

**Ochs Center Report (received by MPC January 14, 2010)**

**DRAFT**

**From:** William Tharp, Ph.D.

Ochs Center for Metropolitan Studies

**To:** French Broad Preservation Association

**Re:** Economic and Alternative Impact Analysis

**Date:** November 25, 2009

The Development Corporation of Knox County has purchased 381 acres in eastern Knox County as a commercial development site. The proposed development site is located within a rural agricultural area that is adjacent to the proposed French Broad River Conservation Corridor.

The French Broad Preservation Association (FBPA) has opposed this plan and is seeking an alternative to commercial development that creates jobs and economic impact while preserving the area's natural beauty. The Ochs Center has been engaged to conduct this analysis.

The French Broad Corridor has the potential to become a premier recreation, cultural and tourist destination. The French Broad River Conservation Corridor could support substantial economic activity while preserving its rural and historical character. The purpose of this research memo is to examine how alternative uses -- tourism, recreational and cultural - could result in economic activity within Knox County.

Based on our analysis and depending on which strategy is used (and the export ratios that result), the alternate development strategy could yield between \$3.7 million and \$14.4 million in annual monetary impact and create between 50 and 191 jobs.

*Knox County Market Conditions*

The Knoxville area has experienced a decline in demand for commercial and industrial space as the national economic downturn has taken its toll. For 2008, the downtown office vacancy rate was 11.9% and the office vacancy rate for the MSA was 10.5%. Industrial vacancy rates were similarly high for the MSA, at 11.1% in 2008. In total, 5.7 million square feet of industrial and office space were available in 2008.<sup>1</sup>

Employment and firm growth have slowed in the Knox County since 2005. In 2009, first quarter private sector employment was 185,669, a 1.4% increase from 2005. The more recent trend indicates retraction of 3.8% from 2007, and 5.7% from 2008.

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<sup>1</sup> Knox County Metropolitan Planning Commission, *Property Market Studies*, [www.knoxmpc.org](http://www.knoxmpc.org).

**Table 1 – Knox County Firms and Employment, 2005-2009<sup>2</sup>**

	<b>Firms</b>	<b>Employment</b>
<b>2005</b>	10,141	183,164
<b>2006</b>	10,382	187,897
<b>2007</b>	10,834	192,970
<b>2008</b>	11,154	196,842
<b>2009</b>	11,026	185,669
	<b>Growth Rates</b>	
<b>2005-09</b>	8.7%	1.4%
<b>2007-09</b>	1.8%	-3.8%
<b>2008-09</b>	-1.1%	-5.7%

Firm growth over this time period reflects an 8.7% growth rate between 2005 and 2009, although growth since 2007 has slowed to 1.8%. Over the 2008 to 2009 time period, the number of firms in Knox County has actually contracted by 1.1%.

These trends indicate a supply of vacant commercial and industrial space in Knox County and employment and firm growth that reflects reduced demand for such space in the Knoxville region. It is therefore possible that the construction of additional office and industrial space – and the activity that it may house – would consist of previously existing activity in another part of Knox County (i.e. downtown/CBD) that is shifted to the Midway Business Park. Thus, any economic impacts would be minimized to the extent that business activity in one part of Knox County is shifted to another - representing little or no true economic benefit to the county.

#### *Midway Office Park Impacts*

In 2006, the Knox County Development Corporation commissioned Younger Associates to conduct an economic impact analysis of the proposed Midway Business Park.<sup>3</sup> This analysis concluded that activity at the Midway Business Park would generate \$208 million annually in wages and 4,600 jobs at full-scale implementation. This assessment explicitly stated that all impacts would be created within Knox County.

The Younger Associates study excluded any relevant market assessment from the analysis, and instead used employment per square foot at the Westbridge Park complex as a proxy for labor market demand in Knox County. In structuring the assessment in this manner, the Younger Associates study ignores the fact that much of the potential “new” employment at the Midway Business Park would not actually be “new” to Knox County.

Because recent historical employment and firm growth trends in Knox County suggest a likely displacement effect, it is possible that Midway could create zero net new jobs and

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<sup>2</sup> U.S. Department of Labor, Bureau of Labor Statistics, Quarterly Census of Employment and wages, 2005-09.

