

Warren Town Center
Economic Impact Analysis
Warren, Michigan



Prepared For:
City of Warren

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Warren Town Center in Warren, Michigan
Economic Impact Analysis



Figure 1: The proposed Warren Town Center is east of Van Dyke Avenue and south of South Civic Center Boulevard, in Warren, Michigan.

Executive Summary

This report analyzes the economic and fiscal impacts, both temporary and ongoing, of the proposed Warren Town Center – a mixed-use redevelopment on 14.7 acres east of Van Dyke Avenue and adjacent to Warren City Hall. The initial phase of the prospective development consists of 230 multifamily residential units, a 194-room hotel and 49,000 square feet of retail development (grocery store, dining and shops); a later phase will include an additional 250 multifamily units.

Project construction would produce temporary economic impacts consisting of approximately \$200 million in one-time net new economic output (sales) in the City of Warren, 1,032 new temporary jobs and \$58 million in new local earnings. Most (85 to 90 percent) of the temporary output, jobs and earning impacts would be *directly* due to project construction, with the remainder due to *indirect* and *induced* multiplier effects as construction-related firms buy local supplies and local households spend newfound earnings in the local economy.

Once fully operational, the Warren Town Center project would generate nearly \$46 million in ongoing, annual economic output (sales) for City of Warren establishments. It would also support approximately 261 local jobs with total earnings of \$7.1 million annually.

The projected fiscal effect from increased property taxes is estimated to be \$3.9 million after Phase 1 (of which \$1.6 million would be allocated to the city) and \$5.6 million at project completion (of which \$2.4 million would flow to city funds). On the other hand, the project would result in annual new municipal service costs of approximately \$1.5 million after Phase 1, rising to \$2.1 million annually once Phase 2 is complete. Therefore, the net fiscal impact to the city would be approximately +\$180,000 annually, rising to just over +\$220,000 annually after project completion.



Figure 2: The Warren Town Center was planned to provide a new, attainable vision for a walkable, mixed-use urban center on the city-owned civic campus.

Background

Gibbs Planning Group (GPG) has been retained by the City of Warren to evaluate and quantify the likely economic and fiscal impacts of the proposed Warren Town Center development. The project as planned consists of mixed-use development including retail, dining, market-rate apartments, lodging and potentially other related land uses.

This economic and fiscal impact analysis includes estimates of the following:

- Short-term impacts to the local economy (defined as the City of Warren) from project construction including direct and indirect employment and output
- Long-term, ongoing impacts to the local Warren economy, including output (primarily sales) from ongoing project operation (using BEA RIMS II multipliers where applicable)
- Fiscal impacts to City of Warren as follows:
 - Long-term annual revenues from project operation (property taxes, sales/use taxes, lodging taxes, etc.)

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- Long-term annual cost of major city service categories due to project, based on a property value-based fair share apportioning of municipal costs to the net new project land uses.

This analysis is based on existing site plan assumptions as to type and quantity of land uses, a set absorption timetable and reasonable construction cost estimates. Essential data inputs were obtained from the US Census, the Bureau of Economic Analysis, Macomb County Assessor and City of Warren budgets and related financial statements.

Economic Impacts: Concepts & Assumptions

Direct, Indirect & Induced Impacts

Central to the field of economic impact analysis is the understanding that when a new policy or project leads to new direct local spending (e.g. retail sales, hotel visits, facility construction), that economic activity may continue to ripple through the local economy as some of those direct expenditures get re-spent on Warren-based goods and services by local firms and households.

Economists refer to the initial round of activity as *direct* impacts. When this direct spending is re-spent by establishments to buy supplies and services necessary to satisfy the initial demand (such as when a new restaurant pays a local linen service to launder tablecloths, napkins and uniforms) these business-to-business transactions constitute *indirect* impacts. Similarly, the employees of direct impact firms will spend at least some of their new wages on local goods and services. This household-level re-spending is referred to as *induced* impacts.

Measures: Output, Employment, Earnings

All of the above impacts are typically estimated using three main economic measures. The first measure, *output*, is the total value of the goods exchanged locally in a given wave of spending (whether direct, indirect, or induced). For construction, direct output is simply the total value of the thing constructed. For hotels and restaurants, direct output is the sum of total sales¹.

