

# Economic Development Staff Report

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Below are my insights on the proposed Erickson Retirement Community. Although ultimately Council needs to decide if the project is in the best interest of the Village, my hope is that these findings and observations will assist you in your decision-making process.

## 1. Project Benefits

The proposed Erickson Retirement Community Project would generate several tangible and intangible benefits to the Village of Evendale and the Princeton Schools. Below is a summary of major benefits:

### *Economic Benefits*

The report: *Impacts of the Proposed Erickson Retirement Community on the Village of Evendale* succinctly outlines the positive economic impact on Evendale and Princeton Schools that would likely generate from the project in terms of capital investment, new jobs, real estate taxes, estate taxes and new earnings tax. These benefits at “full build out” include:

- New Earning Tax Generated     \$175,000/year (to Village)
- Property Tax Increase             \$2.3 million/year (to schools and other taxing jurisdictions)
- Estate Tax                             \$430,000/year (to Village)

Estate taxes would constitute about 70% of Evendale’s tax revenues from the project. Given the fact that continuation of the estate tax continues to be debated in the state legislature, Evendale should not count on this revenue stream.

### *Sustainability Benefits*

Erickson Retirement Communities has been in existence since 1983. It is the nation’s leading builder and manager of retirement communities for middle income people. Seven of the ten largest U.S. retirement homes were built and are managed by Erickson. With 23 campuses in 13 states, the company grew by 14.6% in 2006. From the Baltimore prototype, Erickson has grown to serve more than 21,000 people and employ more than 12,000. Over the next ten years, they are looking to grow the company to more than 50 communities. The company’s success is further reflected in the fact that they were selected as one of FORTUNE’s “100 Best Companies to Work For” in 2008.

Erickson is willing to put their capital at risk and thus have deemed this a viable proposition. Although there is no guarantee that Erickson will still be around in 10 or 20 years, these statistics describe a company that is stable, highly capitalized and economically sustainable. Given the increasingly short lifespan of retail and office developments in today’s marketplace and resulting vacant buildings, the strong likelihood that the Erickson retirement community will be economically sustainable and well managed and maintained over the long term is something that should be considered in evaluating the Evendale project.

### ***Design Benefits***

Quality – in design materials, site plan, landscaping – is the “mantra” of Council and Planning Commission. After viewing the Novi, Michigan Erickson Retirement Community, meeting with Novi City officials and reading Jack Cameron’s 4/16/08 fact finding report on his visits to several other Erickson facilities, I have little doubt that the Erickson project will meet or exceed the design standards of the Village. Erickson’s insistence on quality, value, and integrity has attracted investment from some of the world’s leading financial institutions.

### ***Quality of Life Benefits***

Quality of life in a community is often measured by the diversity of land uses... quality and diverse housing opportunities, retail and service amenities, Class A office parks, outdoor park and recreation, attractive retail corridors, and a strong industrial tax base to help pay for this quality of life. Over the past 20 years Evendale has successfully diversified its tax base with the introduction of the Medallion Drive Industrial Park; as such the Village has the “luxury” of focusing more on quality of life issues. Attraction of quality housing for older residents has been a priority for the Village. By providing housing for empty nesters there is a greater possibility existing single family housing units will turn over to young families.

A comment made at one of the Master Plan meetings is salient: “If anticipated tax revenues were the only benchmark for evaluating business projects, we would zone the entire village office”. And this assumes the market could support a Village full of offices, which it can’t.. A first class retirement community may add to the village’s quality of life by providing an opportunity to retain senior residents who have contributed to the community for many years, tend to require minimal public services and possess significant personal net worth..

On a related note, Erickson campuses have earned a reputation for being good neighbors, giving back to the towns in which they operate through charitable donations, corporate sponsorships, employee volunteer programs, resident volunteerism, scholarship programs for local college-bound students, and team participation in fundraising events to support. Being able to tap into these resources and opportunities will also increase the quality of life in the community.

## **2. Project Costs/Impacts**

The costs of the Erickson development can be categorized as costs associated with increased service demands, and “opportunity costs” which is the benefit foregone by making one kind of investment over another kind of investment. Below is an analysis of both these type costs for the Erickson project.

### ***Increased Service Demand Costs***

Although residential tends to impose higher costs of services than non-residential uses, the Erickson project does not fit this typical trend. While the Erickson facility is a residential use, it does not impose the costs on the village or schools that are typical of residential. For example, the development will add no new students to the schools. Unlike with single family houses, the Erickson development will generate little to no recreation costs, (since the development has its own fitness center with full-time trainers). Erickson campuses promise to be self-sufficient, providing their own security and “first responder personnel.” They also provide their own grounds repair and maintenance because their roads and parking lots are private. The Evendale Fire Department anticipates that two new firefighters per shift may be needed to service the Erickson project at build out. These costs may be partially mitigated by collecting for EMS “runs” to Erickson, additional earnings tax revenues and impact fees charged to Erickson..

### ***Opportunity Costs***

When evaluating the Erickson project, it is reasonable to ask: What is the opportunity cost of the investment? In other words, what opportunities are lost by locating a retirement community on the Landmark property as opposed to an office, industrial or retail use. For example, there has been some discussion about the potential benefits of reserving the Landmark Baptist Church property for non-residential uses, specifically office. And in fact, the draft Master Plan suggests that the St. Rita/Landmark sites be used for premier regional office use.

