

Date: February 3, 2006
To: Jim Scherer
From: S. B. Friedman & Company
Subject: MMAC Economic Impact Analysis for Manpower Project

Per your request, *SBFCo* has reviewed the January, 2006 Metropolitan Milwaukee Association of Commerce white paper on the economic impacts of the proposed Manpower Headquarters project. Our observations are summarized below.

Construction Impacts

The MMAC report provides estimates of temporary construction-related employment impacts based on the projected hard costs associated with the proposed project. *SBFCo* offers the following comments on this analysis:

- **Amount of Hard Costs.** MMAC bases impact projections off of \$63 million in construction costs. This appears to be an understatement of the combined hard cost estimates of \$68.7 million for the Manpower, North Powerhouse, Parking Structure, and other public improvement components included in the 1/12/06 economic feasibility study for the project. Based on MMAC's methodology, adjusting hard costs to match the Feasibility Study would increase economic impacts by about 9%.
- **Direct Job Creation Rates.** The MMAC report arrives at an estimate of direct construction employment by estimating the portion of total hard costs represented by labor. In turn, this portion is divided by a typical construction industry salary in the region to reach an estimate of temporary jobs created. The resulting estimate is 317 direct jobs created, or approximately one job for every \$2 million in construction expenditures. In *SBFCo*'s experience, economic impact estimates for construction projects generally result in temporary job creation factors of closer to one full-time-equivalent employee per \$1.1 million in expenditures. Therefore, it appears that MMAC's direct employment impact estimate may be fairly conservative.

Overall, it appears that MMAC's estimates of construction-related job creation may somewhat understate the likely impacts of the proposed Manpower project.

Ongoing Impacts

The MMAC report also evaluates permanent or ongoing economic impacts arising from the full-time employment transferred to the project site and potentially to be added in subsequent years.

- **Existing Relocated Jobs.** Because the employees initially occupying the Manpower facility are already located in the region, the MMAC paper notes that their relocation from Glendale and Brookfield to Downtown Milwaukee is unlikely to affect the total direct and indirect economic activity created by these positions at the regional level. However, 100-200 employees relocating to the Downtown facility would be from outside Milwaukee County, representing a centralization of economic activity in the core of the region. Therefore, the overall economic impacts of these existing positions on the City of Milwaukee and the neighborhoods surrounding the Manpower site are likely to increase due to their greater proximity and accessibility at the new location.
- **Potential Newly Created Jobs.** The prospect of the addition of a further 300 jobs at the new Manpower facility in future years would represent net new economic activity at both the City and regional levels, and is therefore the main focus of MMAC's analysis of on-going impacts. MMAC's analysis relies on a metro area earnings per worker average of about \$39,000 to calculate total direct and indirect wage estimates for these 300 potentially added jobs. As noted in MMAC's footnote, this average appears to understate the likely salary levels of employees added at the Manpower headquarters facility. Based on *SBFCo*'s economic impact analysis experience, this figure could be 60% or more above the regional averages used by MMAC. This would cause a corresponding increase in the direct earnings assumption for the 300 added workers for a total of about \$19 million, as opposed to the \$11.8 million projected by MMAC. Using MMAC's Bureau of Economic Analysis-derived earnings multiplier of 1.63, this would translate into overall regional earnings of about \$31 million, almost \$13 million more than cited in the MMAC report.

Localized Impacts

The MMAC report provides an estimate of certain localized impacts resulting from the Manpower relocation.

- **Retail Spending.** The report suggests that employees within the Manpower facility could be conservatively expected to spend about \$2,100 per capita per year in the downtown area. To validate this figure, *SBFCo* compared it to results from the International Council of Shopping Centers 2003 study "Office Worker Retail Spending Patterns." Key findings of this study include the following:
 - Downtown office workers purchase lunch an average of over 3 times a week.
 - Average annual per-worker spending on food, drinks, and retail goods in the vicinity of the office ranged from \$2,600 to \$2,900. Using the midpoint of this

range (\$2,750) and inflating it to 2006 dollars, this yields an estimate of about \$3,000 per worker per year.

This data confirms that MMAC's estimates relate to observed ranges, and may be conservative. MMAC did not apply local multiplier effects to these estimates, which would be likely to further enhance the indicated local economic impacts in the areas located close to the proposed Manpower facility.

- **Other Localized Impacts.** Due to a lack of available data, the MMAC Report does not quantify other localized impacts likely to arise from Manpower's relocation to Downtown Milwaukee. However, the downtown hospitality sector in particular appears likely to benefit from such a relocation. Manpower's status as a major global corporation, coupled with the central administrative nature of the proposed facility, suggests that the project could create significant additional out-of-town visitor activity in the Downtown area. This, in turn, would be expected to result in demand for hotel room nights and Downtown dining, entertainment, and cultural amenities.

Conclusions

Based on *SBFCo's* review of the MMAC Report against available data on the Manpower project, market benchmarks, and standard economic impact estimation practice, the Report appears to follow an acceptable methodology. The assumptions used to drive MMAC's estimates of impact appear reasonable and in some cases, such as construction costs, direct construction job generation rates, and Manpower employee salaries, may cause the Report to understate potential economic impacts of the proposed project.