



**Miley
Gallo**
& Associates, LLC

**THE ECONOMIC IMPACT OF
POLKS CENTRE**

**PREPARED FOR
BLAKE & ASSOCIATES, INC.**

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Research Triangle Park, NC ■
Columbia, SC ■

THE ECONOMIC IMPACTS OF POLKS CENTRE

INTRODUCTION

This report evaluates the economic impacts of Blake & Associates, Inc.'s proposed commercial development on Chatham County, North Carolina. This analysis is intended to provide the County with an estimate of the level of economic activity and jobs that will be generated in Chatham County during the construction period as well as the ongoing economic impacts of Polks Centre once the project is completed.

PROJECT DESCRIPTION

Polks Centre has several components planned for the 125,000 square feet on the 40-acre site. These components include 110,000 square feet of office/retail space, a bank, and two restaurants. There are no residential units planned for Polks Centre.

THE STUDY AREA

The economic impacts of Polks Centre will primarily be felt in Chatham County but impacts will also extend throughout the surrounding area. This analysis focuses solely on the economic impact on Chatham County.

The developer and the builders constructing the facilities in Polks Centre will purchase many of the required materials and services in Chatham County. However, the greatest long-term impacts will be from jobs created and filled by residents living and working in the County. In addition to the labor inputs, the builders and future Polks Centre employees will purchase such raw materials as electricity, food and beverage supplies, various professional services (legal, accounting, medical and dental), maintenance, miscellaneous supplies and transportation services in Chatham County.

The County has experienced substantial growth during the last decade. While much of the County is rural in nature, the area has become attractive to people who work in the Research Triangle Park.

Chatham County is relatively large in terms of square miles, as it comprises about 683 square miles. According to the North Carolina Department of Commerce, the population in the County was approximately 56,000 in July 2005. Employment in the County exceeded 30,000 workers in April 2006.

The average income in Chatham County is well above the average for the state. Based on the latest data published by the North Carolina Department of Commerce, the 2003 per capita income in the County was 15% above the state average - \$32,236 in Chatham County compared to \$28,071 for the state.

THE ECONOMIC IMPACTS OF POLKS CENTRE

ECONOMIC IMPACTS OF POLKS CENTER

The development of Polks Centre will have impacts on the Chatham County economy and the surrounding counties in two phases. The initial impacts will occur during the construction of the commercial properties. Once construction is completed, the employees working in the new facilities and the commercial activities occurring within these facilities will have additional impacts on the local economy on an ongoing basis. It is important to note that this analysis focuses only on Chatham County. The economic impacts on the region will be larger than those occurring within the boundaries of Chatham County. This is due to the fact that the smaller the study area, the more the leakages (purchases and sales) will occur outside the area. Smaller and fewer ripples will occur inside the area. Thus the multipliers are smaller in the smaller geographic areas.

This analysis utilizes impact models generated by the IMPLAN modeling system.¹ IMPLAN is a nationally recognized system of local economic models that are specifically designed to represent a local economy such as Chatham County. The IMPLAN models are modifications of the national input-output models developed by the Bureau of Economic Analysis, US Department of Commerce. The IMPLAN models incorporate the most recent data available. These are generally 2002 unless otherwise noted.²

The methodology and assumptions underlying these estimates and those in the following section are provided in the published report. The estimates are based on constant dollars and assume no inflation during the project's buildout. This assumption applies to all estimates in the analysis, including: property values, incomes, sales, construction materials, etc. The assumption of constant dollars provides a more accurate analysis of the impacts since both revenues and costs are assumed to increase at relatively even rates during the buildout period.

IMPACTS FROM THE CONSTRUCTION PHASE

The economic impacts from the construction phase of Polks Centre are outlined in this section of the report. These impacts will be relatively short-term since the construction of the project is assumed to take approximately two years.

Based on estimates by the developers, the construction phase of the development will result in direct investment of approximately \$31.25 million at the time of the project's completion. This investment is outlined below:

¹ IMPLAN is the regional modeling system developed by MIG, Inc., Stillwater, MN.