In the course of producing their output, local establishments will create new jobs and pay new wages to those workers. Thus, *employment* and *earnings* (which also include proprietor profits) are two additional measures of potential impact.

To estimate output, employment and earnings occurring due to direct, indirect and induced spending, analysts rely on so-called economic “multipliers” that are calibrated to reflect the inter-relationship across hundreds of industry categories over all U.S. counties. There are a number of private firms (including IMPLAN and REMI) that will provide multiplier estimates based on proprietary models. The underlying information used by these providers is tied to a matrix of industry input-output data tracked by the US Bureau of Economic Analysis (BEA), and is also sold directly to researchers through the BEA’s Regional Input-Output Modeling System (RIMS

¹ Output for retail establishments, for somewhat more complicated reasons relating to how the Bureau of Economic Analysis tracks inter-industry spending, is limited to retailers’ margins on sales, to avoid double-counting with manufacturing and wholesaler activity.

II) program. The analysis reported here uses RIMS II multipliers to calculate the expected ripple effects due construction and operation of the subject development.

Temporary vs. Ongoing

Finally, impacts can also be classified based on whether they result from one-time, temporary activity such as facility construction or ongoing activity related to continuing facility operations. This analysis reports estimated impacts from both temporary construction-related activity and ongoing operations-based measures (reported here both as annual figures and as a cumulative net present value, where applicable).

Fiscal Impacts: Concepts & Assumptions

In some ways, the analysis of fiscal impacts is more straightforward than that for economic impacts. With a specific focus on the City of Warren, this report outlines the changes to tax revenues and city service costs likely to result from development of the subject project (with commentary on Macomb County and state of Michigan)

Revenues

The primary source of municipal revenue for the City of Warren is property taxes. Purchases in Michigan are subject to sales and use taxes that are applied at the state level with revenues distributed to counties and municipalities based on formulas that are largely population-based. While Michigan municipalities can charge income taxes, Warren is not one of these cities. Thus, new local sales and hotel rentals would have only a marginal, indirect impact on the city's fiscal revenue flows.

To determine property tax obligation, the City of Warren Assessing Department appraises all real property in the city to estimate actual market value ("true cash value"). These estimated market values are converted to assessed values at a ratio of 50%. The assessed tax value is then multiplied by applicable millage rates to determine each parcel's annual property tax bill.

In the adopted fiscal 2020 budget for Warren, property taxes account for over \$69 million in expected revenue for General Fund budget items (including general government, public safety, and public services such as inspections, engineering and street lighting). Another \$29 million in property taxes go to other non-general fund Warren budget areas (including funds dedicated to sanitation, library, recreation, and local street replacement/repair).

While property taxes are by far the largest revenue source for Warren expenditures, both the General Fund and the four other specific funds receive additional funding from other sources. The largest of these sources is intergovernmental revenue sharing – a common mechanism in the State of Michigan, wherein locally-gathered state sales taxes and significant portions of the local property tax millage feed into a statewide fund for redistribution back to counties and municipalities. Because the chain of funding flows through this revenue-sharing arrangement is

indirect and not amenable to tracking, this analysis focuses only on the property tax portion of both revenues and corresponding expenditure budgets².

The four City-owned tax parcels making up the subject property currently have zero assessed value and are currently exempt from property taxes. As such, the total value of any redevelopment occurring on the assembly would be fully realized in the form of new potentially taxable value

Taxing authorities and millage rates applicable for the subject parcels are summarized in the table at right. Millage rates are multiplied by the assessed property value (again, expressed in Michigan as 50% of the true cash value estimate) divided by 1,000, to arrive at a property's annual tax obligation.

Expenditures

To determine the impact of new development on City service costs, we employ a fair-share approach, assuming that added residents and commercial activity will increase service burdens in approximate proportion to the existing ratio of costs to developed property. While those ratios could be calculated on a per-capita basis, the resulting multipliers would understate (or omit) the cost of servicing new commercial land uses.

