The Economic and Fiscal Impacts of Riverfront West on the Kentucky Economy

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Key Findings

The following information reports the key findings of our analysis of the economic and fiscal impacts of the Riverfront West development project on the state of Kentucky's economy.

We have found that the total economic impact of the Riverfront West development project on the Kentucky economy is over $813 million. Of this, $399 million is a one-time construction impact, and the remaining $414 million will recur for each year of operation of the businesses within the development. Nearly 15,000 jobs will be generated in the state due to this economic activity.

We estimate that total income and sales tax revenue in Kentucky will increase by $12.9 million with development of Riverfront West. Of this, $11.7 million will be in the form of income tax revenue and $1.2 in sales tax revenue. Approximately 32 percent of the fiscal impact will be a one-time gain from construction, the remaining $8.7 million will recur for each year of operation of the businesses within the development.

Economic Impact Results

We have quantified the economic and fiscal impacts of the Riverfront West development on the state of Kentucky's economy by analyzing how the construction and operation of the development will increase economic activity and employment in the state, as well as attract visitors from outside Kentucky into Covington.

Economic Impact of Construction

The construction costs for the Riverfront West development project are estimated to total $277 million. We estimate that of this $277 million, approximately 64 percent will remain in the Kentucky economy and be re-spent in a wide variety of industries throughout the state. The total economic impact of the construction activity (the direct and indirect effects) will reach nearly $399 million. A total of nearly 4,500 jobs will be created and sustained from Riverfront West construction activity. Table 1 reports the construction activity related to the Riverfront West development, and the economic impact of this construction on the Kentucky economy.

Table 1: The Economic Impact of Riverfront West Construction Activity

	Construction Expenditures	Economic Impact	Employment Impact
Office Towers	$ 210,425,000	$ 301,382,469	3,376
Infrastructure, Garage, Plaza, Utilities	32,000,000	45,832,192	513
Condominiums	18,000,000	27,313,920	304
Entertainment / Restaurants	6,000,000	8,593,536	96
Transit Station	5,000,000	7,161,280	80
Street Improvements	5,000,000	7,161,280	80
Fountain	1,000,000	1,432,256	16
Total	**$ 277,425,000**	**$ 398,876,933**	**4,466**

Economic Impact of Operations

Another important economic impact consideration related to the Riverfront West development project is the increase in economic activity related to the operations of the businesses that will be a part of the development once the construction phase has been completed. Table 2 shows our estimates of the annual operating expenditures and economic impact from the offices, restaurants and retail establishments that will be created as a result of the Riverfront West development.

Table 2 shows that the Kentucky economy will gain $388 million for each year of operation of the businesses associated with the Riverfront West development project, which will directly and indirectly support a total of 9,670 jobs. The greatest economic impact will stem from businesses operating within the proposed office towers, at $373 million in economic activity and 9,230 jobs. The second greatest economic impact will come from the proposed restaurant establishments in the entertainment space, with $10 million in economic activity and 294 jobs.

Table 2: The On-Going Economic Impact of Businesses Operating at Riverfront West

Type of Business	Annual Operating Expenditures	Economic Impact	Employment Impact
Office Property	$ 281,197,978	$ 373,028,801	9,230
Entertainment Space / Restaurants	6,914,440	10,287,650	294
Retail Space	2,260,024	3,017,381	82
Garage / Transit Station	1,416,329	1,818,779	65
Total	**$ 291,788,772**	**$ 388,152,612**	**9,670**

Economic Impact of Visitor Spending

Another important source of economic impact associated with the Riverfront West development is the spending that will occur by people from outside the state of Kentucky who visit the Riverfront West site in Covington.

Many events on the Cincinnati side of the Riverfront will bring people from Ohio into Covington. While the primary reason for people that are attending events in Cincinnati to come to Covington is parking, the more important secondary impact is that the parking location often determines where the pre- and post-event expenditures occur. With the proposed parking garage on Riverfront West, more people will park in Covington and spend time in the Riverfront West entertainment facilities before and after Cincinnati events.

In addition, Riverfront West will benefit from the events in Kentucky that draw tourists from Ohio. More tourists may come to Kentucky due to the parking and entertainment facilities available at the site, and those who already come for the festivals may stay longer to enjoy the Riverfront West view.

Table 3 shows the annual economic impact results of the visitors to Covington related to the Riverfront West development. In total, the state of Kentucky will realize an increase in total economic activity of $26 million for each year the development is in operation. Nearly 500 jobs will be supported by this tourist-generated economic activity.

Table 3: The On-Going Economic Impact of Visitors Related to the Riverfront West Development

	Visitors to Kentucky	Direct Spending	Total Economic Impact	Jobs Impact
Cincinnati Events				
Bengals	125,000	$ 2,676,125	$ 5,460,112	100
Reds	162,000	3,468,258	7,076,305	129
Cyclones	5,000	107,045	218,404	4
Other Cincinnati Riverfront	50,000	1,070,450	2,184,045	40
Subtotal	***342,000***	***7,321,878***	***14,938,866***	***273***
Kentucky Events				
Mainstrasse	125,000	2,676,125	5,460,112	100
Licking/Riverside	5,000	107,045	218,404	4
Riverfront West Plaza	125,000	2,676,125	5,460,112	100
Subtotal	***255,000***	***5,459,295***	***11,138,628***	***204***
Total	**597,000**	**$ 12,781,173**	**$ 26,077,495**	**477**

Summary

By combining the above economic impact factors, we find that the total economic impact of the Riverfront West development on the Kentucky economy is over $813 million. Of this, $399 million is a one-time construction impact, and the remaining $414 million will recur for each year of operation. Nearly 15,000 jobs will be generated in the state due to this economic activity (see Table 4).

