

*The Influence of the Agricultural Cluster of the Fayette County Economy*

Highlights  
1/23/13

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I. **Economic Impact of Agriculture in Fayette County, Kentucky**

- For purposes of this study, the “agriculture cluster” includes production agriculture; business services, retail, and wholesale trade dedicated solely to agriculture; food processing; and manufacturing. CONSERVATIVE & DEFENSIBLE DEFINITION b/c:
  - Conservative 2007 Census of Ag numbers used re: farm laborers.
  - Study Methodology eliminates “overlap” of jobs between various elements of ag cluster—to avoid counting ag jobs “twice”.
  - To determine the direct effects of the ag cluster, the methodology relies on “IMPLAN” pre-set relationships between industries, such as the relationship between ag businesses and legal businesses. **Those pre-set relationships are based on nationwide averages, and may not reflect market relationships in Fayette County.** However, Study author customized these relationships to make them more accurate for Fayette County by assembling the directory of businesses that clearly serve the ag industry. They were included as part of the cluster for purposes of economic impact. **Those who serve ag as a portion of their business were not included in the ag-business directory; and they may not be included in the ag-cluster for purposes of economic impact if their business connections to ag are larger than the national average estimates for that industry.**
  - For purposes of tourism...The employment and revenue numbers associated direct ag-tourism activities in Lexington are included in the analysis—i.e. if people visit horse farms, Keeneland, or the Kentucky Horse Park. Food and hotel expenditures in connection with these activities are included at a conservative rate (5% and 25%).
  - **However, all tourism activities associated with**

**ag-tourism visits are not included in the analysis.** For example, if someone visited Keeneland or the Stockyards, then bought gas and drove to the mall to buy clothing at Macy's on a rainy day...the mall and gas expenditures are not included. Or, if they visited the Kentucky Horse Park, then bought jewelry from a local vendor (not included in the ag-business directory), and went to the Opera House for a show... the jewelry store, and Opera House expenditures are not included.

- A more comprehensive tourism study would track all ag-related and non-ag related activities associated with ag-tourism in Lexington—however, such a study was outside the scope of this analysis.
  - A comprehensive economic impact analysis of Keeneland, the Horse Park, Fasig Tipton, and the Bluegrass Stockyards was not completed for purposes of this study. The methodology accounted for the revenues and employment numbers of these institutions in assessing the economic impact of the ag-cluster.
  - A comprehensive economic impact analysis of Fayette County's farm real-estate industry was not completed for purposes of this study. The methodology accounted for the employment numbers and revenues of farm real estate businesses in assessing the economic impact of the ag-cluster, but not farm sales and all related multipliers.
- Ag- Cluster in Fayette County:
    - 16,676 jobs...1 in 9 [11.3%] jobs are "ag related" jobs...147,525 in labor force in Fayette Co.
    - \$2.4 billion in annual output
    - \$1.3 billion in additional income, profits, and dividends
    - \$66 million in tax revenue from state income and sales tax
    - \$7million in local payroll taxes
  - Additionally, there are approximately 1,520 jobs associated with a proportion of the hospitality sector attributable to agriculture (25% lodging, 5% restaurants)
  - Under this methodology, manufacturing represents 5.7% and government represents 19% of all jobs in Fayette Co.

- “There are service industries including legal, accounting, insurance, banking, retail, food, and drinking places and accommodations that clearly support the Ag Cluster, but without having the specific information detailing the distribution of employment devoted to the Ag Cluster, the authors felt uncomfortable including these non-specific industries in the analysis.” (p.8)
- “The full economic impact of the tourism aspects of the equine industry is outside the scope of this project. However, not including any aspects of tourism underestimates the true value of the Ag Cluster. By incorporating some basic assumptions, we can estimate a conservative impact of the tourism sector due to the equine industry. We will assume that somewhere between 25 to 50% of all hotel visits for the purpose of visiting the KY Horse Park or going to Keeneland for either the races or sales. In addition, we will assume that 5% of restaurant sales are associated with outside visitors eating and drinking at Lexington food establishments. There are a total of 1,561 jobs in the accommodations sector and 16,335 in food services and drinking. The results suggest that there are approximately 1,520 jobs associated with a proportion of the hospitality sector (25% lodging and 5% restaurants) in Lexington.” (p.15)

## II. Interviews with Fayette County Business Leaders

- 12 independent interviews with leaders from the following industries:
  - Design
  - Hospitality
  - Construction
  - Health Marketing
  - Food Service
  - Financial
  - Advanced Manufacturing
  - Non Profit
- Some Notable quotes:
  - “When Toyota moved to Central Kentucky that was great because of all the ancillary businesses that came here because of Toyota. The horse farms are like Toyota—there are a lot of other businesses here because of the horse farms. It is these different layers of related businesses that make the horse farms and cattle farms and all the others so important to our economy.” (p.25)
  - “The Ag sector and its greenspace is our soul. We can’t kill our soul. No matter where you are in Lexington, you are only 5-10 minutes away from world-class greenspace. This is what makes us unique. It is our drawing card. We could lose our soul and our brand if our Ag sector declined or we lost our greenspace. (p. 29)

### III. The Impact of Equine Sales and Horse Racing Facilities on Non-Agricultural Industries

\* CONSERVATIVE AND DEFENSIBLE METHODOLOGY USED: author only reports the economic impacts of which there is at least 90% confidence rating they are something other than zero.

