



November 15, 2013

Mr. Daniel T. McCaffery  
Chairman and CEO  
McCaffery Interests  
875 N. Michigan Ave.  
Chicago, Illinois 60611

Dear Mr. McCaffery:

It is a pleasure to present this draft fiscal impact analysis of your proposed retail and residential development at the former Children's Hospital site in Chicago, Illinois. This report addresses the following issues:

- Estimating the total incremental direct revenue sources to the City as a result of this project over a 20-year period.
- Estimating the total incremental direct employment created as a result of this project.
- Estimating the total direct and indirect economic impact as a result of this project over a 20-year period.
- Estimate of the number of school children potentially produced as a result of this development.

The analysis is dependent on a number of financial and market assumptions that were developed in connection with this report. Since future events are not subject to precise forecasts, some assumptions may not materialize in the exact form presented in this analysis. In addition, other unanticipated events or circumstances may occur which could influence the future outcome and performance of the project. Nonetheless, we believe that the underlying assumptions provide a reasonable basis for this analysis.

Our conclusions are presented in the Report.

Very truly yours,  
Laube Consulting Group, LLC

*Michael S. Laube*

Michael S. Laube  
(Electronic Signature)

## **I. EXECUTIVE SUMMARY**

The development program for this site is planned to be a mixed-use retail and residential development. There is proposed to be 716 units of residential, 156 senior units, and approximately 120,000 square feet of retail on the site.

The 20-year impacts of this project are projected to be as follows:

- Property taxes of \$92.3 million
- Municipal sales taxes of \$21.9 million
- Municipal restaurant taxes of \$250,000
- Municipal telecommunication taxes of \$4 million
- Municipal electricity taxes of \$1.2 million
- Municipal natural gas taxes of \$2.5

**The aggregate net direct municipal tax benefit to the City over a twenty-year period is approximately \$122 million.** Please see Table 2, the Municipal Tax Summary in the Appendix for a complete 20-year summary of the gross income to the City generated by this development.

**Additionally, the total direct economic impact (increased spending) is estimated to be \$1.6 billion and the total direct and indirect economic impact \$3.6 billion over a 20-year period.**

Based upon industry averages, it is estimated that this proposed development will create approximately 237 full-time equivalent jobs in the first stabilized year of operations. In addition to the full-time equivalent retail jobs, it is estimated that approximately 1,921 direct construction jobs and 4,979 direct and indirect construction and related jobs are created.

Also, we are estimating that this development will produce approximately 71 school children, which is less than 10% of the number of units planned for this site.

## **II. DEVELOPMENT PROGRAM**

The development program currently contemplates the following:

- 872 residential units consisting of 156 senior units, 50 for sale townhomes, and 666 rental residential units
- 119,021 square feet of retail that includes 24,355 square feet of grocery store, 85,410 square feet of general retail in-line shop space, and 8,967 square feet of retail intended to be restaurants

### **III. PROPERTY TAXES**

#### **Overview**

The assessment process involves several steps. First, the County assessor's office establishes the fair market value ("FMV") of the property. The FMV is the most probable price in cash, terms equivalent to cash, or in other precisely revealed terms, for which the appraised property will sell in a competitive market under all conditions requisite to a fair rate. The FMV is determined by any number of factors including, but not limited to: property location, age, type, and condition of facilities and infrastructure.

Second, the "assessed value" is calculated by multiplying the property's FMV by an assessment rate. The assessment rate is determined by county ordinance, in the case of Cook County, wherein this development resides.

Third, the property's assessed value is multiplied by an equalization factor to determine the equalized assessed value ("EAV"). The equalization factor is used to ensure that property is assessed consistently throughout the state. The equalization factor for Cook County is determined by the Illinois Department of Revenue. Finally, the EAV is multiplied by the property tax rate to determine the tax for the property.

**Key Assumptions**

- The FMV of the commercial property is determined by using the income, cost and market approaches to valuation. We have used the income approach and adjusted for comparable properties. We are estimating that the taxes per square foot are \$6.16 on average. This is well in line with comparable properties in Cook County.
- We have trended the initial assessed value by a conservative reassessment growth rate of 2.5% annually, which equates to a 7.69% increase every three years because of the triennial reassessment cycle.
- The FMV of all commercial property is then multiplied by 25% and residential property at 10%, the Cook County assessment ratios for these classes of property.
- The equalization multiplier is assumed to be 2.8056 which is the current equalization multiplier.
- We have used the 2012 aggregate property tax rate for this area of 6.396%.

For a complete list of all assumptions used, please see Table 3 in the Appendix.

**Collections**

*Property Tax Collections*

Year	Collections
Year 1	\$ 0
Year 2	\$ 1,345,937
Year 3	\$ 2,691,875
Year 4	\$ 4,125,977
Year 5	\$ 4,443,226

**Over a 20-year period, the total amount of total property taxes generated by this proposed project is estimated to be approximately \$100.9 million for the project.** Please see Table 5 in the Appendix for a twenty-year projection of the property taxes from this development.

