

Meadowbrook-Lee Economic Impact Statement

Municipally owned land on the east side of Lee Road, between Tullamore and Lee Roads has sat fallow for several years. The City of Cleveland Heights has invested and leveraged other resources to acquire and remediate the site. Now, this prime development site in the heart of a vibrant commercial district presents an exciting opportunity for the entire community.

Any development of the site will have a tremendous impact to the surrounding neighborhood, the City, and more broadly the economic fortunes of the regional community. To derive these benefits, significant investments must be made to improve the site. However, financing in the current economy poses many challenges. This is why a partnership between the City and a Developer will achieve mutually beneficial benefits.

The Developer, The Orlean Company (Orlean), clearly takes on the largest risk, not only with the infusion of their equity but also by provision of the necessary guarantees that will be required. However, in exchange, the rewards include development fees, operating incomes, and possibly additional dividends as return on private investment. The City's investments could include subsidies such as tax abatement, grants, and donated land. For those investments, the City would receive numerous benefits as will be illustrated herein.

Income Tax Impacts

The Meadowbrook-Lee development (Meadowbrook-Lee) will consist of 71, upscale, market rate apartments over approximately 13,000 square feet of commercial space primarily dedicated to tech-loft office space for high wage employees with the balance dedicated towards convenience retail for the residents and businesses within and the surrounding area.

Within the 71 new households, Orlean projects 107 new residents, based on the standardly accepted methodology which presumes that within the general demographic of the tenants, approximately 50% of the apartments would be inhabited by two people, regardless of unit size. Further, resident income is computed by dividing the monthly rental rate by 30% as 30% is the generally accepted maximum rent a household pays as a percentage of total income. Then, the result is multiplied by 12 to compute the estimated annual income for each resident. Finally, this estimated income is taxed at the 2% income tax rate currently in effect in Cleveland Heights.

Therefore, Orlean projects annual income tax revenues of approximately \$111,014 that will yield \$1,316,992 over the first 11 years this building is placed into service as illustrated in Table 1 below:

Table 1

Income Tax (Note 1)

Number	No. Of Residents	Potential Income	Over 11 Year Tax Abatement Term
Second Floor	37.5	\$ 1,916,349.00	
Third Floor	37.5	\$ 1,916,349.00	
Penthouse	31.5	\$ 1,718,016.00	
	106.5	\$ 5,550,714.00	\$ 65,849,577.21
Income Tax Rate		2%	2%
Potential Income Tax		\$ 111,014.28	\$ 1,316,991.54

In addition, the property itself will be subject to income tax measured by its real estate taxable income based on its net operating income (including both the residential and commercial revenues) less deductions such as depreciation and mortgage interest, among others. If you take this annual real estate taxable income (estimated to accumulate to \$1,860,082 over 11 years multiply it by the 2% effective current tax rate, then \$37,202 of revenue will be generated for the City of Cleveland Heights.

Therefore over 11 years, the City of Cleveland Heights would yield a total of \$1,354,193 in income tax revenues from Meadowbrook-Lee as illustrated below:

Income Tax - Residents	\$ 1,316,991.54
Meadowbrook-Lee Taxes	\$ 37,201.65
	\$ 1,354,193.19

Finally, Meadowbrook-Lee will employ at least 1.5 full-time employees that will include an on-site manager and maintenance support. This is a conservative estimate and won't fully be defined until the property is operational. But, this would be the absolute minimum support necessary. Therefore, with the property payroll projected to be \$113,498, escalating at a rate of 1.5% annually and a 2% income tax rate, the revenue that could be generated over 11 years will be \$26,929.

Property Tax Impacts

In order to achieve feasibility for a market rate development of this scale, Orlean is requesting an 80% abatement of all property taxes for the first 11 years after the building is placed into

service. Consequently, property tax revenues will be reduced by the abatements. However, for the past several years, no property tax revenues have been generated nor will be generated if nothing is developed on the site.

Nevertheless, the City will achieve some property tax revenues. If taxes are unabated, Meadowbrook-Lee would be subject to annual tax of \$320,000. Therefore, if 80% is abated for the first 11 years, then a total of \$769,857 will be paid. See Table 2 below.