<sup>3</sup> Younger Associates, *Preliminary Economic Impact Analysis: Midway Business Park*, 2006.

firms. In addition, there is no evidence that any firms would choose to locate at Midway. To date, there are no existing commitments from tenants to locate at this development.

*Alternative Strategy Impacts*

The Knoxville MPC East County Sector Draft Plan Recommendation contains guidelines for development of the East County Sector, which includes: 1) a mixed-use town center development that includes various types of residential, office and retail uses; 2) an office or technology park; and 3) business park.

The MPC Draft Plan Recommendation also states that the policy should maximize employment opportunities in light manufacturing, research/development and office-related buildings, but prohibits regional warehouse/distribution use because of the impacts to the landscape and road system beyond the interchange area. The MPC also recommends that service-oriented commercial uses are allowed only on sites presently zoned for such uses.

It is possible that an alternate strategy can create more immediate economic impact and preserve the natural integrity of the East Sector and French Broad Corridor without displacing jobs from other parts of Knox County. This strategy relies on the existing assets of the area and requires no large-scale commercial development. Given its natural beauty and resources, the French Broad River Corridor has the potential to become a unique tourist, recreational and/or cultural destination.

This alternate strategy has the potential to create economic impact by building on the significant tourism industry in the region. The French Broad Corridor has the potential to benefit from its proximity to a major tourism and recreation area. The Great Smoky Mountains National Park has consistently drawn the most visitors of any park in the National Park Service System, and has drawn over 9 million visitors annually for the past five years.<sup>4</sup>

**Table 3 - Great Smoky Mountains National Park  
Attendance in Tennessee, 2004-2008**

	<b>Attendance</b>
<b>2004</b>	9,167,044
<b>2005</b>	9,192,477
<b>2006</b>	9,289,214
<b>2007</b>	9,372,253
<b>2008</b>	9,044,010

Depending on the resulting import ratio, these impacts represent true expansion because they bring new spending into the local economy, rather than simply reshuffling the local output, wages, and jobs within the local economy.

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<sup>4</sup> U.S. Department of the Interior, National Park Service at <http://www.nature.nps.gov/stats/park.cfm>.

This alternate strategy includes the following:

- The expansion of recreational opportunities through the creation of a recreation area that acts as a gateway to the French Broad River Conservation Corridor. This recreational area could contain a welcome center with a museum, bike trails, restaurant, and a recreation center offering kayak, canoe and bike rentals.
- A small-scale performance center that takes advantage of the musical history of the region and meshes with the other uses of the Corridor.
- Development of low-density land uses compatible with the character of the Corridor such as small-scale lodging and entertainment venue, conference/retreat center, or historical/archaeological education center.

It is possible to model economic impacts resulting from visitors attracted to the region by one or more of these activities/attractions. These impacts are modeled to be industry-specific and are assumed to filter throughout the regional economy through direct, indirect and induced effects.<sup>5</sup> The projected impacts are estimates based on ongoing operations, and do not include impacts from planning, infrastructure development, or construction. These impact estimates do not contemplate specific design guidelines and/or zoning changes that may be required to develop capacity for this strategy.

The Ochs Center projects that the French Broad Conservation Corridor could attract 100,000 annual visitors as a result of full implementation of the alternative strategy. Uncertainty exists, however, on the issue regarding the proportion of visitors who would originate from outside of Knox County.

To account for this uncertainty, impacts were estimated with respect to three possible scenarios. Each scenario represents different assumptions about the ability of the Corridor to attract external visitors.

#### *Scenario I – Cultural/Historical Hub*

Scenario I involves the establishment of the Corridor as a cultural and historical center for the larger region. Operating at full capacity, the Corridor is projected to attract 10,000 visitors for conservation/cultural/historical activities (50% from outside of the region), 75,000 visitors for recreational activities (25% from outside of the region), 5,000 visitors for a conference or retreat (50% from outside of the region), and 10,000 visitors for performances (25% from outside of the region). Given a per visitor daily spending total of \$140,<sup>6</sup> total new spending for this scenario across all activities is \$4,025,000.