#### **IV. MUNICIPAL SALES TAXES**

##### **Overview**

Illinois statute imposes a Retailers' Occupation Tax ("ROT") of 6.25%. This ROT rate is allocated as follows: 5% to the State of Illinois, 1.25% to the Cook County, and 1% to the municipality, in this case, Chicago. In addition, Illinois allows home-rule municipalities to impose an additional home rule sales tax. The City has an additional 1.25% home rule sales tax. The home rule sales tax is not imposed on food and drug not ready for immediate consumption.

##### **Key Assumptions**

- Approximately 120,000 square feet of retail will be developed.
- We are assuming \$650 in sales per square foot for the food stores.
- We are assuming \$350 in sales per square foot for the general retail space.
- We are assuming \$450 in sales per square foot for restaurant space.
- We are assuming \$750 in sales per square foot for pharmacy space.

Please see Table 6 in the Appendix for a complete list of all assumptions used.

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**Collections**

*City Municipal Sales Tax Collections – Local Distributive Share*

Year	Collections
Year 1	\$ 422,528
Year 2	\$ 572,116
Year 3	\$ 583,958
Year 4	\$ 596,045
Year 5	\$ 608,382

**The total anticipated municipal sales tax collections from this development are estimated to be \$13.6 million over a 20-year period.** Please see Table 7 in the Appendix for a complete 20-year projection of municipal sales taxes.

*City Municipal Sales Tax Collections – Home Rule Tax*

Year	Collections
Year 1	\$ 257,976
Year 2	\$ 349,308
Year 3	\$ 356,538
Year 4	\$ 363,918
Year 5	\$ 371,450

**The total anticipated home rule municipal sales tax collections from this development are estimated to be \$8.3 million over a 20-year period.** Please see Table 8 in the Appendix for a complete 20-year projection of the home rule municipal sales taxes.

**In total, the expected collections of all municipal sales taxes from this Project are estimated to be \$21.9 million over a 20-year period.**

## V. MUNICIPAL RESTAURANT TAXES

### Overview

The City has imposed a food and beverage tax. According to City code, the tax is imposed on food and beverage sales within the City. The current rate for this tax is 1% of gross charges.

### Key Assumptions

- There will be approximately 9,000 square feet of restaurant space and will produce \$450 per square foot in sales.

Please see Table 9 in the Appendix for a complete list of assumptions.

### Collections

#### *Municipal Restaurant Tax Collections*

Year	Collections
Year 1	\$ 10,088
Year 2	\$ 10,297
Year 3	\$ 10,510
Year 4	\$ 10,727
Year 5	\$ 10,949

**The total anticipated municipal food and beverage tax collections from this development are estimated to be \$246,000 over a 20-year period.** Please see Table 10 in the Appendix for a full 20-year projection of all food and beverage taxes.



## VI. MUNICIPAL TELECOMMUNICATIONS TAXES

### Overview

The City has imposed a municipal telecommunication tax. According to City code, the tax is imposed on the gross charges charged by telecommunications retailers to a service address in the City for telecommunications originating or received in the City. The current rate for this tax is 8% of gross charges.

### Key Assumptions

- The development will average \$0.59 per square foot in telecommunications expense.
- For the residential, we have assumed a \$220 per month total telecommunications bill.

Please see Table 12 in the Appendix for a complete list of assumptions.

### Collections

#### *Municipal Telecommunications Tax Collections*

Year		Collections
Year 1	\$	166,049
Year 2	\$	169,486
Year 3	\$	172,994
Year 4	\$	176,575
Year 5	\$	180,230

**The total anticipated municipal telecommunications tax collections from this development are estimated to be \$4.1 million over a 20-year period.** Please see Table 13 in the Appendix for a full 20-year projection of all municipal telecommunications taxes.

## VII. MUNICIPAL UTILITY TAXES

### Overview

The City has imposed a municipal utility tax on electricity usage and on gas usage.

### Electricity Usage

According to the City Code, the tax is imposed on the privilege of using or consuming electric City acquired in a purchase at retail and used or consumed within the corporate limits of the City. The current tax rate is 5% on all electric charges.

### Gas Usage

According to the City Code, a tax is imposed on all consumers of natural gas. The rate of tax is 8% on all natural gas charges.

### Key Assumptions

- For the retail, we have estimated that there will be \$2.10 in electric expense per square foot annually.
- For the retail, we have estimated that there will be \$1.01 in natural gas expense per square foot annually.
- For the residential, we have estimated the annual electricity bill to be approximately \$900,
- For the residential, we have estimated the annual natural gas bill to be approximately \$1,320.

Please see Table 14 in the Appendix for a complete list of assumptions.