To better comprehend opportunity costs for the Erickson project it is useful to understand tax revenues typically generated by different land uses. Toward this end, I conferred with Jeff Rexhausen at the Economic Center for Education and Research and one of the authors of the report: *Impacts of the Proposed Erickson Retirement Community on the Village of Evendale* published by the Economic Center for Education and Research.

Jobs that pay best are those with high skill sets. In the Greater Cincinnati market these are jobs in the *professional office* category; followed by *high technology manufacturing* jobs; then *general office* and *other manufacturing* jobs; and then *retail* jobs. Like retail, *residential* often generates more expense than income. When evaluating impact of office jobs, Mr. Rexhausen said it is important to distinguish between the highest paid professional office jobs in downtown Cincinnati (e.g., the new Queen City Square Tower) and “Uptown” (the university and hospital areas around Clifton) which typically pay an average of \$80,000/year or more; versus professional office jobs in suburban markets (which typically pay an average of \$60,000); versus general office jobs (that pay an average of \$45,000/year).

Without an identified end user, it is difficult to accurately estimate how much annual payroll the 67 acre Landmark site would generate for alternate land uses. That being said, the pay ranges cited above serve as reasonable benchmarks for understanding potential revenues from various alternative land uses. An important caveat is that the Erickson residential development will generate more income tax than a traditional single-family residential development. Based on the Economics Center for Education & Research report data, Erickson will generate approximately \$154,000 in annual earnings taxes from the high paid physicians and professionals at the Renaissance Gardens.

When evaluating the potential “opportunity cost” of a retirement community on the Landmark property, one should also weigh the likelihood and viability of alternative land uses. Historically there has not been a high demand for speculative, “stand alone” office uses in the Evendale area due to its predominantly industrial character. In fact, most office development is located along the I-71 corridor, on I-75 beyond I-275, or in the CBD (downtown Cincinnati) or “Uptown Area”.

Mr. Rexhausen underscored what was previously reported in the Market Analysis conducted by Gem Real Estate, namely that the office market in Greater Cincinnati (outside the CBD, Uptown, and Union Center Blvd./Butler County) is soft and will likely remain so for at least another decade. He noted that there is some “economic risk” in that if we do not do the Erickson deal now, they will go elsewhere, and the site may remain vacant or worse, develop with a less desirable use. For example, it is conceivable that there will be pressure in future markets for the trucking and other heavy industrial uses that are contiguous to the west to the St. Rita/Landmark Baptist Church to spill over onto the site.

When evaluating opportunity costs keep in mind also that only 29 of the 69 acres proposed for the Erickson Retirement Community are in Evendale with the remaining 40 in Glendale. Glendale has

indicated that their preference is for their property to be developed as residential given its proximity to existing high end single-family housing developments. Any developer (office or residential) would likely want to control all 69 acres to amortize development costs over a larger area, maximize profits, and bring closure to what adjoining developments will bring. Given these facts, one could argue that working with Glendale now to accommodate Erickson will attract a quality new residential development and preclude less desirable uses in the future, thus mitigating any potential “lost opportunity”.

### **3. Zoning**

Currently the Landmark Baptist Church property is zoned Institutional. The proposed Erickson project would require a zoning change. The Village’s legal and planning professionals should be well equipped to propose a new zoning category that permits comprehensively planned senior citizen retirement housing without jeopardizing the Village’s commitment to maintain its principal character of a small single family oriented community.

### **4. Service/Development Agreement with Glendale and Erickson**

If Council chooses to proceed with the Erickson project, there is an opportunity for Glendale and Evendale to enter into a joint service agreement that respects the different service capabilities of the two jurisdictions. For example, Glendale assesses real property taxes while Evendale does not; Evendale has an earnings tax and Glendale doesn’t. Direct service delivery can be allocated based upon resources and capabilities. For example, Evendale would seem the logical provider of safety services due to its proximity to the site and high volumes; Glendale may provide water services either through its own plant or as a re-seller of Cincinnati Water should they have insufficient capacity to serve such a high demand user as Erickson. A unique benefit Glendale provides is its own sanitary sewer plant, especially since MSD is unlikely to be able to provide sufficient “credits” to meet demand. Either community could provide building department services on a fee basis. Evendale may be justified in assessing a road impact fee due to wear and tear caused by the Glendale Milford Road main entry. All these details will have to be worked out if the respective Councils approve the project.

The Joint Service Agreement between Evendale and Glendale would identify respective service responsibilities, costs and revenues. Once this agreement is in place, it may be appropriate for Evendale to enter into a separate development agreement with Erickson that would require them to generate enough revenue to compensate the Village for costs incurred as a result of the development (e.g., through earnings taxes and/or impact fees).

### **5. Summary**

On balance if Council deems it in the best interest of the Village to facilitate building on the Landmark site at this time, the Erickson Retirement Community is a viable and attractive use which provides some definable “upside.” By the same token, if Council would rather see the site continue to lay fallow in hopes of a higher use office development, there is no assurance this will ever occur. It may be like finding a “needle in the haystack.”