**Table 4 - Scenario I Spending Estimate**

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<sup>5</sup> Impacts are estimated through an input-output model created by the Minnesota IMPLAN Group, Inc. The IMPLAN model uses input-output to determine changes in final demand resulting from increased production in one or more industries. This model derives estimates of direct, indirect, and induced effects on employment, output and income in the reference economy.

<sup>6</sup> Maximum per diem allowance for the Knoxville MSA, General Services Administration, 2009..

<b>Component</b>	<b>Annual Attendance</b>	<b>Export Ratio</b>	<b>Direct Spending</b>
Conservation/Cultural/ Historical	10,000	50%	\$700,000
Recreation	75,000	25%	\$2,625,000
Conference/Retreat	5,000	50%	\$350,000
Performance	10,000	25%	\$350,000
<b>Total</b>	<b>100,000</b>		<b>\$4,025,000</b>

Under this scenario, the total direct monetary impact resulting from the establishment of the Corridor as a cultural and historical center is estimated to total \$5.5 million annually, including an income effect \$1.5 million. The direct employment effect is projected at 85.9 jobs. The total monetary impact derived from this scenario, including indirect and induced effects, is \$8.8 million. Total employment is projected at 109.2 jobs per year.

**Table 5 - Scenario I Impact Estimate**

	<b>Output</b>	<b>Income</b>	<b>Employment</b>
<b>Direct</b>	\$4,025,000	\$1,532,473	85.9
<b>Indirect</b>	\$1,101,732	\$345,891	10.0
<b>Induced</b>	\$1,376,959	\$437,802	13.3
<b>Total</b>	<b>\$6,503,691</b>	<b>\$2,316,166</b>	<b>109.2</b>

*Scenario II – Recreational Hub*

Under Scenario II, the Corridor would serve primarily as a recreation center for the larger region. Under this scenario, conservation/cultural/historical and conference/retreat activities are driven by local demand (75%). This scenario assumes 75,000 recreation-oriented visits and 10,000 performance-oriented visits from persons residing outside of the region (50% of total visits). Total direct spending is projected to be \$6,475,000.

**Table 6 - Scenario II Spending Estimate**

	<b>Annual Attendance</b>	<b>Export Ratio</b>	<b>Direct Spending</b>
Conservation/Cultural/ Historical	10,000	25%	\$350,000
Recreation	75,000	50%	\$5,250,000
Conference/Retreat	5,000	25%	\$175,000
Performance	10,000	50%	\$700,000
<b>Total</b>	<b>100,000</b>		<b>\$6,475,000</b>

Total direct spending resulting from this scenario is \$9 million, including \$6.5 million in output and \$2.6 million in income. The total estimated direct employment effect is 154.7 jobs. The total projected monetary impact resulting from a recreation-based strategy is \$14.4 million. The total employment effect is 191.9 jobs.

**Table 7 - Scenario II Impact Estimate**

	<b>Output</b>	<b>Income</b>	<b>Employment</b>
<b>Direct</b>	\$6,475,000	\$2,573,891	154.7
<b>Indirect</b>	\$1,782,504	\$546,198	15.3
<b>Induced</b>	\$2,280,155	\$724,969	21.9
<b>Total</b>	<b>\$10,537,659</b>	<b>\$3,845,058</b>	<b>191.9</b>

*Scenario III – Regional Attraction*

Scenario III involves the establishment of the Corridor as a local attraction, and assumes low external demand for Corridor activities, especially for conservation/cultural/historical and recreational activities (10% export ratio). This model also assumes 25% external demand for conference/retreat and performance activities.

**Table 8 - Scenario III Spending Estimate**

	<b>Annual Attendance</b>	<b>Export Ratio</b>	<b>Direct Spending</b>
Conservation/Cultural/ Historical	10,000	10%	\$140,000
Recreation	75,000	10%	\$1,050,000
Conference/Retreat	5,000	25%	\$175,000
Performance	10,000	25%	\$350,000
<b>Total</b>	<b>100,000</b>		<b>\$1,715,000</b>

The local demand strategy creates export ratios and resulting direct spending estimates much lower in magnitude than previous scenarios. Total direct spending resulting from this strategy is projected to be \$1,715,000.