### Collections

#### *Municipal Electricity Use Tax Collections*

Year	Collections
Year 1	\$ 51,707
Year 2	\$ 52,777
Year 3	\$ 53,870
Year 4	\$ 54,985
Year 5	\$ 56,123

**The total anticipated municipal utility tax collections from this development are estimated to be \$1.3 over a 20-year period.** Please see Table 15 in the Appendix for a full 20-year projection of all electricity taxes.

*Municipal Gas Tax Collections*

Year	Collections
Year 1	\$ 101,677
Year 2	\$ 103,781
Year 3	\$ 105,929
Year 4	\$ 108,122
Year 5	\$ 110,360

**The total anticipated municipal utility tax collections from this development are estimated to be \$2.5 million over a 20-year period.** Please see Table 16 in the Appendix for a full 20-year projection of all municipal natural gas taxes.

## **VIII. EMPLOYMENT ESTIMATES**

### **Overview**

We have also estimated the total full-time equivalent (“FTE”) employees in the proposed development based upon industry averages.

### **Key Assumptions**

- The retailers will have 1 employee per 500 square feet.

A complete list of assumptions is listed on Table 17 in the Appendix.

### **Employment Estimates**

It is estimated that this proposed development will create 237 full-time equivalent employees.

## **IX. DIRECT AND INDIRECT CONSTRUCTION JOBS**

### **Overview**

This section estimates the total increased indirect employment to the Area due to the construction.

### **Key Assumptions**

- For every \$1,000,000 spent in construction, 18.4 jobs are created in construction and related industries (e.g., concrete manufacturing, iron workers, aggregate mining, etc.). This is the regional econometric employment multiplier for the construction industry according to the Bureau of Economic Analysis – U.S. Department of Labor Statistics.
- For every \$1,000,000 spent in construction, 7.1 direct construction jobs are created. This average is based upon direct data from Chicago based general contractors relative to their general industry averages.
- We assumed \$271 million will be spent on the construction of the development of this project.

A complete list of assumptions is listed on Table 11 and 18 in the Appendix.

### **Construction and Related Industry Employment Estimates**

It is estimated that total approximately 4,979 jobs will be created in construction and related industries during the construction of this project.

It is estimated that approximately 1,921 direct construction jobs will be created during the construction of this project.

## **X. DIRECT AND INDIRECT ECONOMIC IMPACT**

### **Overview**

This section estimates the total direct and indirect economic impact to the City and to the general Chicagoland area as a result of this proposed development over a 20-year period. We have used estimates of retail sales and construction spending to estimate the total increased demand. The total direct spending will have its origins and direct impact on the City. We have also used the econometric multipliers, as published by the U.S. Department of Labor – Bureau of Economic Analysis, for the retail industry in the Chicagoland Area in order to give an estimate of total and indirect economic activity generated by this proposed development.

### **Key Assumptions**

- This proposed project is estimated to generate approximately \$1.6 billion in increased demand direct spending over a 20-year period.
- The Chicago Regional econometric multiplier, as provided by the Bureau of Economic Analysis, for the retail trade industry is 2.1650.

The calculation, summary and related assumptions are contained on Table 19 in the Appendix

### **Conclusions**

- This development will create approximately \$3.6 billion in direct net economic activity for the City over a 20-year period.
- This development will stimulate approximately \$2.0 billion in indirect economic activity for the greater Chicagoland area over a 20-year period.

## **XI. NUMBER OF SCHOOL CHILDREN**

### **Overview**

This section estimates the number of school children that could be generated by the residential portion of this project. This has been done by samplings and experience in high-density urban and suburban residential developments. Additionally, we have used published averages of numbers of students as used by various municipalities as part of their school impact formula.

### **Key Assumptions**

- There will be 716 units that produce students.
- The 156 senior housing units will not produce students.
- We are assuming that 75% of the units will be one bedroom, 25% two bedroom, and 5% three bedroom.

Please see Table 20 in the Appendix for a complete list of all assumptions.

### **Conclusions**

We are estimating that there will be 71 students (Kindergarten through 12<sup>th</sup> Grade) generated by this development.

# **APPENDIX**

**Table 1 – Executive Summary**

**Table 2 – Municipal Tax Summary**

**Table 3 – Property Tax Assumptions**

**Table 4 – Residential Fair Market Value**

**Table 5 – Property Tax Projections**

**Table 6 – Municipal Sales Tax Assumptions**

**Table 7 – Municipal Retailers Occupation Tax Projections**

**Table 8 – Home Rule Sales Taxes**

**Table 9 – Restaurant Tax Assumptions**

**Table 10 – Restaurant Tax Projections**

**Table 11 – Construction Assumptions**

**Table 12 – Telecommunication Tax Assumptions**

**Table 13 – Telecommunication Tax Projections**

**Table 14 – Utility Tax Assumptions**

**Table 15 – Electricity Tax Projections**

**Table 16 – Natural Gas Tax Projections**

**Table 17 – Full Time Equivalent Jobs**

**Table 18 – Construction Jobs**

**Table 19 – Direct and Indirect Economic Impact**

**Table 20 – School Children Produced**