



KING INSTITUTE FOR REGIONAL ECONOMIC STUDIES

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Evaluating the Job Creation Potential of Large Scale Retail Development in the Tri-Cities.

Introduction

The two large retail complexes under development in the Tri-Cities have brought to the forefront questions about the job creation potential of retail development. This issue was “kicked up a notch” with the passage of Virginia Senate bill 673 which allows Bristol, Virginia immediate access to sales tax revenues (to help fund the project) once businesses have opened in the commercial center known as The Falls, located in the city near Interstate 81’s exit 5. Immediate access to sales tax revenues was granted since the Falls complex met Senate bill 673 requirements to be considered a “development of regional economic impact.” Among those requirements is that the development be “reasonably expected to create at least 2,000 permanent jobs.”

Meaning and Measurement of Job Creation

Senate bill 673 has not defined the meaning of “create.” We think a reasonable interpretation is that it means the causation of jobs that would not exist without the new development. This interpretation of job creation includes the number of persons directly employed by new businesses located in the complex, and it also includes the ripple or multiplier effects of the new development ... jobs created indirectly by the increased demand for business services in the Tri-Cities and jobs created by new spending on consumer goods and services in the region as a result of the new retail developments. In the jargon of economic impact studies, these categories of job creation are known, respectively, as the *direct*, *indirect*, and *induced* effects.

Our interpretation of job creation is that jobs at existing stores which move into the new developments from locations in the same region are not to be counted as new jobs. Two examples in the Tri-Cities are the Lowes store moving from Washington County, Virginia into The Falls complex and the Belk store moving

from the Bristol Mall into The Pinnacle development, the other large retail complex under development. However, if the relocated stores were to expand and add employees, the additional employees would count in the new jobs computation.

Construction jobs, which may have a significant short-term economic impact, and seasonal work, are not “permanent” jobs and therefore would not count toward the 2,000-permanent-job threshold set forth in Senate bill 673. However, permanent jobs include both full-time and part-time jobs, and a substantial number of retail and restaurant jobs are part time.

To measure net job creation, jobs lost as a result of the new development must also be taken into account. Retail has been described as a *zero-sum game* in which gains by one retailer tend to be offset by losses among other, competing retailers, with no net benefit to the local economy. This view holds that retail trade is supported by a region’s economic base but contributes, if at all, only marginally to the expansion of the economic base. Retailers thus compete for slices of the same “economic pie.”

The tendency for competition among retailers to be a zero-sum game is weakened, if not altogether eliminated, by *import substitution* and *nonresident spending*. A new retail complex, with unique products and services and creative merchandising, may induce residents to forego some of the shopping they previously did in stores outside the Tri-Cities. By the same token, the new retail complex may draw shoppers from outside the region, and in so doing increase the customer base. Attracting shoppers from outside the region is critical if new retail development is to be more than a zero-sum game within the region. This point is not lost on certain big-box retailers, who promote their stores as “travel destinations” or “tourist attractions.”

A more detailed explanation of the multiplier effect and additional commentary on analyzing the economic impact of changes in the retail sector are presented in KIRES Report No. 10, *A Methodology to Rank Industries According to their Marginal Economic Impact: Case Studies for the First Congressional District of Tennessee and the Knoxville Metro Area*, January 2014. This report is available in electronic format at <http://kires.king.edu>.

Purpose of Paper and Methodology

The provision pertaining to job creation in Virginia Senate bill 673 raises the question: How do we estimate job creation in the early stages of large-scale developments, such as The Falls and The Pinnacle? Our study focuses on that question, particularly for The Falls complex since it was a catalyst for the legislation. We employ a methodology, *direct-effect employment multipliers*,

which provides a starting point for estimating the total number of jobs generated by new projects, retail or otherwise, undertaken in the Tri-Cities.

The Bureau of Economic Analysis (BEA) in the US Department of Commerce makes direct-effect employment multipliers available through its Regional Input-Output Modeling System (RIMS II). These multipliers allow us to estimate the extent to which a one-time or a sustained change in economic activity will be supplied by businesses within a region and, consequently, how this change in economy activity will affect total employment in the region.

The RIMS II multipliers are based on interindustry relationships in the 2010 national input-output (I-O) accounts developed by BEA. To develop multipliers for the Tri-Cities, the national I-O relationships were adjusted by BEA to reflect the industry structure and trading patterns in the region's economy as of 2010. The Tri-Cities region consists of the Kingsport-Bristol and Johnson City metro areas as defined by the US Census Bureau. The region includes Carter, Hawkins, Sullivan, Unicoi, and Washington counties in Tennessee; Virginia locations include Bristol city and Scott and Washington counties.

Retail stores and restaurants are likely to account for the vast majority of businesses located within the new developments in the Tri-Cities. Broadly defined, Retail Trade corresponds to North American Industry Classification System (NAICS) codes 44-45. Specific types of establishments within codes 44-45 may be viewed via the following link: http://www.census.gov/cgi-bin/sssd/naics/naicsrch?chart_code=44&search=2012%20NAICS%20Search.

Food Services and Drinking Places are under NAICS code 722. The types of establishments within this code may be viewed via the following link: http://www.census.gov/cgi-bin/sssd/naics/naicsrch?chart_code=72&search=2012%20NAICS%20Search.

Results and Conclusions

The direct-effect employment multipliers for the Retail Trade sector and the Food Services and Drinking Places sector (restaurants, for short) are total multipliers. These multipliers include the direct, indirect, and induced employment impacts alluded to earlier. The direct-effect employment multipliers for the Tri-Cities are:

Retail Trade 1.3662

Food Services and Drinking Places 1.2649.

The multipliers mean that, for every 100 new full- and part-time jobs created in the Retail Trade sector, 36.62 jobs are created in all other sectors of the Tri-Cities economy. The 100 new jobs translate into 136.62 total jobs (direct jobs = 100; indirect + induced jobs = 36.62). Likewise, for every 100 new full- and part-time

jobs created in the Food Services and Drinking Places sector, 26.49 jobs are created in all other sectors of the region's economy. Total new jobs are 126.49 (direct jobs = 100; indirect + induced jobs = 26.49).

We can restate the question posed earlier: "How many new direct jobs are needed in The Falls development to generate 2,000 total jobs in the Tri-Cities?" We do not know the exact mix of retail stores and restaurants that ultimately will be located within The Falls complex. However, consider that, if all the direct jobs were in retail, 1,464 direct jobs would be needed to generate 2,000 total jobs (calculated as $2,000/1.3662$). If all the jobs were restaurant jobs, 1,581 jobs would be required to yield 2,000 total jobs (calculated as $2,000/1.2649$).

We know that neither of the above extreme scenarios is true, as the tenants announced to date represent a mix of the two sectors. Furthermore, some existing jobs are likely to be destroyed by the new development, and there is no reliable way that we know of to account for jobs lost at this stage of the project's development. For this reason, the range of 1,464 to 1,581, which is the number of new jobs required to reach the 2,000 goal, is optimistic as it does not take into account jobs lost.

Having taken all these factors into consideration, we estimate that new businesses in The Falls complex ultimately need to directly employ at least 1,500 persons in full- and part-time jobs for the total number of jobs created by the complex to reach 2,000.

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