A more equitable method, employed here, takes a pro-rata value-based approach -- assumes that municipal service costs should rise in general proportion to the increase in property value added by new development. Therefore, for each budget category, the fair share cost allocation should equal the expenditure total covered by property taxes, divided by the total valuation of all City of Warren parcels.

<i>Property Tax Millage Breakdown</i>		
Taxing Authority	Millage Rate	
WARREN OPERATING	8.6249	
CITY ROAD IMPROV	2.0749	
EMS	0.2871	
LIBRARY	1.3145	
SANITATION	2.5550	
ACT 345 POL/FIRE	4.9848	
POLICE OPERATING	0.9624	
FIRE OPERATING	0.9624	
POL & FIRE OPER	4.8418	
RECREATION	0.9580	
ZOO AUTHORITY	0.0985	
ART INSTITUTE	0.1965	
City of Warren Subtotal		27.8608
MACOMB CNTY OPER	4.4592	
MCC OPERATING	1.4531	
MAC INT SCH DIST	2.8744	
STATE ED TAX	6.0000	
WAR CON OPERATIN	17.9463	
WAR CON DEBT/SF	4.7800	
MACOMB CTY DEBT	0.0050	
MACOMB VETERANS	0.0676	
HURON-CLINT PARK	0.2129	
SMART	1.0000	
All Other Subtotal		38.7985
Total, City + All Other Authorities		66.6593
<i>Source: City of Warren Assessing Department; based on Summer 2019 and Winter 2018 rates</i>		

In 2018, the estimated actual value of the City's combined parcels was \$7.17 billion. So, the \$69.2 million in citywide property taxes budgeted for General Fund spending works out to \$9.65

² Finally, other revenues sources such as those due to fees, fines, permits and direct charges for services are assumed here to match their corresponding specific municipal costs closely enough that they can be ignored as self-supporting and net-neutral in this analysis.

per \$1,000 in actual citywide property value. Together with expenditures for library, recreation, sanitation and local road repair funds, the calculated fair share of citywide municipal expenditures is \$12.42 per \$1,000 in actual property value.

Development Program & Phasing

The project as currently proposed includes an initial phase of 230 multifamily units, along with a 25,000 square foot grocery store and 24,000 square feet of additional retail (assumed for this analysis to be comprised of 14,000 square feet of dining/food service space and 10,000 of assorted other retail shops). Phase 1 also includes a 194-room hotel of approximately 160,000 square feet.

A Phase 2, comprised of 250 additional multifamily units (including 9 townhomes), is planned to follow at an unspecified date. For this analysis, we assume that Phase 1 construction takes place in a Year Zero, with operations running in Year 1. Phase 2 is assumed to be built and operational by Year 6.

An optional \$3,000,000 pedestrian connector bridge is desired for Phase 1 to connect the project to the massive GM Tech Center west of the project site across Van Dyke Avenue. This valuable add-on would affect construction period economic impacts but is not assumed to change the project’s ongoing economic or fiscal impact figures.

<i>City of Warren Budget Expenditures by Category</i>			
	2020 Budget Expenditures	Property Tax Portion of Budget	Expenditures per \$1K actual value (based on 2018 total actual value of \$7.17 billion)
General Government	\$27,956,000		
Public Safety (Police, Fire)	\$70,256,000		
Public Services & Planning	\$17,608,000		
General Fund Subtotal	\$115,820,000	\$69,240,000	\$9.65
Library	\$5,318,000	\$4,308,000	\$0.60
Recreation	\$5,652,000	\$3,139,000	\$0.44
Sanitation	\$9,490,000	\$8,374,000	\$1.17
Local Roads	\$7,435,000	\$3,986,000	\$0.56
Total	\$143,715,000	\$89,047,000	\$12.42

Findings

The following tables show inputs and calculated estimates summarizing the short and long-term impacts of the proposed development. The first table, below, is the only one that shows impacts at the county level. As mentioned in the assumptions section, the BEA RIMS II impact multipliers used in this analysis are calibrated at the county level. For the project at hand, *direct* effects on the City of Warren should be equal to those countywide estimates, since they relate to sales and jobs taking place on the subject property itself. However, for *indirect* and *induced* effects, our estimates must include an adjustment to convert countywide impacts to reflect the likely share taking place within the City of Warren. The final column in the table below shows a 0.28 factor to

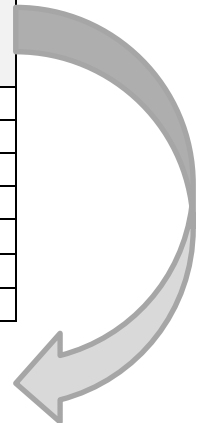
make that adjustment. That fraction assumes that Warren’s 28% share of total Macomb County employment is a reasonable indicator of the City’s share of all ripple-effect establishment and household spending of direct-effect dollars.

