Centralia Station Economic and Fiscal Impact Forecast

Prepared for the Port of Centralia

ECONorthwest
ECONOMICS • FINANCE • PLANNING

October 18, 2016

Overview

Centralia Station is a proposed development near the recently completed Interstate-5 exit at Mellen Street/City Center. This mixed-use development will include retail stores, offices, restaurants, and other businesses. Its construction and, in future years, the businesses locating there will create jobs as well as pay taxes. The Port of Centralia "Port" engaged ECONorthwest to forecast these impacts. ECONorthwest determined that:

- The $53 million construction project would employ the full-year equivalent of 410 workers in Centralia, support 575 jobs throughout the whole local economy, and pay $4.6 million in state and local taxes.

- Once opened, the businesses at Centralia Station would employ 535 people in Centralia (698 in the entire local economy), earn over $118 million in annual sales, and pay almost $7.1 million in state and local taxes.

- Over its first ten years, Centralia Station would pay the present year equivalent of nearly $5 million in property taxes.

This report explains in more detail the project, its economic impacts on the local area, and the taxes its development and operating businesses would pay.

Development Description

In its entirety, Centralia Station would be approximately 43 acres. Two of the three large parcels in this development will have new stores and other commercial businesses. Together, the two parcels cover 26.87 acres. The Port asked ECONorthwest to measure the impacts arising from these.

The Port provided a list of building types and square feet "SF" of land used planned. These are shown on Table 1 along with ECONorthwest's assumptions regarding the businesses that may occupy these structures. Most of the construction will take place on the eastern half or section of the Centralia Station property. This is the largest parcel and would be home to the anchor tenant—a department store. The second section, in the northwest portion, will have two restaurants and five mid- and small-size stores.

Table 1: Centralia Station Development of Two Sections Totaling 26.87 Acres, by Type and Area

Location/Type	SF	Type
Eastern Section		
Department store (anchor)	172,465	food, clothing, drugs, gardening & general merchandise
Large retail store	21,000	arts & crafts store
Large retail store	18,000	pet supplies
Bank branch	3,750	bank
Small retail	6,875	automotive supply store
Small retail	6,875	hardware store
Fuel station	28,500	gas station associated with anchor tenant
Restaurant	2,750	quick service restaurant
Northwest Section		
Mid-size retail store	13,500	apparel
Mid-size retail store	10,650	discount store
Mid-size retail store	12,580	sporting goods
Restaurant	5,000	chain fast casual restaurant
Restaurant	2,750	quick service restaurant
Small retail store	6,500	footwear
Small retail store	5,500	convenience store
Buildings & fuel station	316,695	
Other surface areas	853,830	parking, landscaping, roads sidewalks & other
Total land area	1,170,525	

The rest of the 43-acre Centralia Station project will have medical facilities associated with nearby Providence Centralia Hospital, enhancements to Centralia College, sports fields, and green spaces. While these will complement the overall development, this impact analysis focuses only on the two commercial sections.

Assumptions

In addition to the size and types of commercial businesses, ECONorthwest made other assumptions for this analysis. They are:

1. We calculated the economic impacts, which are the effects of the development on jobs and incomes economy-wide, using the standard, 2014 version of an economic model called IMPLAN. This model measures impacts that occur over the course of one year.

2. For purposes of predicting construction impacts, the analysis assumes development occurs in one year, 2017.

3. The economic impacts from businesses locating at Centralia Station start with ECONorthwest's forecast of the types of businesses, their sales, and their employment. Although ECONorthwest considers its forecast reasonable and typical of the development planned, future economic conditions will affect what happens.

4. ECONorthwest calculated state and local taxes from construction using its cost estimate and current tax rates. These are subject to change.

5. Similarly, ECONorthwest forecast tax impacts of businesses operating at Cascade Station using current tax rates. They too may change.

