



Northeast Florida
Regional Council

LOT J ECONOMIC IMPACT FORECAST

Utilizing REMI PI + Florida Counties Model



2020 | DECEMBER

JACKSONVILLE, FLORIDA



BACKGROUND

The City of Jacksonville is currently considering the proposal for a mixed-use development in the Sports Complex area, known as the Lot J Project. As part of their proposal, the developers commissioned an Economic and Fiscal Analysis of the project which was conducted by Johnson Consulting and dated October 21, 2020. This analysis was used to suggest a return on investment (ROI) for the project. However, the Council Auditor's office, using a different methodology, calculated a different ROI for the project.

On November 10, 2020 Jacksonville City Council asked the Northeast Florida Regional Council (NEFRC) to conduct a REMI analysis of the proposed project. Regional Economic Models, Inc., or REMI, has been developing economic modeling software since 1980. NEFRC often uses the system to project the impact of economic development projects, including their effects on local employment, Gross Domestic Product (GDP), and income in a given county and across the Northeast Florida seven county region. REMI was recently used to produce *Forecasting the Economic Impacts of COVID-19 in Northeast Florida* and the data for the *2020 City of Jacksonville Economic Development Partner Impact Report*. The Johnson report was prepared using ImPlan, a competing economic modeling system to REMI.



REPORT LIMITATIONS

This report is not a market or feasibility study – it does not attempt to determine whether the developer’s sales and employment goals are achievable. Instead, it offers two analyses – one based on the project realizing its goals and the other which treats the project as a more typical mixed-use development.

REMI is by definition a county-level tool, so it cannot analyze the differing impacts on downtown vs. the remainder of the county.

This report does not attempt to analyze the fiscal impacts of the proposed development, only to provide a second viewpoint on changes to the economic situation in Duval County, including jobs created directly and indirectly, increased earnings, and changes to the county’s Gross Domestic Product.

Because the report does not include a fiscal analysis of the effect of the project, it can not determine a Return on Investment.

Not all of the output fields of the REMI model are directly comparable to the output fields from the Johnson report, which was prepared using ImPlan.



METHODOLOGY

Because this report is not a feasibility or market study, it does not take a position on whether the developers can achieve their goals for sales and employee salaries (as described in the Johnson report). Instead, two REMI analyses were run – one in which the developers do make their targets and one in which sales and salaries are more typical for a project of this type. The first model is referred to in the charts as “Developer Assumptions” and the second as “REMI Standard Projections”.

In addition, another setting of REMI was used to simulate whether the project brings in substantial new visitors to the city, which is part of the public purpose of the project. In the first analysis, using the developer’s assumptions, the new business is set to not compete with existing businesses, which simulates a project that brings in new spending, either from outside the county or from patrons who otherwise would have stayed at home. In the second example, which uses more typical shopping center and hotel numbers, the model assumes that they will compete with existing businesses.

In both models, population growth due to the new residential units and job growth due to the new office building were not included, as they were in the Johnson report. The developer confirmed that there is not currently an office user from outside the region committed to the project, which would justify the inclusion of new jobs in the analysis. The construction of new residential units would not generally be assumed to attract new residents to a county, unless the overall supply of housing units was constrained in some way. While both elements of the project could help bring additional spending to downtown Jacksonville, REMI is a county-level model and cannot evaluate the effects of moving population or jobs from one part of the city to another.



METHODOLOGY

The chart below shows the inputs used for the model. The developer used sales per room and per square foot for its revenue estimates. REMI uses labor productivity instead (the amount of sales per employee), so these numbers were converted to that measure. The developer's assumptions and the standard REMI assumptions can be seen in the table – in general the developer's assumption were slightly higher than those included in REMI.

REMI uses the Bureau of Labor Statistics (BLS) job definition, while ImPlan and the Johnson report uses the Full Time Equivalent (FTE) method. For this analysis, jobs were converted from FTE to BLS using a spreadsheet provided by REMI to develop the inputs for the model, and then the results were converted back to allow them to be comparable to those in the Johnson report.