After adjusting for Macomb County – to – Warren effects (28% for indirect and induced), the table below shows that construction of the subject project should result in nearly \$200 million in Warren economic output, 1,032 temporary local jobs and almost \$58 million in new earnings for Warren employees. These totals include the direct hard and soft cost spending needed to construct the project, as well spin-off rounds of spending as direct firms buy supplies and services from other firms in Warren (indirect) and construction industry workers and their households spend new wages on local goods and services (induced).

Economic Impacts, Short-Term/Construction

Construction Impacts to Macomb County

		Output/Economic Activity	Jobs	Earnings	Macomb-to-Warren adjustment
Phase 1 & 2	Direct	\$171,777,000	904	\$52,197,000	1
	Indirect	\$58,352,000	201	\$10,712,000	0.28
	Induced	\$40,860,000	257	\$8,637,000	0.28
Phase 1 Only	Direct	\$117,645,000	635	\$36,605,000	1
	Indirect	\$38,884,000	147	\$6,995,000	0.28
	Induced	\$28,319,000	178	\$5,984,000	0.28



Construction Impacts to City of Warren

		Output/Economic Activity	Jobs	Earnings
Phase 1 & 2	Direct	\$171,777,000	904	\$52,197,000
	Indirect	\$16,339,000	56	\$2,999,000
	Induced	\$11,441,000	72	\$2,418,000
	Total	\$199,557,000	1,032	\$57,614,000
Phase 1 Only	Direct	\$117,645,000	635	\$36,605,000
	Indirect	\$10,888,000	41	\$1,959,000
	Induced	\$7,929,000	50	\$1,676,000
	Total	\$136,462,000	726	\$40,240,000

Economic Impacts, Long-Term/Operations

Once each phase of the project is constructed and fully operational, its hotel and retail components will begin to generate new direct economic activity. Based on draft pro forma information from the prospective development team, the hotel is anticipated to generate approximately \$14 million in direct annual revenues from room rental, food & beverage and other

hotel activities. Together with modest spin-off indirect and induced spending, we estimate the total annual economic output in Warren to rise by \$15 million from the hotel component alone, with 107 permanent new jobs and \$3.3 million in new earnings for Warren employees.

Similarly, the grocery component is expected to generate \$4.3 million in total direct, indirect and induced output in Warren. Remember that for retail stores (but not restaurants), the BEA counts only the *margin* on sales, after cost of goods, in their output calculations. Together with the likely restaurant and non-grocery retail elements, Phase 1 retail in total should generate more than \$10.7 million in annual output, 119 jobs and about \$2.6 million in net new local wages.

Annual Net New Economic Impact of Project Operations, by Land Use (City of Warren)

	Output	Jobs	Earnings
Hotel	\$15,171,785	107	\$3,306,490
Retail - grocery	\$4,267,125	44	\$1,113,653
Retail - other	\$853,425	9	\$222,731
Retail - restaurant	\$5,622,221	67	\$1,277,648
Phase 1 Residential	\$9,560,640	17	\$565,484
Phase 2 Residential	\$10,392,000	18	\$614,656
Total	\$45,867,196	261	\$7,100,660

Constant Year 1 (uninflated) dollars

To account for effects of new apartment residents moving to the subject project, we follow the BEA’s methodology for estimating the impact of that net new spending power. Based on typical project rents and a 30%-of-gross income affordability estimate, we assume that typical project new households will earn approximately \$64,000 per year in Year 1 dollars. That input yields net new Warren spending of approximately \$9.6 million from Phase I households and \$10.4 million from Phase 2 households – supporting across both phases a total of 35 new local jobs and over \$1 million in new local wages.