6. We assume businesses open at Centralia Station in 2018. Both the bank and anchor tenant will operate fully. However, we assume all other retail and restaurant space will average a ten percent vacancy rate.

7. Our analysis uses an inflation forecast starting at 1.7 percent in 2018, rising to 2.9 percent by 2022, and remaining at that rate in future years.

8. By definition, the direct impacts of Centralia Station occur in Centralia but then trigger subsequent impacts throughout the regional economy. Most of these other impacts would occur where workers at Centralia Station live and shop, and where local suppliers to businesses at the project can be found. ECONorthwest believes the affected communities are largely in Lewis and Thurston counties and built an IMPLAN model of the two-county economy.

Conclusions

This research finds that the Centralia Station project will support jobs and incomes throughout the local economy, as well as generate substantial tax revenues. We conclude:

About $53 million will be spent constructing Centralia Station (Table 2). That will trigger additional local spending, having a one-time impact of $76.3 million on economic output. Construction will add over $26.4 million to local labor income and support 575 jobs (Table 3).

Construction work alone will produce $3,731,576 in state taxes and $910,010 for local government (Table 6).

Once finished, the private businesses opening in Centralia Station will include ten stores, four restaurants, a bank, and a gas station. They will employ 535 people directly and make over $118 million in annual sales (Table 4).

These businesses will contribute over $40 million a year to the local economy, as measured by the gross domestic product. Their total impact will be 698 jobs with $22.1 million in labor income (Table 5).

The businesses will directly pay $5.6 million in state and almost $1.5 million in local taxes (Table 6).

Over their first ten years, the present value of property taxes paid by the Centralia Station businesses are $312,802 to Centralia, $708,106 to Lewis County, $1,346,675 to the Centralia School District, $927,680 to the state, and almost $1.7 million to various local tax districts (Table 7).

Impacts of Construction

The anticipated development cost for the two commercial sections of Centralia Station is about $60.26 million. Out of that comes $6.73 million for land, as buying property in and of it self has no economic impact. Construction does. It would be approximately $53.5 million, as shown in Table 2.

Table 2: Centralia Station Construction Costs for the Eastern and Northwest Sections, 2017

Item	Cost
Pre-development costs	$750,000
Permits	500,000
Land	6,730,000
Site work	9,500,000
Department store building	12,200,000
Department store fixtures	8,000,000
Gas station	450,000
Large and mid-sized retail stores	7,000,000
Small retail shops	4,200,000
Bank and three restaurant building	3,300,000
Soft cost including financing	1,800,000
Contingencies	5,830,000
Total development cost	$60,260,000
Less land	(6,730,000)
Net construction	$53,530,000

Construction may span more than a year. For purposes of explaining how many jobs the development would create overall, ECONorthwest compressed the construction spending and employment into one year.

Economic Impact Terminology

In this report, ECONorthwest presents the results of four of the most important economic impacts. They are:

Output is the value of goods and services produced, and is the broadest measure of economic activity. For most industries output roughly equals their sales. For stores, output is the retail gross margin (difference between their sales and what the shop paid to buy what they later sold).

Value added is the difference between a business's output and what it bought from other businesses to make that output. Put simply, it is the business's contribution to the gross domestic product or "GDP" — a commonly used measure of an economy's size.[1]

Labor income is employee compensation (wages, salaries, and most benefits) plus income earned by working small-business owners and the self-employed.

Jobs are measured as full-year-equivalents (FYE). Twelve months of work for one person equals one job. It can be full-time or part-time, seasonal or permanent; IMPLAN counts the jobs of both employees and the self-employed.

IMPLAN divides impacts into three broad categories according to their sources. The three are:

Direct impacts are, as the name implies, the jobs, output, value, and labor income at Centralia Station.

Indirect impacts are those that happen elsewhere in Lewis and Thurston counties from spending by businesses linked to Centralia Station. A simple example would be a construction company buying lumber from a local supplier so they can finish construction at Centralia Station.