	Size	Capital Spending	Year 5 Jobs (FTE)	Salary Developer Assumptions	Salary REMI Standard	Year 5 Sales (\$M) Developer Assumptions	Sales / Job (\$T) Developer Assumptions	Sales / Job (\$T) REMI Standard
Residential	400 Units	\$129.00	10	\$33,600	\$16,869	\$6.0	\$600.0	\$615.6
Retail	115,000 Square Feet	\$117.00	285	\$33,600	\$33,807	\$45.0	\$157.9	\$128.8
Office	40,000 Square Feet	\$18.00	Not Counted	\$33,600	N/A	N/A	N/A	N/A
Hotel	200 Rooms	\$120.00	200	\$26,250	\$20,533	\$15.0	\$75.0	\$76.3
Parking & Infrastructure	700 Parking Spaces	\$75.00	Not Included	N/A	\$24,100	\$4.9	N/A	\$75.0
Total Direct		\$459.00	495			\$70.9		

CONSTRUCTION IMPACTS

A separate model was run to estimate the impacts of the construction. This model did include the construction spending for the residential and office portions of the project, which will tend to create jobs and economic activity. The Johnson report broke out construction spending into Year 1 in 2021 and Year 2 in 2022, and this analysis followed that breakdown. It should be noted that the total construction budget in the breakdown (\$469 million) described on page 11 of the Johnson report differs from the summary on page 3 (\$432 million).

	Construction Year 1	Construction Year 2	Construction Total
Direct Employment	1,281	2,022	3,303
Indirect Employment	897	1,257	2,154
Total Employment	2,178	3,279	5,457
Direct Wages (\$M)	\$70.3	\$113.6	\$183.9
Indirect Wages (\$M)	\$55.6	\$93.7	\$149.3
Total Wages (\$M)	\$125.9	\$207.3	\$333.2
Direct Spending (\$M)	\$98.3	\$160.8	\$259.1
Indirect Output (\$M)	\$329.0	\$248.4	\$387.8
Total Spending (\$M)	\$427.3	\$409.2	\$646.9
GDP Increase (\$M)	\$237.7	\$409.2	\$646.9

Source: REMI PI + Florida Counties v2.4.2

As shown in the table, REMI projects that the construction process will generate 1,281 jobs directly in the first year and 2,022 in the second year. These jobs will spur the creation of additional jobs during the construction period – 897 in the first year and 1,257 in the second year. The project will add \$333 million in Personal Income to the county over these years.

OVERALL OPERATIONS

The results of the two models simulating the overall effects of the project are shown in the table below. As discussed under Methodology, we ran two models – one assuming that the project achieves its sales, employment and salary numbers and one using the employment numbers provided by the developer but using the typical sales and salary numbers for those industries as included in REMI. As can be seen from the inputs table, while the Johnson report numbers for these variables were higher, they do not seem significantly higher.

Year 5 Projections	Model 1 Developer Assumptions	Model 2 REMI Standard Projections
Direct Employment	495	495
Indirect Employment	367	-366
Total Employment	862	129
Direct Wages (\$M)	\$15.7	\$15.3
Indirect Wages (\$M)	\$33.7	-\$7.5
Total Wages (\$M)	\$49.4	\$7.8
Direct Spending (\$M)	\$70.9	\$63.9
Indirect Output (\$M)	\$97.1	-\$37.9
Total Spending (\$M)	\$168.0	\$26.0
GDP Increase (\$M)	\$105.1	\$15.9

Source: REMI PI + Florida Counties v2.4.2

The main difference between the two models lies in whether REMI assumes that the new businesses will compete with existing local businesses or whether they will indeed bring new visitors and sales to the county. This not a question that an economic modeling program like REMI can answer.



OVERALL OPERATIONS

If the project does bring new economic activity to Duval County as the developer proposes, then the project is expected to create an additional 367 jobs; in addition to the 495 jobs directly employed by the project as of Year 5, when the Johnson report considers the project to be stabilized.

In Year 5, the project is expected to create a direct Personal Income increase of \$15.7 million, representing the direct payroll of the businesses in the project. The additional jobs created will generate an additional \$33.7 million in Personal Income. If the project does not bring new visitors and spending to the county, then REMI projects that the project will actually slightly reduce the total number of jobs in the county in Year 5. While 495 jobs are directly created by the project, 366 fewer jobs would be created (relative to baseline growth) as a result of increased competition with existing hotels, restaurants, and retail businesses.

In Year 5, the direct payroll of businesses in the project would be \$15.3 million. The jobs lost as a result of increased competition from the project would have represented Personal Income of \$7.5 million, so, the project would result in a net gain of only \$7.8 million in Personal Income for the county.

DEFINITIONS

This analysis attempts to report output types that are consistent with the Johnson report, to make comparison easier. However, because the two analyses were conducted using different programs, that was not always possible.

Direct Jobs are jobs directly created by the project. For both models, this analysis used the numbers projected by the developer.

Indirect Jobs are jobs which are created by additional spending due to the project.