² The latest data available for the IMPLAN modeling system are for 2003. However, the final dollar impacts estimated in this analysis reflect 2006 prices.

THE ECONOMIC IMPACTS OF POLKS CENTRE

Table 1
Planned Polks Centre Investment*

Office/Retail Space – (i.e. Office Supply Store)	110,000 sf	\$27,500,000
Bank	5,000 sf	1,250,000
Restaurant A	5,000 sf	1,250,000
Restaurant B	<u>5,000 sf</u>	<u>1,250,000</u>
Total	<u>125,000 sf</u>	<u>\$31,250,000</u>

* The exact size, type and cost of the facilities may vary slightly due to market conditions.

As the construction dollars are spent and re-spent in Chatham County, additional income is created for those companies and individuals that supply goods and services to the construction of the commercial/office space. The recipients of this income will spend it on other goods and services. Each time, some of the purchases will be for goods and services inside Chatham County and some will be for goods and services from outside the area (often referred to as “leakages”). This is the well known “multiplier effect”.

The multipliers used in this analysis estimate three components of total change within the local area:

- *Direct effects* represent the initial change in the industry in question.
- *Indirect effects* are changes in inter-industry transactions as supplying industries respond to increased demands from the directly affected industries.
- *Induced effects* reflect changes in local spending that result from income changes in the directly and indirectly affected industry sectors.

The cycle of spending continues until leakages from the region (spending on goods and services outside the area) stop the cycle. Due to the ripple effects of the multiplier, the initial, direct investment results in an indirect impact of many more dollars.

As seen in Table 2, the compounding effects of the multiplier cause the initial direct investment of \$31.25 million (approximately 80% or \$25 million in construction costs) to result in an indirect impact of \$4.6 million and an induced impact of \$4.4 million within Chatham County. This results in a total increase in output of \$34.0 million for Chatham County from the construction of Polks Centre.

THE ECONOMIC IMPACTS OF POLKS CENTRE

Table 2
Construction Impacts on Chatham County

	<u>Direct</u>	<u>Indirect</u>	<u>Induced</u>	<u>Total</u>
Output	\$25.0M	\$4.6M	\$4.4M	\$34.0M
Labor Income	\$10.7M	\$1.8M	\$1.3M	\$13.8M
New Jobs	363	54	53	470

*M = Million

New jobs will also be created during the construction period. It is estimated that there will be 363 new jobs directly created in Chatham County from the construction activity at Polks Centre. In addition to these direct jobs, another 54 jobs will be created as an indirect effect of the construction activity and another 53 new jobs from the induced impacts – for a total of 470 new jobs in Chatham County during the construction phase of Polks Centre. This job creation will decline as the project nears completion.

During Polks Centre’s construction, Chatham County will experience an increase in labor income. As seen in Table 2, the compounding effects of the multiplier cause the initial direct investment of \$31.25 million (\$25.0 million in construction costs) to result in a direct impact on labor income in Chatham County of \$10.7 million. These dollars circulate throughout the County and result in an indirect impact of an additional \$1.8 million in labor income and an induced labor income impact of \$1.3 million – for a total increase of labor income in Chatham County of \$13.8 million.

ONGOING IMPACTS FROM POLKS CENTRE

In addition to the impacts from the commercial construction activity, Chatham County will also experience economic activity generated by new employees in the Polks Centre facilities. The economic impacts of this employment are based on the projected total income of 137 employees anticipated to work in Polks Centre establishments.

Total personal income of the employees is estimated based on the projected square footage, type of business, and occupational earnings data for the types of businesses that are currently expected to locate in Polks Centre.³

³ The exact employment, occupation and salaries may vary due to market conditions.