Induced impacts are similar, except they come about from spending by jobholders. When a retail worker from Centralia Station spends some of their pay on school supplies, for example, at a store elsewhere in Lewis County, that spending is an induced impact.

Indirect and induced impacts multiply because spending triggers additional spending. As money originating at Centralia Station gets spent and re-spent, the economic impacts multiply in the local economy. It eventually diminishes because some money is taxed, saved, or spent outside the two-county area.

Construction Economic Impact Results

Table 3 summarizes the economic impacts of constructing Centralia Station. The initial $53.53 million spent on construction—a direct impact—triggers other economic impacts in the two counties, bringing the total output to about $76.3 million. Construction would add $38.4 million to the value of the local economy. That compares to the GDP of the two counties, which we estimate at about $13 billion in 2016. The project would create 575 FYE jobs earning $26.4 million.

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[1] The U.S. Bureau of Economic Analysis calculates national and local area GDP data. Some analysts reserve the term GDP for national data and call county-level results gross regional product of GRP.

Table 3: Economic Impacts of Centralia Station Construction

Impact Area / Type of Impact	Direct	Indirect	Induced	Total
Output	$53,530,000	$9,427,275	$13,335,179	$76,292,455
Value Added (GDP)	25,181,368	5,312,799	7,867,572	38,361,739
Labor Income	19,141,793	3,141,890	4,134,604	26,418,286
Jobs, FYE	410	59	105	575

Once developed, tenants will open businesses providing jobs and generating sales. These direct impacts will continue for years into the future. IMPLAN shows all the economic activities that just one year of operations at Centralia Station would stimulate in Lewis and Thurston counties.

Since one cannot predict with certainty what types of businesses will be there, ECONorthwest assumed a mix of stores typical of a local retail center. However, as with any retail center, not every store building would be leased out and occupied 100 percent of the time. So we also assumed a 10 percent retail vacancy rate the retail buildings excluding the anchor tenant.

ECONorthwest used data from the American Banking Association, the U.S. Economic Census of Washington, the Institute of Transportation Engineers, and retailers (primarily using their SEC 10-K reports). From that data, vacancy rates, and building sizes, we projected jobs and sales in 2018, as shown on Table 4.

Table 4: Projected Annual Jobs and Sales at Businesses Located on the Eastern and Northwest Sections of Centralia Station, 2018

Location/Type of Business	SF	SF/Job*	Vacancy Rate	Jobs	Projected Full-Year Sales
Eastern Section					
Department store (anchor)	172,465	690	0%	250	$82,900,000
Large retail store, arts & crafts	21,000	549	10%	34	3,710,000
Large retail store, pet supplies	18,000	549	10%	30	4,170,000
Bank branch	3,750	625	0%	6	3,950,000
Small retail, automotive supply	6,875	549	10%	11	1,620,000
Small retail, hardware	6,875	1,042	10%	6	950,000
Fuel station	28,500	1,140	0%	25	2,640,000
Restaurant, quick service	2,750	92	10%	27	1,580,000
Northwest Section					
Mid-size retail store, apparel	13,500	549	10%	22	$4,100,000
Mid-size retail store, discount	10,650	654	10%	15	1,610,000
Mid-size retail store, sporting goods	12,580	549	10%	21	2,530,000
Restaurant, sit-down	5,000	100	10%	45	2,250,000
Restaurant, quick service	2,750	92	10%	27	2,540,000
Small footwear store	6,500	840	10%	7	1,550,000
Small retail store, convenience	5,500	549	10%	9	2,410,000
Total	316,695	592		535	$118,510,000

* SF/job when fully leased. Jobs forecast for each business also factors in vacancies.

We expect that in a typical year Centralia Station businesses will average 535 people on their monthly payrolls. Furthermore, we forecast sales of about $118.5 million. Given the mix of businesses, that level equals a gross margin (output) of $42.3 million. The values are expressed in 2016 dollars. Both will rise with inflation in later years.

