Appendix VI: Report Prepared by Economics Research Associates (ERA)

Introduction and Summary of Findings

The Riverfront Advisors, an ad hoc committee of Cincinnati's civic and business leaders, was formed in early 1999 to address the future redevelopment potential of the city's Central Riverfront. The study area is generally the land between the new NFL stadium, now underway, and the proposed baseball park. The area is bounded on the north by Third Street. Current plans call for the extension of the city's street grid south of Fort Washington Way, thereby creating a series of developable city blocks. Importantly, these blocks will sit atop a reservoir of below-grade parking spaces developed primarily to support the sporting events, but also available for day-to-day public parking for users of the CBD and the riverfront. A major public park is proposed for the land between this development area and the shoreline of the Ohio River.

For the purposes of the current work, the Advisors have assumed that the public sector would create the conditions required to attract private investment and development. This would include development of the underground parking, the street grid and related improvements, the park, utilities and infrastructure, and the platform or podium upon which private development would take place. Private developer(s) would then be recruited to finance, build, and market appropriate projects. Implicit in this approach is that the riverfront would seek to balance the amount of required public investment with the corresponding magnitude and benefits of private investment.

The Riverfront Advisors retained Economics Research Associates (ERA) as part of a consulting team to assist in their analysis and planning for riverfront redevelopment. ERA provided advice and assistance on matters related to market support for various uses, the experience of other cities, and redevelopment economics. This report summarizes ERA's investigation of potential financing mechanisms that could be employed at the riverfront.

The major financing question addressed by this report is how to provide the capital funding for the public improvements required to attract sustainable private investment. The Advisors asked ERA to consider four principal financing tools:

- Tax-increment financing (TIF)
- Regional taxes (e.g. sales taxes)
- Intergovernmental funding
- Land sale or land lease revenues

In addition, ERA was asked to consider other potential sources of funds that are more applicable to longer-term operations and management. These include creation of a special improvement district (SID) or expansion of the existing SID to incorporate the waterfront, and a system of fees related to the use of the park for festivals and events.

This report covers each of these approaches, using a combination of economic analysis and case study research. Importantly, all projections presented in this report are based on very preliminary assessments of market and economic conditions, and on tax rates and other factors that are likely to change. While the methodologies and analytical approaches used in this report are appropriate, and the factors used are reasonable, adjustments to any of the assumptions may produce distinctly different results.

Summary of Key Findings

- We believe that the public investment in transportation improvements, sports facilities, parks, and other infrastructure and amenities will fundamentally change the nature of regional development markets. Based on the experience of other cities, and on local market indicators, as a result of the riverfront improvements, downtown Cincinnati will become much more competitive as a location for housing, stores and restaurants, offices, and hotel rooms. Fully leveraging this opportunity—and its commensurate economic benefits—will require a well-conceived overall master plan and top-level execution, including some increment of additional public investment to create the conditions to foster major private development.

- The riverfront is well-suited for the use of tax-increment financing. ERA estimates that a development program in the primary riverfront area encompassing about 1.4 million square feet will produce at buildout annual TIF revenues of about $3.1 million. Using assumptions for bond underwriting provided by the City of Cincinnati, this revenue stream could support some $36 million in bonded debt.

- Other projects along Third Street will clearly be enhanced by the public improvements to the riverfront. Without the riverfront improvements, this development in our opinion would be far less likely to locate in downtown, or even in the City of Cincinnati. Taken together these projects could produce an additional increment of TIF revenue, estimated to total about $5.0 million annually. Translated to supportable bonded debt, this development could provide TIF-backed capital funding of about $57.6 million.

- The County owned parking facilities at the riverfront are also currently slated to pay property taxes. The County is expected to request and be granted a waiver of this tax obligation. However, if this increment of revenue could be made part of a TIF or TIF-like arrangement, it would total about $1.96 million annually, or if converted to bonded debt, about $22.5 million.

- Based on the experience of other cities, however, it is clear that regional tax initiatives have played an important role in large-scale public-private development projects. Hamilton County taxes will certainly play an important role in the creation of parking facilities at the riverfront and may produce sufficient revenue to offset other costs as well.

- Regional taxes are powerful funding tools because of the broad base of revenues they tap. However, they are equally difficult to get approved: the broad funding base requires a strong regional consensus in favor of the project.

- Under the current assumptions regarding operating performance and costs, the total development program produces a supportable capitalized land value of about $6.7 million. Based on a total gross floor area of 1.4 million square feet, this translates to about $4.80 per square foot. This value could be realized through land lease payments on those uses most capable of supporting such a cost. This preliminary analysis shows office, hotel, and for-sale housing most capable of supporting land lease payments. Overall, however, the analysis shows that the private uses are likely to make a fairly modest contribution to the capital funding requirements of the central riverfront.

- The location and timing of parking facilities at the riverfront could dramatically affect the feasibility of new development, both in the riverfront district and potentially along Third Street. Above-grade parking facilities are currently proposed on several key blocks in the riverfront. Designing and building these in advance of detailed development proposals, as is currently planned, could significantly restrict the design and development options on these blocks. If some of this parking, which is required to serve the sports facilities, could be relocated, there could be several benefits: additional FAR, perhaps as much as 250,000 square feet, could be produced in the riverfront area; this would help provide the kind of critical mass needed to sustain the neighborhood, would increase the residual land value, increase potential TIF revenue, and substantially enhance the feasibility of near-term development prospects in the Third Street area.

- At buildout, the Primary Riverfront Program will create an estimated 1,507 total jobs and 1,084 residents, of which 904 jobs and 122 residents will be new to the city. These "net new" jobs support an annual payroll of $27 million. Short and long-term additional developments along Third Street will support an additional 6,700 jobs and 680 residents.

- Including both indirect and induced impacts, it would be reasonable to expect the public investment in the riverfront to ultimately produce a total regional economic impact of over 17,000 new jobs and new annual income of over $600 million.

- Additional annual City revenues from employment-related taxes of the Primary Program are estimated at $510,000. County revenues from the project's $46.5 million in annual retail sales will total about $206,000. The additional City revenue from Third Street development is estimated at $2.4 million, while the County's revenues will include an additional $139,000. Total net-new, annual fiscal benefits from the riverfront-related public investment is therefore estimated at over $3.3 million.

- The Advisors also asked ERA to evaluate the potential for user fees and the Special Improvement District mechanism to help pay for riverfront development. While we agree that these will be useful approaches for funding long-term operations and management, they are less relevant for capital funding purposes.

- A SID will be an appropriate mechanism for the riverfront. The question of whether or not the current SID structure should simply be expanded to cover the riverfront will ultimately be addressed, but is less important in the current stage of planning. There will be certain economies of scale if the boundaries are expanded. The governance structure would probably need adjustment to reflect the slightly different constituency and land use mix on the riverfront. It is likely appropriate that this issue be considered as part of the expected reauthorization of the SID in 2002.

- In addition to the quantitative benefits, the Riverfront project will provide substantial qualitative benefits to the city, county, and region. We expect that the project will significantly enhance the visitor experience and thus the overall marketability of the City and region. This will encourage more visitors to come, to stay longer, and to spend more. It will also positively impact the ability to market meetings and conventions, which is an important source of real economic growth for the region. An improved riverfront will provide a quality-of-life enhancement that is attractive to potential new residents and businesses, and will reinforce the ability of the region to attract and retain new households and workers.