THE ECONOMIC IMPACTS OF POLKS CENTRE

Table 3		
Polks Centre Direct Employment and Payrolls		
	<u>Estimated Employment</u>	<u>Estimated Annual Payroll</u>
Retail/Office Space – (i.e. Office Supply Store)	108	\$2,343,000
Bank	7	264,000
Restaurant A	11	166,000
Restaurant B	<u>11</u>	<u>166,000</u>
Totals	<u>137</u>	<u>\$2,939,000</u>

Based on various industry statistics, the ongoing commerce generated in Polks Centre is estimated to be \$44.7 million a year. As seen in Table 4, the compounding effects of the multiplier cause the initial direct activity of \$44.7 million to result in an indirect impact of \$4.6 million and an induced impact of \$8.1 million within Chatham County. This results in a total increase in output for Chatham County of \$57.4 million from the ongoing commercial activities of Polks Centre.

Table 4				
Summary of Permanent Impacts on Chatham County				
	<u>Direct</u>	<u>Indirect</u>	<u>Induced</u>	<u>Total</u>
Output	\$44.7M	\$4.6M	\$8.1M	\$57.4M
Labor Income	\$ 2.9M	\$0.2M	\$0.3M	\$ 3.4M
New Jobs	137	8	12	157
*M = Million				

It is estimated that the 137 employees will earn approximately \$2.9 million in total personal income at the time of the development's buildout. Using the IMPLAN modeling system, the activity generated by the spending of these employees will produce an increase in the estimated direct annual output in Chatham County of over \$2.9 million. As seen in Table 4, this direct impact will then have an indirect impact of \$208,000 and

THE ECONOMIC IMPACTS OF POLKS CENTRE

an induced impact of an additional \$286,000 for total impacts of almost \$3.4 million in Chatham County.

Based on the anticipated mix and size of commercial activities planned for Polks Centre, we estimate there will be an additional 20 jobs created in Chatham County from the direct spending of the employees working in Polks Centre as well as the commercial activity generated. Therefore, Polks Centre is expected to create a total of 157 new jobs in Chatham County ($137 + 20 = 157$).

These impacts will begin to occur within a year or so of the construction of the commercial operations in Polks Centre and will grow in magnitude until the project is completed.

LOCAL TAXES GENERATED BY POLKS CENTRE

Polks Centre will generate substantial local property taxes for the Chatham County government. The commercial tax base in Chatham County will increase by approximately \$31.25 million upon the completion of the project. Based on the current ad valorem tax rate, Polks Centre will produce approximately \$187,000 per year at buildout. These annual tax revenues are based on the assumptions in Table 1 and assume the property tax rate in effect during 2006 is constant at 0.5970% over the buildout period.⁴

Polks Centre will also generate sales tax collections that will accrue to Chatham County. While it is beyond the scope of this analysis to estimate all of the fiscal impacts of Polks Centre, a conservative estimate of 1% of total commercial sales activity of \$44.7 million will generate approximately \$447,000 in sales taxes for Chatham County on an annual basis.

Together, the additional property and sales tax collections should result in a net fiscal benefit to Chatham County. The cost of providing additional County services to Polks Centre should be relatively modest. The primary reason for this low impact on County services is that new Chatham County public school students will not be directly generated from the project. In addition, since the project is located in a well-established area of the County, most of the infrastructure – such as water and sewer capacity and connecting traffic arteries – already exists to serve the area.

SUMMARY

As outlined in the accompanying analysis, it is clear that the development of Polks Centre will have a positive impact on Chatham County. These benefits will be generated from

⁴ It is beyond the scope of this analysis to estimate the costs to the County from the project, but it is reasonable to assume they will be relatively modest since no residential units are planned.

THE ECONOMIC IMPACTS OF POLKS CENTRE

both the construction phase and the ongoing permanent commercial activities in Polks Centre.

Table 5 presents a brief summary of the economic impacts during the construction phase as well as the ongoing operations of the Polks Centre development on Chatham County. As seen below, the project will create over \$57 million of economic activity on an ongoing basis and almost 160 new jobs for Chatham County.

