

Report on the Economic Impacts of “The Block”

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The Answer

The basic question is “If approved, what do Peoria County voters get for their payment of a quarter of one percent sales tax?”

The answer is, Peoria County taxpayers will get a total economic activity of \$575,000,000 from their investment of \$37,000,000. This is a ratio of *Fourteen to One*. In our experience, we have never before seen a payoff rate at this level. In addition, more than *2,500 jobs will be created* over the next twenty years.

The Question

The basic question is “If approved, what do Peoria County voters get for their payment of a quarter of one percent sales tax?” Although this report was produced at the request of the supporters of “The Block,” the question is not about their interest. Thus, it is important to understand that the payoff to the voters through the sales tax is the basic issue.

The report assumes that the spending of donors and others will only happen if the public support is provided. The report assumes that crucial portions of the project will only go forward if the necessary public support is applied. Further, the questions of what Caterpillar gains or the Riverfront Museum supporters gain are not the focus of the study. They have made their judgments and have made clear what they intend to accomplish.

Summary

The economic impacts of building “the block” are unusually large especially for the burden on Peoria County Taxpayers. The report provides the derivation of the results in four areas;

1. Job Creation
2. Economic Activity Caused
3. Burden on Peoria County Taxpayers
4. The Ratio of the Impacts to the Cost Borne by Peoria County Taxpayers.

The increase in jobs attributed to “The Block” was estimated at approximately

- 1,100 during the construction phase,
- 80 per year thereafter.

Business development and economic activity are projected to be approximately

1. \$210 million during construction phase
2. \$205 million from operations
\$12 million per year
3. \$160 million from visitors
\$9 million per year

The total impact is about \$575 million.

The impact of a .25% sales tax (with several items excluded) would

- Cost per county resident is less than \$17 per year.
- This is equivalent to less than 0.07% of average annual real per capita income.

Finally we find that for each one dollar of taxes paid by county fourteen dollars of economic activity are generated. This is a *fourteen to one payoff* ratio. This comes from construction spending, annual attraction spending, and visitor spending.

The Construction Phase

Direct Impact:

The construction phase includes the actual physical process of building the buildings and other structures. It also includes other activities associated with construction. For example, architectural fees, consultant fees, exhibits, etc. are included. The total cash expenditure for these is \$123,000,000. This does not include the value of the site or other items not of a construction nature. Of this amount, the contribution from the sales tax is about \$37,000,000. The difference of \$86,000,000 comes from individual private contributions and the Caterpillar Foundation's contribution.

This begins the process of building the measure of economic activity supported by the sales tax. For every one dollar spent from the sales tax, \$1.32 is added by the contributors for a total of \$2.32 spent.

We estimate that about 5.3 local jobs (measured as "job years") are produced for every \$1,000,000 of spending on construction related activities. That implies that about 650 job years will be directly generated from the construction activity. For a twenty five month period of time, this translates to about 310 jobs per year.

Indirect Impact:

The indirect impacts come from the increased personal incomes and increased business incomes. These increases in incomes create additional rounds of spending in the community. It is estimated that the total resulting from these additional rounds of spending is somewhere between 50% and 100% of the original amount. Adjusting for the size of the Peoria area, this study uses 70% as the additional spending. This means that, on average, for each \$1 spent on the construction an additional \$.70 is spent.

This is described as the "multiplier" which captures the original amount and the indirect amount. The spending multiplier here is 1.70 – each one dollar of spending causes a total of \$1.70 to be spent.

This means that the \$123,000,000 spent directly on "the block" in the construction phase will induce another \$86,000,000 in spending. The additional spending will be for consumer goods (groceries, movies, rents, etc.) or for business (expanding employment or holding onto employees, adding to or replenishing inventories). Thus the total is about \$210,000,000.

Note that a multiplier such as this conventionally refers to all of the spending. The question here is the effect of the spending from the sales tax. The \$37,000,000 of sales tax is thus generating the \$210,000,000 which is a multiplier of 5.65. Each dollar of sales tax used for the construction phase returns a total of \$5.65.

Similarly, the number of jobs created climbs to about 1,100. The additional 450 jobs are a result of the additional rounds of spending by individuals and businesses.

In sum, during the construction phase -- \$210,000,000 of spending will be generated and 1,100 jobs will be generated.

The Operations Phase

Direct Impact:

The operations phase includes the operations of the Caterpillar Experience, the Riverfront Museum, and the IMAX Theatre. An additional \$6,700,000 will be spent per year. (The total spending will be greater than \$6,700,000 but the current level of spending by Lakeview is not included. It is not an increment to spending.)

Because the sales tax is expected to be in place for a twenty year period, the economic activity is calculated for that period. Because the first two years are in the construction phase, the operations are viewed over the remaining eighteen years. Thus, over the eighteen years about \$121,000,000 more will be spent while the attractions are operating.

We estimate that about 6.5 local jobs (measured as “job years”) are produced for every \$1,000,000 of spending in operations related activities. Thus, about 45 jobs will be generated per year. ($6.7 \text{ times } 6.5 = 43.55 \text{ jobs.}$) That implies that over the eighteen year study period about 780 jobs will be directly generated from the operations activity.

Indirect Impact:

As in the construction phase, this study uses 70% as the additional spending. This implies that the \$121,000,000 spent directly on “the block” in the operations phase will induce another \$85,000,000 in spending. Thus the total is about \$205,000,000.

Once again note that a multiplier such as this conventionally refers to all of the spending. The question here is the effect of the spending from the sales tax. The \$37,000,000 of sales tax is thus making possible the \$205,000,000 from operations plus the \$210,000,000 from the construction phase. This is a total of about \$415,000,000. At this stage it is seen that each dollar of sales tax makes possible a total of a little over \$11. ($415/37 = 11.22$).