Direct Wages are the wages paid to employees of the project itself.

Indirect Wages are the wages paid to employees with jobs created by indirect effects of the project.

Direct Spending represents sales at the project itself, from residential rents to retail items and food purchased to parking fees generated.

Indirect Output represents additional sales as a result of the project, such as purchases made by employees with jobs created by the project, supplies purchased by the businesses at the project, etc. The Johnson report separates this spending into Indirect and Induced Spending, while REMI does not report an output which is directly comparable.



ABOUT THE NEFRC

The Northeast Florida Regional Council (NEFRC) is a dynamic network of local governance, serving seven counties – Baker, Clay, Duval, Flagler, Putnam, Nassau, and St. Johns – and 26 municipalities since 1977. The Council is engaged in numerous issues around the Region and works to serve the needs of member local governments. The Council serves to communicate, convene, and collaborate with a variety of stakeholders across the seven counties in Northeast Florida. Council staff, through work programs, calculate and analyze data and information and ultimately help to construct solutions. For more information, please visit: www.nefrc.org/

For more information about this economic impact study, please contact:

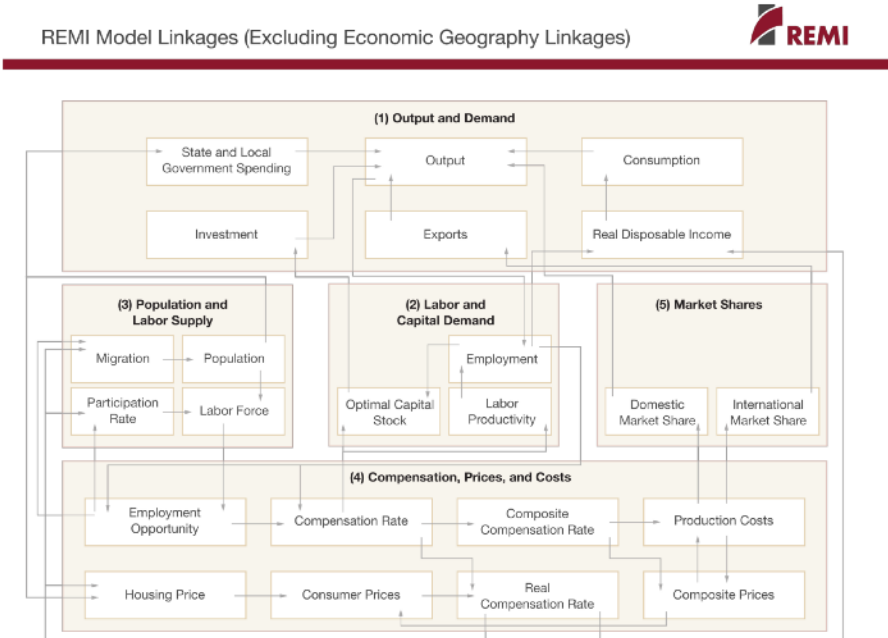
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REMI PI+ is a structural economic forecasting and policy analysis model. It integrates input- output, computable general equilibrium, econometric, and economic geography methodologies. The model is dynamic, with forecasts and simulations generated on an annual basis and behavioral responses to compensation, price, and other economic factors. The model consists of thousands of simultaneous equations with a structure that is relatively straightforward. The exact number of equations used varies depending on the extent of industry, demographic, demand, and other detail in the specific model being used. The overall structure of the model can be summarized in five major blocks: (1) Output and Demand, (2) Labor and Capital Demand, (3) Population and Labor Supply, (4) Compensation, Prices, and Costs, and (5) Market Shares. The blocks and their key interactions are shown below.



The Output and Demand block consists of output, demand, consumption, investment, government spending, exports, and imports, as well as feedback from output change due to the change in the productivity of intermediate inputs. The Labor and Capital Demand block includes labor intensity and productivity as well as demand for labor and capital. Labor force participation rate and migration equations are in the Population and Labor Supply block. The Compensation, Prices, and Costs block includes composite prices, determinants of production costs, the consumption price deflator, housing prices, and the compensation equations. The proportion of local, inter-regional, and export markets captured by each region is included in the Market Shares block. Models can be built as single region, multi-region, or multi-region national models. A region is defined broadly as a sub-national area, and could consist of a state, province, county, or city, or any combination of sub-national areas. Single-region models consist of an individual region, called the home region. The rest of the nation is also represented in the model. However, since the home region is only a small part of the total nation, the changes in the region do not have an endogenous effect on the variables in the rest of the nation. For more information, please visit: www.remi.com