Table 5
Polks Centre Impacts on Chatham County

	<u>Construction Phase Impacts</u>	<u>Permanent Impacts</u>
Output	\$34.0M	\$57.4M
Labor Income	\$13.8M	\$3.4M
Employment	470	157
Tax Base	\$6.3M	\$31.25M
Annual Property Taxes	\$37,000	\$187,000

*M = Million

METHODOLOGY

This study estimates the economic impacts of the proposed Polks Centre project on the Chatham County economy. The methodology used in this study is the IMPLAN regional input-output modeling system developed by MIG, Inc. of Stillwater, Minnesota.

IMPLAN was developed by MIG, Inc. as a cost-effective means to develop regional input-output models. The IMPLAN accounts closely follow the accounting conventions used in the "Input-Output Study of the US Economy" by the Bureau of Economic Analysis (1980) and the rectangular format recommended by the United Nations.

The IMPLAN Input-Output Model mathematically describes commodity flows from producers to intermediate and final consumers. Purchases for final use (final demand) drive the model. Industries producing goods and services for final demand also purchase goods and services from other producers. These other producers, in turn, purchase goods and services. This buying of goods and services (indirect purchases) continues until leakages from the region stop the cycle.

THE ECONOMIC IMPACTS OF POLKS CENTRE

The IMPLAN input-output model mathematically derives these indirect and induced effects. The resulting multipliers describe the change in output for each and every regional industry caused by a one-dollar change in final demand for any given industry. The notion of a multiplier rests upon the difference between the initial effect of a change in final demand and the total effects of that change. Total effects are the direct effects plus indirect effects, plus induced effects. Direct effects are the production changes associated with immediate final demand changes. Indirect effects are production changes in backward-linked industries caused by the changing input needs of directly effected industries. Induced effects are those resulting from the household expenditures from new labor income.

In essence, the multipliers estimated by this methodology represent the chain-reaction, ripple effect in an economy that a new dollar of economic activity would produce. To produce a dollar of new product, employees must be hired and paid. The wages paid to these workers will then be spent on goods and services, such as food, gasoline, clothes, housing, etc. within the region and outside the region. As these dollars are spent, they become income to the recipient, and the spending continues over and over again.

The economic activity of the project also requires intermediate inputs to be purchased such as electricity, raw materials, transportation services, etc. These expenditures will also become income to the recipient. These dollars are paid out by the receiving company in the form of purchases for raw materials, labor, etc. They, in turn, are then spent over and over again in the economy. When purchases are made from outside the region, they are considered “leakages” from the economy. The chain-reaction buying of goods and services continues until these leakages from the region stop the cycle.

EMPLOYEES PER SQUARE FOOT

Estimates of employment per square foot are based on those published by Arthur C. Nelson, Planner’s Estimating Guide: *Projecting Land-Use and Facility Needs*. American Planning Association, 2004.

Table 6 Polks Centre Employment	
	<u>Employment Per Square Foot</u>
Retail Office – (i.e. Office Supply Store)	1,021
Bank	744
Restaurant	459

THE ECONOMIC IMPACTS OF POLKS CENTRE

EARNINGS PER WORKER

Annual payrolls for each type of facility identified in Table 1 are estimated based on occupational wage data published by the North Carolina Employment Security Commission. Annual earnings per worker are estimated based on average wages by industry for the following industries multiplied by 2,000 hours per year.

Table 7			
Polks Centre Estimated Payrolls			
	<u>Average Hourly Wages (1)</u>	<u>Estimated Employees (2)</u>	<u>Annual Payroll</u>
Retail/Office – (i.e. Office Supply Store)	\$10.88	108	\$2,343,000
Bank	\$19.68	7	\$ 264,000
Restaurant A	\$ 7.64	11	\$ 166,000
Restaurant B	\$ 7.64	11	\$ 166,000

Source: (1) North Carolina Employment Security Commission
(2) A.C. Nelson, Planner's Estimating Guide: Projecting Land-Use and Facility Needs.