Table 4: Summary Economic Impact

	Economic Impact	Employment Impact
Construction (one-time)	$ 398,876,933	4,466
Operations (recurring)	388,152,612	9,670
Visitors (recurring)	26,077,495	477
TOTAL	**$ 813,107,039**	**14,613**

Fiscal Impact Results

We have analyzed the impact of the Riverfront West development on income and sales tax revenues for the state of Kentucky. Total income and sales tax revenue in Kentucky will increase by $12.9 million with the development of Riverfront West. Of this, $11.7 million will be in the form of income tax revenue and $1.2 million in sales tax revenue.

Fiscal Impact on Income Tax Revenue

We estimate an increase of $11.7 million in payroll tax revenue due to the construction and operation of Riverfront West. Of the $11.7 million increase, approximately 35 percent will be a one-time increase from construction. The remaining 65 percent ($7.5 million) will recur for each year of operation of the development. Table 5 outlines our estimated increase in income tax revenue for the state of Kentucky, based on the different sources of economic impact.

Table 5: The Fiscal Impact on Income Tax Revenue

	Total Earnings	Taxable Earnings	Payroll Tax Revenue
Construction	$ 113,725,714	$ 69,064,497	$ 4,143,870
Operations	291,131,810	194,430,935	7,390,012
Visitors	7,394,388	2,627,798	157,668
TOTAL	**$ 412,251,912**	**$ 266,123,229**	**$ 11,691,550**

Fiscal Impact on Sales Tax Revenue

The development of Riverfront West is projected to increase sales tax revenue in the state of Kentucky by $1.2 million. Of this, $30 thousand will be generated by the indirect economic activity that occurs as a result of the construction of the developments (the direct construction activity itself is not subject to sales taxes). The operations of the businesses operating within Riverfront West will directly and indirectly contribute $372 thousand a year, not including the sales tax on items sold to consumers. Visitors to Kentucky related to the new development will contribute $773 thousand in Kentucky sales taxes per year (see Table 6).

Table 6: The Fiscal Impact on Sales Tax Revenue

	Total Business Sales	Taxable Sales	Sales Tax Revenue
Construction (indirect only)	$ 7,726,219	$ 494,144	$ 29,649
Operations	97,020,802	6,205,141	372,308
Visitors	18,683,106	12,891,343	773,481
TOTAL	**$ 123,430,127**	**$ 19,590,629**	**$ 1,175,438**

Data Sources and Assumptions

Construction Expenditures

Data Source: City of Covington

Assumptions: Sixty-five percent of total construction costs are for construction activity and the remaining 35 percent are for construction support (design, planning, research, etc.).

Of the dollars expended for construction activity, 50 percent stays within the Kentucky economy. Of the dollars expended for construction support, 90 percent stays within the Kentucky economy. Overall, 64 percent of construction expenditures stay and re-circulate within the state of Kentucky.

Operation Expenditures

Data Source: City of Covington and Economics Research Group, Center for Economic Education, University of Cincinnati

Assumptions: Operation expenditures estimated from employment data (provided by City of Covington) and economic impact multipliers.

Operating Expenditures = Estimated Employment /(Final Demand Employment Multiplier / Direct Effect Employment Multiplier)

RIMS II industry specific employment multipliers for the state of Kentucky were used throughout this analysis.

Visitor Expenditures

Data Source: City of Covington; Economics Research Group, Center for Economic Education, University of Cincinnati; ICSC Research Quarterly

Assumptions: Thirty-three percent of Bengals' patrons from outside the state of Kentucky will visit the Riverfront West development before and/or after Bengals games. The location of the new football stadium in between the two Covington bridges will position Riverfront West as a target parking area for game attendees.

Eight percent of Reds' patrons from outside the state of Kentucky visit the Riverfront West development before and/or after Reds games. The portion of Reds fans visiting Riverfront West is lower than Bengals fans because the new baseball stadium will be closer to the Newport side of the Kentucky Riverfront.

Six percent of event attendees for other Cincinnati Riverfront events (such as Cyclones games and Riverfest) will visit Riverfront West before and/or after the event.

Approximately half of those who come to Riverfront West due to events in Mainstrasse, Licking/Riverside, and the Riverfront West Plaza itself will be from outside the state of Kentucky.

Of the people from outside the state of Kentucky that visit Riverfront West, approximately 13 percent will make retail purchases and approximately 87 percent will make purchases at one of the restaurants in the development.

The average retail expenditure per visitor is $64.30, and the average restaurant expenditure is $15.00.

Fiscal Impact Analysis

Data Source: "Greater Cincinnati State & Local Taxes", Partnership for Greater Cincinnati

Assumptions: We assume the first $10,000 earned from each job is tax-exempt. The remaining income is taxed at six percent for the state of Kentucky.

The payroll tax revenue from operations includes revenue to the state and to the City of Covington. The other figures in Table 5 refer only to state level tax revenue.

The sales tax revenue estimates do not include the sales tax revenue generated from sales at Riverfront West – it is based only on the revenues generated from operating the businesses.

For construction and operation impacts, we assume 6.4 percent of the economic activity is subject to sales taxes. Sixty-nine percent of spending by visitors is subject to sales taxes.

For additional information contact the Economics Center for Education & Research, email Econeduc@uc.edu.
Please reference report: 2000-ED-1001 Covington Riverfront West Study