Similarly, the number of jobs created per year climbs to about 80. The additional 35 jobs are a result of the additional rounds of spending by individuals and businesses. Over 18 years, this means that about 1,450 jobs will be created.

In sum, from operations, \$205,000,000 of spending will be generated and 80 jobs per year will be generated.

Visitors

Attraction visitors both support the operations of “The Block” but they also spend in other parts of the city. Visitors can be local residents, day visitors or overnight visitors. The visitors, except the nearly 20,000 schoolchildren, support “The Block” by paying admittance fees, buying from the shops in the Caterpillar Experience and the Riverfront Museum, shopping, food and beverage purchase, theatre tickets, and others.

The overnight visitors, spend on hotel, meals, shopping and amusement. The industry average (national) is \$299 overnight per hotel room. That spending includes the hotel itself plus all of the items shown below. For Peoria, the average is \$153 per night broken down into:

Hotel	\$90
Meals	\$30
Shopping	\$22
Amusement	\$11

The Build the Block Committee performed a study to find out where the visitors come from. The estimate is that about 25% of the visitors would be overnight. These are people who come for this attraction specifically. But it is far more often people who come for other venues (business, conferences, the basketball tournaments, etc.) who extend their stay to overnight. It was assumed that there would be an average of about 2 visitors per hotel room per night. To account for this the impacts per overnight visitor were divided by 2.0 to give about \$77 per overnight visitor. The amusement spending might very well be the attraction ticket price. This is in effect already included in the operations data; thus to avoid double counting it was subtracted out. So the figure of spending per overnight visitor is about \$71.

Twenty-five percent of the projected number of visitors is somewhat more than 200 visitors per day. Using that figure for 365 days gives 73,000 overnight visitors. At \$71 each, the total direct spending is \$5.2 million per year. The multiplier of 1.7 indicates that this will grow to \$8.8 million per year or a total of about \$160,000,000 over the eighteen year period.

Burden

The cost born by individuals in Peoria County is the burden of the tax. The tax should raise about \$3.42 million per year at the start. Not all of that amount will come from the pockets of Peoria County residents. At least 9.9% of the sales taxes will come from non-county residents. At most, \$3.08 million would come from Peoria County residents.

According to the Bureau of the Census, the 2007 Peoria County population was 182,500. Thus the burden is a little under \$17 per person. (\$3.08 million divided by 182,500 = \$16.86.)

The Answer

In review, the basic question is “If approved, what do Peoria County voters get for their payment of a quarter of one percent sales tax?”

The answer is, Peoria County taxpayers will get a total economic activity of \$575,000,000 from their investment of \$37,000,000. This is a ratio of ***Fourteen to One***. In our experience, we have never before seen a payoff rate at this level. In addition, more than ***2,500 jobs will be created*** over the next twenty years.

Some Questions

Q: Why is the spending on “The Block” counted as an economic benefit? Isn’t that a cost?

A: The spending is *both* a cost and a benefit. Every dollar spent by one person is also a dollar of income to the person receiving it. As it is with most cases, the easiest (and often more accurate) way to calculate the economic impact of a project is to track the expenditures associated with it.

One of the fundamental principles taught in economics is national income accounting. National income accounting (i.e. the basis of account for GDP) suggests that every dollar of spending by one person is a dollar of income for another person. Therefore, total income can be calculated one of two ways; *one* is adding up all of the expenditures on final goods and services, and *two* is adding up all incomes. As John Maynard Keynes stated, total expenditure equals total income.

Q: Why are the construction phase impact numbers so much greater than the cost of construction?

A: The total impact of construction of “The Block” on the Peoria area economy includes the direct benefits plus the indirect benefits accruing from dollars spent on the project. The indirect effects represent the economic activity generated in the community to meet the needs for local goods and services. The indirect benefits arise as incomes are re-spent throughout the area.

Essentially, dollars of construction expenditures are received as income by individuals, business firms, and governmental units who provide goods and services to the community. These income recipients save a fraction of the dollars but re-spend most of them on capital goods or personal goods and services which become income to others. These rounds of spending continue until the “leakages” from saving and flows outside the area equal the initial income injections. The result of the rounds of spending is to increase aggregate income by some “multiple” of the initial dollars injected through construction-related expenditures. The multiplier is a ratio for calculating the estimated total economic impact of an economic engine, like The Block, by quantifying the indirect effects of expenditures and including them with the direct expenditures.

Q: Aren’t these visitor figures awfully large?

A: No.

In 1999, nearly 900,000,000 visits were recorded to museums in the United States. This is more than the attendance at all professional sports venues combined. And it is larger by several times over.

Also, the most important question about the visitors is whether they will come to “The Block” in sufficient numbers to support the ongoing operations. Consider this in parts.

The first part is the “Caterpillar Experience.” No special analysis is needed for this part of the project. Caterpillar has greater resources to study the issue from their point of view and they are very intelligent. That they are willing to invest means that they consider it a good investment. Further, it is very likely that they have been able to take into account facets that this report did not. These would probably include the impact on recruiting employees, the impact on potential customers, the impact on dealers, and many others.

Q: Isn't your opinion simply what Caterpillar or somebody else paid you for?

A: No.

This was an independent analysis of The Block's economic impact on Peoria's economy. The authors who produced this report did not receive any income or other in-kind benefit for their work on the report. Moreover, the authors applied standard techniques and were not influenced during the study. This report yields accurate and non-biased estimates for (1) totals jobs created, (2) economic impact, and (3) burden per county resident.