- The presence of the Thoroughbred breeding and racing industry in particular imports wealth into Fayette County that directly contributes to business activity in other sectors of the economy:
  - Retail Trade
  - Finance
  - Professional Services
  - Recreation
  - Real Estate
  - Hospitality, including hotels and restaurants

\* Ag has quantifiable business activity on other industries
- “ Ag’s main contribution to the economy is not direct employment or payroll taxes. It long ago transitioned into a land and capital-intensive industry—not a labor-intensive industry. Where employment is affected will be in other industries that serve the producers and consumers of Ag activities.” (p.37)
- Fayette County LEADS THE NATION in equine sales. Business establishments located in Fayette County accounted for \$410 million of equine sales in 2007.
  - 2<sup>nd</sup> in Nation: Woodford Co. KY (\$213 million)
  - 3<sup>rd</sup> in Nation: Marion Co. FL (\$128 million)
  - 4<sup>th</sup> in Nation: Bourbon Co. KY (\$121 million)
  - 5<sup>th</sup> in Nation: Jessamine Co. KY (\$96 million)
  - 6<sup>th</sup> in Nation: Scott Co. KY (\$46 million)
  - Fayette County is SECOND IN THE NATION in specialty animal products sales at \$71 million.
  - Fayette County has \$24 million in non-animal and crop sales.
  - Total Farm sales are \$505 million.
- Non-equine Ag measures were not included in the impact analysis. Benefits of greenspace and local food are best evaluated in other studies.
- Fayette County is especially strong in the professional services industry with the retail and hospitality industries also well above the national average for similar sized counties.

- Equine sales have strong links to the professional services and real estate industries. A 10% increase in Fayette County equine sales would equal \$40 million—which would lead to an additional \$26 million in professional services sales; \$14 million of additional retail sales; and \$5 million in additional real estate sales.
  - In terms of employment, a 10% increase in equine sales would lead to an additional \$6 million in additional payroll from professional services and 7 additional professional service establishments. The number of recreational, financial, and real estate establishments would also grow slightly.
  - Equine sales are on an upward trend and are volatile—so a 10% increase in sales is within a reasonable realm of possibility.
- The presence of Keeneland and the Red Mile (racetracks) and its accessory activities leads to creation of 15 additional recreational establishments (arts and entertainment); and \$88 million in additional payroll from the hospitality, recreation, and retail industries. It leads to a 45% increase in recreation industry sales—translating into a \$74 million increase.
- The benefits of manufacturing growth mostly stay in manufacturing, whereas the benefits of ag growth are spread over many industries, and those linkages haven't been explicitly measured until now. (pgs. 44-45)
- These numbers are conservative estimates.
- “The results suggest that if we were to enact policies promoting manufacturing, the goal should be limited to divert impacts on manufacturing activities—with few expectations of benefit to other local industries. In the case of policies promoting agriculture the opposite is true; the expected benefits to other industries are approximately as large as the direct benefits. A \$40 million increase in equine sales is associated with approximately the same boost in real estate and professional services sales.” (p.46)

\*This is true in Fayette County for 4 reasons:

1. Unique Ag-status allows it to import tremendous wealth from outside the region that invests in a wide array of Fayette County industries
2. The combination of historical, cultural, and visual amenities that accompany this investment gives Fayette County a distinctive brand that generates a virtuous cycle of business activity

3. Fayette County's character and amenities have a positive influence on work force recruitment and retention (Bingham, Tiffany)
  4. Fayette County and local business have invested in a vibrant, entrepreneurial local food and entertainment industry. BRANDING
- "Fayette County's brand is analogous to a stock of capital that was acquired over a long period and now yields returns without diminishing endowment. Economic growth strategies that work well in one area, given its endowments and historical development, may not be appropriate for another area. Distinctiveness is a key component of any growth strategy. Promoting Fayette County's distinctiveness can be the deciding factor in attracting and retaining both business and a vibrant work force. Similarly, encouraging not just the retention, but growth, of indigenous firms that have already demonstrated that they are a good fit for the area's characteristics may efficiently contribute to economic growth and sustainable employment." (p.47)