation,” by Vishal P. Singh, Karsten P. Hansen and Robert C. Blattberg, February 11, 2004 found in their analysis that “In terms of consumer characteristics, we find that distance to store, while useful, explains little of the variation in household heterogeneity. Households that respond to Walmart are likely to have an infant and pet in the family and are more likely to be weekend shoppers. Furthermore, we find that these households are large basket consumers, confirming the findings of Bell and Lattin (1998) that large basket buyers are more likely to choose an every-day-low-price (EDLP) operator. On the other hand, households that spend a large proportion of their grocery expenditures on fresh produce, seafood, and home meal replacement items are less likely to defect to Walmart. “

“Keys to Success for Food Coop Start-ups in Rural Areas: Case Studies,” United States Department of Agriculture, Rural Development Research Report 208, October 2005, prepared for Northcounty Cooperative Development Fund by the University of Wisconsin Center for Cooperatives.

The studies by Dr. Kenneth Stone identified the following with regards to impacts on smaller cities when a Walmart supercenter store opened in the community:

The grocery industry has been undergoing structural changes for many years. Many towns of 1,000 or less in population have lost their grocery stores, while towns of 5,000 or more population gained retail food sales. This is primarily because customers must then travel to other nearby larger communities to purchase their groceries.

According to the study, when a Walmart entered the town, grocery store sales decreased by -5.1% after one year. Sales regained about 1.0% in the second year, but then slipped back to the lower figure in the third year. The sales that were analyzed were food sales through sales revenues documented by the Iowa Department of Revenue and reflect food sales that occurred among all types of stores, but primarily among traditional supermarkets. This was generally contrary to what had occurred in other towns of the same size, but was identified as a loss of sales from pharmaceuticals, health and beauty products, cleaning supplies, pet supplies, cards and stationery and magazines. Many of these types of items are purchased in a grocery store or drugstore. Customers were viewed as switching their purchases of these standard types of items to the larger discount merchandiser and away from the traditional supermarket.

In the largest cities, grocery store sales decreased by only -0.4% in the first year, -2.7% after three years and -2.4% after five years. The decline in sales is based against the benchmark year prior to Walmart opening and reflects the decrease in sales against the benchmark years. These figures are not cumulative.

Yahara River Cooperative views its primary competition as Pick ‘n Save (Stoughton), Trader Joe’s (Madison), Basics (Janesville), Whole Foods (Madison) and Willy Street Coop (Madison), which has assisted Yahara with its organization.

Grocery Stores currently operating in Stoughton include Pick ‘n Save, a warehouse grocer and the Yahara River Cooperative (a local cooperative grocery). We understand that Yahara started business approximately 18 months after the Main Street Market closed in Downtown Stoughton. During this

time, Pick 'n Save was and continues to operate in Stoughton and is adjacent to the existing Walmart store.

If the Walmart supercenter opens in Stoughton, Pick 'n Save, because of its direct similarity in merchandise and pricing to Walmart, is estimated to experience the largest potential negative impact in sales. We identified that Yahara River Cooperative, which has a customer base that is somewhat different from that of the typical Walmart customer, could lose up to 5% of its gross revenues upon opening of the Walmart supercenter. Based on historical analysis of sales losses for communities similar in size to Stoughton, the range is considered to be between 2% and 5%. However, because of Yahara's current merchandise mix, primary competitors and its focus on natural and locally grown foods, that the loss in sales would be closer to the lower end of the range than the higher end. The proportional impact should not change with the change in revenues. The proportional impact reflects the size of the operation of the grocery based on its gross revenues. A lower gross revenue reduces the dollar amount of the impact, but the proportional impact to the operation is considered to be similar.

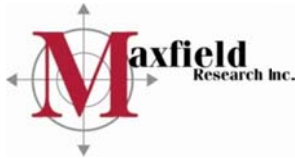
Estimated economic impacts can be affected by a variety of factors including store location, merchandise mix, marketing efforts, and organizational structure. We believe that the estimated percentage loss in sales reflects the range that could be anticipated to Yahara River Cooperative Grocery should the Walmart Supercenter be developed.

If you have additional questions or need more information, please let me know.