Fiscal Impacts, Long-Term/Operations

City of Warren Property Tax Revenue - Inputs

	Project Actual Cash Value	Assessed Value (50%)	Start Year	City Millage	Total Millage
Phase 1	\$117,645,000	\$58,823,000	1	27.8608	66.6593
Phase 2	\$51,132,000	\$25,566,000	6	27.8608	66.6593
Total, Phase 1 & 2	\$168,777,000	\$84,389,000		27.8608	66.6593

As with economic impacts, our fiscal impact estimates assume that net new development

resulting from the project is approximately 50% of the actual development totals by land use. This assumption is reflected in both revenue and expenditure calculations below.

Also, unlike with economic calculations based on operations, there is no two-year ramping-up period to arrive at full effect. Once construction is complete on each phase, the phase is assumed to be at full potential value.

Once Phase I is complete, the project will generate approximately \$3.9 million in annual property tax revenue, with \$1.6 million allocated to the City of Warren (in constant, uninflated Year 1 dollars). By full project completion, annual property tax revenues will increase to \$5.6 million annually in total, with \$2.4 million flowing to City of Warren funds.

City of Warren Property Tax Revenue Impacts

Property Tax Revenue - City of Warren Portion (all in Year 1 dollars -- no inflator)							
	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7...
Phase 1	\$1,638,842	\$1,638,842	\$1,638,842	\$1,638,842	\$1,638,842	\$1,638,842	\$1,638,842
Phase 2						\$712,289	\$712,289
Total, Phase 1 & 2	\$1,638,842	\$1,638,842	\$1,638,842	\$1,638,842	\$1,638,842	\$2,351,131	\$2,351,131

Property Tax Revenue Impacts -- Total

Property Tax Revenue – Total, City of Warren & Other Entities (all in Year 1 dollars -- no inflator)							
	Yr 1	Yr 2	Yr 3	Yr 4	Yr 5	Yr 6	Yr 7...
Phase 1	\$3,921,067	\$3,921,067	\$3,921,067	\$3,921,067	\$3,921,067	\$3,921,067	\$3,921,067
Phase 2						\$1,704,212	\$1,704,212
Total, Phase 1 & 2	\$3,921,067	\$3,921,067	\$3,921,067	\$3,921,067	\$3,921,067	\$5,625,278	\$5,625,278

After Phase 1 completion, the project should result in annual new municipal service costs for the City of approximately \$1.5 million, rising to \$2.1 million annually once Phase 2 is complete (calculated as a pro-rata “fair share” based on share of citywide property value).

Fair Share Expenditure Impacts

	Project Actual Value	Citywide Cost per \$1,000 in Property Actual Value	Estimated Municipal Costs Due to Project
Phase 1	\$117,645,000	\$12.42	\$1,461,000
Total Phase 1 & 2	\$171,777,000	\$12.42	\$2,133,000

Thus, the project is expected to generate a **moderate positive net fiscal flow** to the City (approximately +\$180,000 annually, rising to just over +\$220,000 annually after Phase 2 is complete). These net positive fiscal impacts should continue through the life of the project, subject of course to changes in mill levy rates and City budgets.



Figure 3: Watercolor rendering of the Warren Town Center.

Limits of Study

The findings of this study represent GPG's best estimates of the economic and fiscal impact of the proposed Warren Town Center development. Every reasonable effort has been made to ensure that the data contained in this study reflects the most accurate information possible and is reliable. However, this analysis relies heavily on cost and revenue inputs provided by the development team. While those assumptions appear reasonable, if those inputs prove to be overly aggressive the resulting impact estimates shown here may overstate positive effects on jobs and economic activity.

This analysis is *not* intended to serve as an investigation of market feasibility for any of the proposed project elements. All findings reported here regarding likely impacts are based on a development program and absorption time frame provided by the development team.

The actual economic and fiscal impacts of the Warren Town Center development may vary from those described in this report, and the variations may be material. Therefore, no warranty or representation is made by GPG that any of the projected results contained in this study will be achieved.

-- End of Study --