Table 2

First 11 Years (80% abatement)

		Average Annual Real Estate Tax	Totals
		\$ 69,987.00	\$ 769,857.00
<i>Schools Share</i>	<i>62.39%</i>	\$ 43,664.89	\$ 436,648.89
<i>City Share</i>	<i>13.03%</i>	\$ 9,119.31	\$ 91,193.06

Payroll Tax Impacts

As mentioned previously, the ground floor incorporates in excess of 13,000 square feet of dedicated commercial space to be divided amongst tech-loft office space, more traditional and conventional office space, and some convenience retail (such as a coffee shop or ice cream parlor) that would serve both the residents and the businesses herein but also the greater community as well.

Orlean is projecting a total of 64 potential employees with projected incomes listed in Table 3 below. Estimations are based on the number of desks in a tech/loft space of 1 person per every 300 square feet (per the City's Codified Ordinances). Assuming those incomes would escalate at 1.5% each year then the total income derived over 11 years would be \$34,403,461. Taxed at a 2% rate, the revenue to be generated by the City of Cleveland Heights will be \$688,069.

Table 3

Payroll Tax (Note 3)	Potential Employees	Estimated Income	Total Income	Over 11 Year Tax Abatement Term
Tech Loft Suites	34	\$ 50,000	\$ 1,700,000	
Other Commercial 1	15	\$ 45,000	\$ 675,000	
Other Commercial 2	15	\$ 35,000	\$ 525,000	
			\$ 2,900,000	\$ 34,403,461
		Income Tax Rate	2%	2%
		Potential Income Tax	58,000	\$ 688,069

Additional & Supplemental Impacts

In addition to tax revenues generated by the City, there will be numerous positive effects on the local businesses and services within the area. With 107 new residents inhabiting the apartments, and approximately 64 new workers in the commercial spaces (and for the property as well), there will be a myriad of expenditures made in the community.

Geographic Information Systems (GIS) data filtered by the ESRI Corporation indicates that a majority of people do the bulk of their shopping within a 1-minute, 3-minute, and/or 5-minute drive from their homes. Expenditures include food, household items, apparel, entertainment, and other miscellaneous items and services. Therefore, if you calculate the total expenditures within a 5-minute drive of the site, and divide that by the population within, you presume a potential expenditure per new resident to be \$23,008. Multiplied over 11 years and there would be a \$272,950 per resident impact to merchants in the area. When you factor in a total of 107 residents the impact in the first year would be \$2,461,856 and over 11 years would be \$29,205,464.

In addition, according to a recent report released by the International Council of Shopping Centers, office workers spend about \$250 per week on all expenses associated with going to and returning from work and typical purchases around the office building during the workweek. Further, the more ample the retail, restaurant, and service offerings in proximity to the office building, the higher the spending by office workers. Therefore, with 64 projected workers in the building, then the annual potential economic impact is \$832,000 and over 15 years equates to \$9,870,234.

Expenditures will also be made by Meadowbrook-Lee on behalf of the property for repairs and maintenance, advertising, painting and decorating, pest control, and landscaping/snow

removal. With a first year expense of \$63,525, an impact of \$753,614 will be invested into the community.

Finally, assuming that at least some, if not most, of the office workers will lease parking spaces in the lot and/or garage, the City would stand to generate additional revenues that way as well. If you assume 38 Spaces leased at \$400/year, then in the first year, revenues would be \$15,200 and over 11 years be \$167,200.

Net Impact

When you factor in the City revenues and consider the ripple effect on business and services in the area, there is a considerable impact and tremendous benefit to the City of Cleveland Heights as summarized in the table below.

<i>Cleveland Heights Benefits</i>	
Income Tax - Residents	\$ 1,316,991.54
Meadowbrook-Lee Taxes - Operations	\$ 37,201.65
Property Taxes - Years 1-11	\$ 769,857.00
Payroll Taxes	\$ 688,069.00
Parking	\$ 167,200.00
Total - Cleveland Heights	\$ 2,979,319.19
<i>Additional/Supplemental Benefits</i>	
Household Expenditures	\$ 29,205,464.00
Property Expenditures	\$ 753,614.00
Commercial Personnel Expenditures	\$ 9,870,234.00
Total Supplemental	\$ 39,829,312.00
Cumulative Impact	\$ 42,808,631.19