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FINAL REPORT

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DATE: May 7, 2014

SUBJECT: Analysis of potential development in TID 14

The City of Waukesha recently engaged Springsted to conduct an analysis for a proposed development to be built in the city. This report is intended to outline the inputs and assumptions that formed the foundation of our analysis, as well as the findings derived from those assumptions.

Introduction

The City of Waukesha was approached with a proposal to build a new retail development on land currently included in Tax Incremental District 14 ("TID 14"). Such development would require the City to re-zone the property to permit retail uses, and to remove the re-zoned parcels from TID 14. The City engaged Springsted to perform an analysis of the fiscal impacts of the proposed development, and to compare these impacts to the impacts of a potential industrial development in the same location. At the same time, Springsted was asked to perform an analysis of the impacts to the TID if the City were to re-zone and remove the affected parcels from the District.

Assumptions

Our analysis and projections depend on a great many assumptions about the proposed development. Some of these assumptions come from the developer's estimates of construction costs and the creation of new jobs. Others are estimates of commuting and shopping patterns, the origin of new employees, and the location and size of new households. These assumptions are based on Census data and our own professional opinions, supplemented by discussions with the developer and City staff.

For the proposed retail development, we use the following assumptions:

- Investment in land is $1 million; buildings and improvements come to $24 million.
- 450 new jobs will be created, of which 70% are full-time.
- The blended full-time/part-time average annual wage is $17,550.

For the potential industrial development, we use the following assumptions:

- Investment in land is $1 million; buildings and improvements come to $3.9 million.
- 32 new jobs will be created, at an average annual wage of $45,000.

Assumptions used in the model include the following elements shared by all scenarios:

- Construction occurs in 2014 and impacts are measured from 2015 through 2024.
- The City's primary revenue source comes from property taxes; the levy rate is $10.19 per $1,000 of assessed value.
- The City levies neither sales taxes nor income taxes on personal or corporate earnings.
- Per-resident and per-worker costs are based on the City's 2012 financial reports and recent Census figures of 70,593 residents and 38,933 persons working in the City.
    - Miscellaneous revenues derived from residential sources were calculated at $182 per resident; marginal per-capita costs equal $239.
    - Miscellaneous revenues allocated to commercial/industrial sources are calculated at $142 per worker; costs are $186 per worker.
    - Further explanation of these calculations is included later in this report.
- Based on current commuting patterns, 30% of new employees will live in Waukesha; the other 70% will commute from outside the City's boundaries.
- Of the new employees moving to the City, 15% will trigger new residential construction; the remainder will move into existing rental and housing stock.

Marginal Costs and Revenues

We reviewed the City's 2012 financial statements and used this information to generate per-capita and per-worker costs and revenues. On the revenue side, we excluded tax revenues in our overall calculations, because these sources are calculated separately based on project data. Including tax revenues in the per-capita calculations would result in double-counting, overstating the City's economic benefits. Non-tax revenues were allocated between residential and commercial sources, with an estimated 70% of revenues coming from residents, and 30% coming from businesses. From these, we derived revenues per capita and per worker.

For costs, we looked at the City's expenditures and allocated these items to residential and commercial uses using the same split of 70% residential and 30% commercial/industrial. From these, we calculated total average costs per capita and per worker. We then multiplied these average costs by 30%, as an estimate of marginal costs as measured against total average costs. This adjustment was made to take into account the fact that the City has significant fixed costs, and the number of new population from the project is unlikely to require significant investments in capital, personnel, or similar fixed costs to meet the service requirements of the newcomers.

Special Employment Impacts

In addition to the direct employment projected by the developer, our model uses an employment multiplier to estimate indirect employment and payroll values. For the "Retail Trade" sector, the multipliers are 1.230 for employment, and 1.356 for payroll. This means that for every 100 new positions created by a retail development, there will be 23 additional jobs created in the community. The higher payroll multiplier indicates that the indirect jobs are more highly compensated as the primary jobs; for this reason, for each $1,000 in payroll at the development, we calculate an additional $356 in payroll from related businesses.

For the industrial development scenario, the multipliers for "Miscellaneous manufacturing" are 1.507 for employment, and 1.370 for payroll. This results in a higher proportion of indirect jobs, at 51 per 100 direct jobs. The indirect jobs in this case are lower-paying, so while the indirect job multiplier is considerably higher than the retail equivalent, the indirect payroll is only slightly more, at $370 per $1,000 of direct payroll.

The additions for indirect employment contribute to per-capita costs and revenues for each jurisdiction. Because the City receives no direct economic benefit from sales taxes, the multiplier for additional payroll may be disregarded for this analysis.