Total projected direct monetary impact resulting from implementation of Scenario III is \$2.7 million, including an estimated direct income effect of \$651,569. The direct employment effect is projected to be 40.7 jobs.

The total direct, indirect and induced monetary impact is estimated to be \$3.7 million – including an income effect of \$2.7 million and an output effect of \$976,789. The total employment effect resulting from scenario III is 50.3 jobs.

**Table 9 - Scenario III Impact Estimate**

	<b>Output</b>	<b>Income</b>	<b>Employment</b>
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<b>Direct</b>	\$1,715,000	\$651,569	40.7
<b>Indirect</b>	\$446,596	\$139,989	4.0
<b>Induced</b>	\$582,581	\$185,231	5.6
<b>Total</b>	<b>\$2,744,177</b>	<b>\$976,789</b>	<b>50.3</b>

### *Conclusion*

The French Broad River Conservation Corridor has natural resources and a location that is proximate to high-volume tourist attractions. These qualities can be leveraged to create economic impacts in Knox County while preserving the rural character of the Corridor. Depending on which strategy is used (and the export ratios that result), the alternate development strategy could yield between \$3.7 million and \$14.4 million in annual monetary impact and create between 50 and 191 jobs.

### *About the Ochs Center*

The Ochs Center conducts independent data analysis and policy research to improve the quality of life in the Chattanooga region. It provides a full array of research and data analysis services for local non-profit organizations and local government:

- Collects and analysis of administrative data from government agencies or non-profit programs
- Public policy and best practices research
- Survey design and analysis
- Roundtables and focus groups
- Program evaluation
- Economic impact analysis and modeling
- Budgetary and operational reviews
- Assessment of community conditions
- GIS mapping and analysis

In addition to its efforts in the Chattanooga region, the Ochs Center has also worked at the regional, state and national level with support from the Brookings Institution, the Annie E. Casey Foundation, the Robert Wood Johnson Foundation and the Alfred P. Sloan Foundation.

The Ochs Center has conducted a series of studies related to the linkages between quality of life, workforce development and economic development, including:

- a 2008-09 study assessing impacts and alternative development strategies for the Bells Bend/Beaman Park Corridor in Nashville/Davidson County
- a 2009 study of impacts created through efficiency and renewable energy strategies in the East Kentucky Power Cooperative Region
- a 2009 economic and fiscal study of impacts from a proposed coal-fired power plant in Early County, Georgia

- a 2008 impact study of the proposed Majestic Theater in Chattanooga, Tennessee
- a 2008 usage and valuation study of the Tennessee Riverpark system in Chattanooga, Tennessee
- a 2007 labor market analysis for the Chattanooga Area Chamber of Commerce
- a 2007 study for the Brookings Institution on the factors leading to the turnaround of Chattanooga

Principal staff on economic development projects are David Eichenthal and William Tharp. Since January 2005, David R. Eichenthal has been the President and CEO of the Ochs Center. In 2007, Mr. Eichenthal was named a Nonresident Senior Fellow with the Brookings Institution Metropolitan Policy Program. He also holds the title of Senior Managing Consultant with Public Financial Management, a leading national provider of financial, budgetary and management consulting to states and local governments.

Prior to joining the Ochs Center Mr. Eichenthal served the City of Chattanooga, beginning in 2002 as Director of the new Office of Performance Review, City Finance Officer, Chairman of the General Pension Plan for the City of Chattanooga and President of the Chattanooga Downtown Redevelopment Corporation under then-Mayor Bob Corker. He holds a B.A. in Public Policy Studies from the University of Chicago and a J.D. from New York University School of Law.

Since 2005, William Tharp has led the Ochs Center's work on economic development, workforce development and economic impact analysis. He also has expertise on public finance and performance measurement. Prior to joining the Ochs Center, Dr. Tharp served in Nashville Metropolitan Government as Finance Officer in the Office of Management and Budget and as Research Analyst at the Nashville Career Advancement Center, the local government office responsible for workforce development. Dr. Tharp is also an Associate Professor of Public Administration at the University of Tennessee at Chattanooga. He holds a PhD in Urban Affairs from the University of Louisville.