Sincerely,



Mary C. Bujold
President



October 17, 2014

City Council Alderpersons
City of Stoughton
381 East Main Street
Stoughton, WI 53589

RE: Additional Supplemental Information for Economic Impact Analysis

This letter outlines a list of items that would be reviewed, gathered or assessed in response to questions that were raised at the City Council meeting on Tuesday, October 14th regarding the economic impact analysis.

This letter and attached proposal document discuss the following items that were raised in the meeting:

- 1) Additional information required about the Kettle Park West-Phase I development in order to have a better understanding of the types of stores that would be located there for those components that have not yet been identified.
- 2) Additional information/clarification regarding the potential impact or use of local labor to complete the development and then subsequent employment impacts of the opening and operation of new facilities.
- 3) Additional information requested from the City regarding the potential impacts and/or additional costs to City staff and/or city operations due to the development and operation of the Kettle Park West-Phase I project.
- 4) Request for additional analysis regarding the potential impacts to local businesses through interviews and/or surveys of local businesses that may be impacted by the development of KPW either positively or negatively.

Regarding Item 1:

Questions were raised regarding the additional information that is needed from the developer to be able to effectively analyze the potential impacts to the community of the establishments that would be located in Phase I. We will request from the developer, at a minimum, a clarification of the types of businesses that are currently undisclosed (industry and size, existing or relocation) to be able to make a reasonable estimate as to the potential impact that the unknown components may have on the

community. To the extent that this information is known and is provided to us, we will address this in the supplemental report.

Regarding Item 2:

The report identified the number of construction jobs and retail/office jobs that would be associated with the proposed development of Kettle Park West-Phase I. In addition, the potential economic impact from those positions to the community and community businesses was also identified. Not identified was the potential or likelihood for the construction contracts for building of the structures and the highway and other infrastructure improvements to be let/bid to local contractors. We will address this in the supplement as regards the potential for City or County businesses to obtain these contracts in a bid situation under regular bidding regulations of the local/county/or state jurisdiction.

Regarding Item 3:

In our original request for information to the City, Maxfield Research requested documentation of the potential costs and/or additions to staff (police, fire, EMS, building inspections, etc.) that would be necessary or would result from the development of Kettle Park West. It is our understanding that the City had conversations with department heads at the City to ask if they believed there would be additional costs associated with KPW-I development. We received a response that there would be not additional staff added or additional costs associated with its development.

If the Council chooses, we will personally interview department heads to determine if there would be required additional staff overtime or additional staff that would be required to support the development and ongoing operations of KPW-I.

We would propose to complete the interviews at an hourly rate for staff time of \$150/hour and estimate that it would require approximately three hours of time for a total cost of \$450.00

Regarding Item 4:

Request for additional analysis regarding the potential impacts to local businesses through interviews/surveys of those that may be impacted by KPW-I. This would include those that may be positively or negatively impacted by the proposed development.

In conducting the original economic analysis, Maxfield Research Inc. reviewed a substantial amount of research studies and literature regarding the opening of a Walmart store in various size communities. Our analysis addresses the information obtained from several of those reports regarding the impacts that have occurred to cities large and small in various states across the country.

In each case, these economic analyses and research studies relied on research data gathered from stores sales data provided through national data providers or State sales tax records. These studies did not compile data from personal interviews with businesses owners at the stores in each of the communities.

Undertaking that type of research would require a lengthy time period, substantial cost and would require contacting all businesses in the community that may have some type of impact, positive or negative or neutral in order to compile an accurate assessment. It is our professional opinion that the outcome of this type of research would not substantively change the results of the study.

The cost to complete this type of research depends on the number of businesses to be interviewed and the time to contact each business. This may require multiple calls in order to reach the business owner or manager and to obtain the necessary information. In the end, we would be asking them to provide their best estimate (in percent) of the potential impacts to their operations, either positive or negative of the opening of KPW. We estimate that this type of research would require at least three to four months to complete at an estimated cost of \$30 to \$40 per business interview. All businesses would need to be interviewed in order to assess the potential impacts from each type of business either public, private, commercial office, retail or industrial.

Except for Item 4, we propose to complete the additional supplement to the report by mid-November. The total additional cost to the City would be the \$450.00 for interviews with City staff, should the council desire to proceed with that proposal. All other items would be addressed at no additional charge.

If you have questions or need additional information, please let me know. Thank you for this opportunity to address these items.

Sincerely,

MAXFIELD RESEARCH INC.



Mary C. Bujold
President