Fiscal Impacts

Based on the development assumptions listed earlier, we calculate that the proposed retail development would show a positive economic impact to the City in each year of our analysis. These impacts are summarized as follows:

10-Year Economic Impacts – Retail

Year	Benefits	Costs	Net Impact
2015	357,120.50	128,486.53	228,633.97
2016	372,304.97	132,341.13	239,963.85
2017	388,079.11	136,311.36	251,767.75
2018	404,464.62	140,400.70	264,063.92
2019	421,483.99	144,612.72	276,871.27
2020	434,128.51	148,951.10	285,177.41
2021	447,152.36	153,419.64	293,732.73
2022	460,566.94	158,022.23	302,544.71
2023	474,383.94	162,762.89	311,621.05
2024	488,615.46	167,645.78	320,969.68
		10-Year Net Benefit:	2,775,346
		Present Value of Net Benefit:	2,111,314

In 2015, miscellaneous non-tax revenues for new workers and residents come to $98,030. Per-worker and per-capita costs for the same year come to $128,487, resulting in a net cost of $30,457. This is offset by property tax revenues in the amount of $259,091, resulting in a net positive impact of $228,634. This pattern continues through

the entirety of the analysis period, and results in a ten-year total benefit of $2.8 million. In present value terms, assuming a 5% discount rate, the net benefit would be $2.1 million.

Assumptions for the industrial development scenario were derived from similar developments in the area, and were summarized above. Based on these assumptions, we calculate that industrial development would also show a positive economic impact to the City each year, but to a lesser extent than in the retail scenario. These impacts are summarized below:

10-Year Economic Impacts – Industrial

Year	Benefits	Costs	Net Impact
2015	57,808.92	49,602.02	8,206.90
2016	59,950.61	51,090.08	8,860.53
2017	62,168.77	52,622.78	9,545.98
2018	64,466.06	54,201.47	10,264.60
2019	66,845.25	55,827.51	11,017.73
2020	68,850.60	57,502.34	11,348.27
2021	70,916.12	59,227.41	11,688.71
2022	73,043.60	61,004.23	12,039.38
2023	75,234.91	62,834.36	12,400.56
2024	77,491.96	64,719.39	12,772.57
		10-Year Net Benefit:	108,145
		Present Value of Net Benefit:	81,930

As shown above, the impacts due to a potential industrial development are a fraction of those calculated for the retail scenario. In 2015, per-capita and per-worker revenues and costs are $7,656 and $10,035 respectively, resulting in a net cost of $2,379. Property taxes amount to $50,153, of which $39,567 is diverted to TIF. The result is a net benefit of $8,207 in the first year, and $108,145 over the ten-year term. In present value terms, the net benefit is $81,930.

The difference between the two scenarios is due to a combination of factors. The primary factor is the relative size of each development. For the retail development, the value of buildings and improvements is $24 million, as compared to $3.9 million for the industrial development. Further, we assume that much of the property tax generated by the industrial development would be captured by TIF, thus reducing the net benefit to the City.

The other major factor is the number of jobs created. For the retail scenario, 450 direct jobs are created, resulting in an additional 103 indirect jobs. For the industrial scenario, direct employment is 32, with 16 indirect jobs. This results in much smaller per-worker and per-resident costs and revenues for the industrial development scenario.

Details on the fiscal impact calculations are included as an attachment to this report.

Alternate Analyses

As part of our analysis, we took a brief look at alternative scenarios regarding the retail development. We examined the impact if development costs were $18.3 million, based on other nearby developments. In this case, the total economic benefit was $1.99 million over ten years, with a present value of $1.51 million.

We also looked at the effect if City costs were increased 20% due to the greater number of people working and shopping at the retail development. Using this assumption, in combination with the lower property value assumption above, we find a total ten-year impact of $1.70 million, with a present value of $1.29 million.

Off-site Impacts

Another area of concern expressed by the City was the potential for negative economic impacts at nearby shopping centers as the result of the retail development under consideration. Specifically, the City was interested in the potential impacts if the new retail development caused some or all of the existing retail establishments at the Fox Run Shopping Center to close or relocate.