The direct impacts shown in Table 4 went into the IMPLAN model. The model forecast all of the indirect and induced impacts that would spread throughout the two counties.

All of the impacts in a typical year arising from the businesses running at Centralia Station are summarized on Table 5. Each year they would contribute $63.8 million in economic output, $40.4 million to GDP (value added), almost $22.1 million to labor income, and 698 FYE jobs.

Table 5: Economic Impacts of Centralia Station Businesses Operating in a Typical Year, 2016 dollars

Impact Area / Type of Impact	Direct	Indirect	Induced	Total
Output	$42,304,445	$10,270,215	$11,183,744	$63,758,404
Value Added (GDP)	28,212,343	5,540,371	6,598,038	40,350,752
Labor Income	15,515,012	3,109,291	3,467,444	22,091,748
Jobs, FYE	535	75	88	698

Fiscal Impacts

State and local taxes will be paid for the construction of Centralia Station and, each year in the future, by the businesses operating there. ECONorthwest estimated these taxes using current rates, the cost of construction (Table 2), and sales of the businesses (Table 4).

Our analysis determined that construction activity would generate $3,731,576 in taxes for the state and $910,010 in local taxes. Once operating, we forecast first full-year state taxes remitted by businesses in Centralia Station would be $5,601,190. They would also pay $1,495,015 to city, county, and other local jurisdictions. Those taxes, assuming tax rates are at least maintained at current levels, will generally increase over time with inflation.

Table 6: Summary of Taxes from the Construction of Centralia Station in 2017 and the Businesses Operating There in 2018

State & Local Taxes	State	Local
Taxes Paid by Businesses in First Year:		
Sales & Use Tax	$3,953,587	$912,366
Transportation Benefit District Tax	-	121,649
Real property tax	93,051	390,504
Personal property tax	16,619	69,746
Motor Fuel Tax	427,200	-
B&O Tax	691,541	-
Tobacco Tax	396,098	-
Litter Tax	7,928	-
Hazardous Substance Tax	8,236	-
Refuse Tax	6,931	-
Local Business License	-	750
Total Taxes on Operating Businesses	$5,601,190	$1,495,015
Taxes Paid for Construction of Centralia Station:		
B&O Tax	$252,126	-
Sales & Use Tax	3,479,450	802,950
Transportation Benefit District Tax		107,060
Total Taxes on Construction	$3,731,576	$910,010

A major source of future taxes is property. ECONorthwest used a cash flow model that applies property tax rates for each taxing district within the tax code area. The model then projects changes in rates and revenues over a 10-year period.

We consider the taxable assessed value of real property and include an addition of approximately 17.9 percent for personal property based on the mix of businesses. The development had food retailers and restaurants, which have personal property levels that are higher than other retailers.

The current overall property tax rate is $11.37 per $1,000 in assessed value. Districts modeled include the City of Centralia, Lewis County (current expense levy), Washington State, Centralia School District #401, Timberland Library District, Riverside Fire Authority, and the Port of Centralia.

The results of the analysis, shown in Table 7, are estimates total property taxes paid by commercial businesses in the first year (2018) and the tenth year (2027) of operations. In addition, we calculated the net present value (NPV) of the first ten years of property taxes. This NPV discounts, back to 2018, the future values of property taxes paid by applying a four percent discount rate. That rate accounts for the time value of money and a small risk premium for local governments.

Table 7: Summary of Property Tax from Centralia Station Business Real and Personal Property During the First Ten Years of Operations

	City	County	State	School District	Other Districts	Total
First Year (2018)	$34,150	$83,712	$109,670	$152,611	$189,776	$569,920
Tenth Year (2027)	43,801	91,554	119,944	182,385	226,800	664,484
Total 10-Year NPV (2018$)	$312,802	$708,106	$927,680	$1,346,675	$1,674,680	$4,969,943