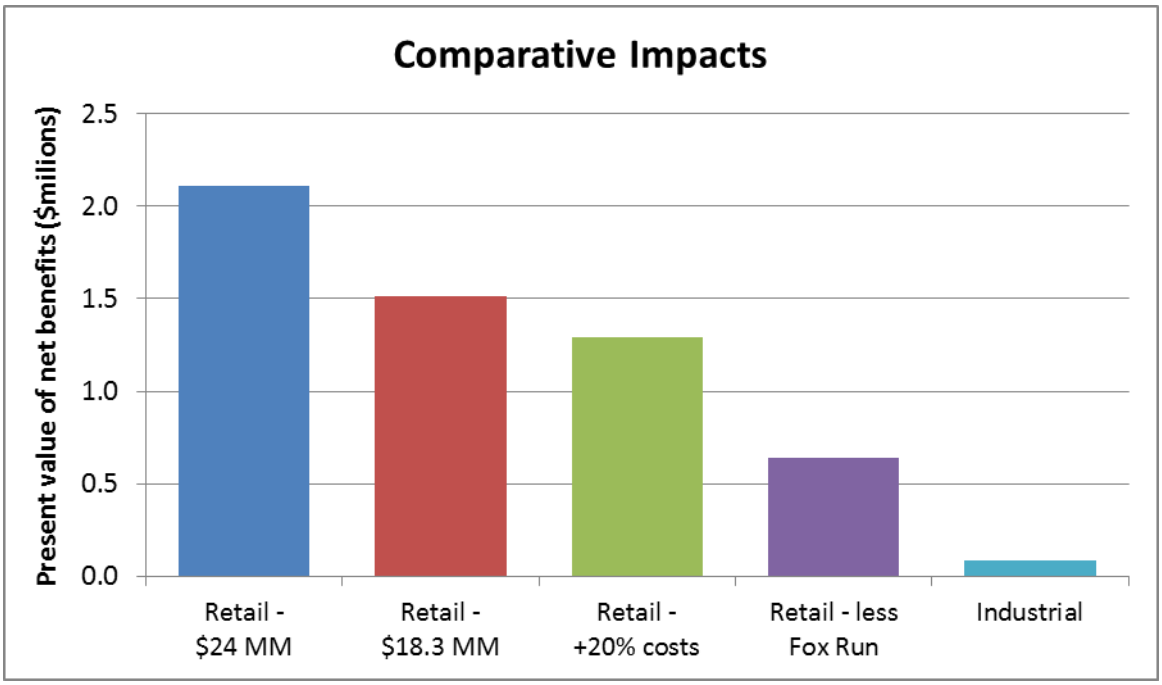
The shopping center is currently divided into three parcels. The first holds a Kohl's department store, with a 2013 assessed value of $4.97 million for buildings and improvements. The second parcel contains a retail strip with approximately 25,000 square feet of space; its 2013 assessed value was $1.76 million for buildings and improvements. The third parcel consists of a retail strip with 80,000 square feet of space, which is currently unoccupied. It also holds a 38,000 square foot supermarket, a 6,000 square foot restaurant, and a 3,000 square foot bank branch. The buildings and improvements on this parcel had a combined assessed value of $590,700.

For the purposes of this analysis, we focus on the assessed values of buildings and improvements, working from the assumption that the underlying land value will not change significantly.

If the new development were to cause the loss of business at the currently-occupied retail strip and reduce its value to zero, the effect of losing that $1.76 million in assessed value would mean a negative economic impact of ($17,888) per year. If combined with the lower-value, higher City cost alternate above, the ten-year impact would be reduced to $1.49 million, with a present value of $1.13 million.

If the new development were to cause the loss of all businesses on the three parcels, reducing the value for all buildings and improvements to zero, it would mean the loss of $7.32 million in assessed value. This would translate to a negative annual impact of ($74,584) for the City, until such time as the property was redeveloped. Assuming that no such development occurred within the ten years of our study, this scenario would reduce the ten-year net benefit to $844,724, and the present value impact to $638,655.

A comparison of the present-value economic impacts of the primary and alternate scenarios is shown visually in the chart on the following page.



Impacts on Tax increment District

Based upon the information provided by the City concerning Tax Incremental District No. 14 ("TID 14"), Springsted projected the estimated impact on the District of rezoning and removing a portion of parcel WAKC1332001005. The parcel is currently undeveloped and the developer has proposed removing 9.86 acres of the approximately 20.96 acre parcel from the district to expand the Shoppes at Fox River with additional commercial development. We have assumed that approximately 50% of the parcel's current land value would be removed from the district and utilized in the expansion.

Assuming constant tax rates, no reduction in the assessed value of the district, and no additional incurred obligations through the end of the district term, TID 14 can generate sufficient tax increment revenues to cumulatively meet the existing debt obligations represented in the 2012 annual TIF report and the pro-forma provided by the City. With this information, it does not appear that the removal of the undeveloped parcel would prevent the district from meeting its current debt obligations or extend the term of the district beyond the current expected close date of 2018.

Utilizing data provided by the City (including mill rates and estimated assessed values), we have estimated the increase in tax increment revenues if the above-mentioned parcel stayed in the district and a hypothetical industrial development was constructed. We have used the Gaco Western development as a comparable to estimate the impact of such a development. A development similar to the Gaco Western development could potentially increase the value of the TID by approximately $4.1 million, resulting in an estimated annual increment increase of $94,506.