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INTERNATIONAL
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Joseph A. Marinucci, FM
IEDC Chair

dear colleague

I am excited and honored to become IEDC's newly elected chair. This is a distinct privilege and humbling opportunity to serve this great organization. I hope to maintain the superior leadership that Steve Budd and Rick Weddle, my predecessors, have provided to the organization. I am especially enthusiastic about working with the organization's outstanding staff and all the Board members to advance our goals of providing quality services to our members and advancing the profession of economic development.

We are continuing to move forward on strategies to provide assistance to communities affected by Hurricanes Katrina and Rita. To this end, IEDC and the US Chamber of Commerce recently sponsored the Gulf Coast Business Reinvestment Forum in Washington, D.C. We partnered with the states of Alabama, Louisiana, Mississippi, and Texas to organize discussions, learning, and strategizing about business reinvestment in the Gulf Coast Region.

The Forum brought together a very select group of business and policy leaders and actors from the local, state, and national level. The format offered regional and national situation analysis and produced final recommended actions from each of the six economic development and business recovery focus groups. IEDC has also launched the Economic Recovery Volunteer Program, partially funded by the Economic Development Administration, which deploys volunteer IEDC members to counties and parishes in Mississippi and Louisiana that suffered heavy damage from the hurricanes. Volunteers offer technical assistance to businesses and Economic Development Organizations to help them regain post-disaster capacity and ultimately enhance regional competitiveness.

I am especially concerned that American communities continue to struggle with the loss in manufacturing jobs and the challenges of globalization. We need to empower communities with the tools to be globally competitive, to establish and nurture world class economic activity, and to assist their businesses in becoming globally competitive. Further, we need to encourage communities and organizations to partner globally in order to build relationships that can lead to opportunities for US companies and investment from global firms.

One important way to assist in becoming globally competitive is to encourage changes in our educational system that prepare our future workforce for global realities. Another way is to adjust training programs so that US workers are being trained for value added jobs and the new challenges of working with global partners.

I look forward to seeing many of you at IEDC's 2006 Economic Development Summit on March 19-22 in Washington, D.C. This annual event features a program packed with information concerning the federal government's role in economic development. Beltway insiders and representatives from Congress, the White House, and federal agencies will be on hand to discuss a variety of issues focusing on the government's efforts to reassess its approach to economic development.

Joseph A. Marinucci, FM
IEDC Chair

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commercial development

IMPACT ANALYSIS BEFORE AND AFTER CONSTRUCTION

By C. Fred DeKay, Ph.D. and Barbara M. Yates, Ph.D.

Property developers often conduct economic and fiscal impact analyses on proposed development projects as part of an application for a permit or zoning change or in an effort to obtain public sector incentives. Government agencies and jurisdictions conduct these types of analyses for public projects or to review proposals for private projects.[1] Once the initial purpose of the study has passed, the report often collects dust on someone's shelf and is not considered again. Developers rarely have an incentive to revisit the impact analysis after the projected development is completed. However there are lessons to be learned by determining why the actual results differ from the original predictions.[2]

An early view of Union Station.

This article presents a case study of a before and after construction comparison of the economic and fiscal impacts of an urban commercial development. The authors conducted a survey of the tenants in the Union Station Development in downtown Seattle to assess the economic activity at the development during 2003 and to compare the results with the project impact analysis completed in 1996 prior to construction.[3] The process of completing this task and the comparisons between the two studies gave us insights into some issues surrounding the methodology and interpretation of impact analyses, including some of the difficulties involved in the "before and after" comparison process itself. For example, what kinds of adjustments need to be made to ensure a valid comparison and how does one assess whether the original estimates were good predictions?

We begin with some general background on economic and fiscal impact analysis, followed by more details on the Union Station Development. We then present and compare the economic and fiscal impacts of the project estimated before and after construction. Where the estimates differ, we examine possible reasons, noting some that might call for adjustments to the original projections before comparing them with the 2003 results. We conclude with some summary observations and recommendations for conducting impact analyses and before and after construction case studies.

C. Fred DeKay, Ph.D., is an associate professor and Barbara Yates, Ph.D., is a professor in the Department of Economics at Seattle University, Seattle, WA.

A CASE STUDY

Do current economic impact analysis methodologies provide accurate forecasts for urban commercial development activities? Economic and fiscal impact analyses prepared before and after the construction of a large urban commercial development in Seattle provide a case study of how actual results might differ from the original predictions. Changes in general economic conditions accounted for some of the differences, but income and tax revenue impacts were also affected by the eventual space utilization. For example, e-commerce and non-revenue generating activities were unanticipated in the tenant mix assumptions. Also, the use of state-wide averages as parameters underestimated the experience in a large urban setting. The case study suggests some things to consider when conducting an impact analysis of a business development project.

ECONOMIC AND FISCAL IMPACT ANALYSIS

The construction of a new commercial development supports a stream of economic activity with potential effects on local employment, income, and tax receipts. Economic and fiscal impact analysis attempts to track and measure those effects.[4] Accepted economic methodology recognizes three types of impacts: direct, indirect, and induced.[5] Direct impacts include the income and employment generated by the development project itself during and after construction. Indirect effects include purchases by businesses in the development from local material suppliers or service providers. Induced effects are the so-called "second round" or "multiplier" effects from spending the income generated by the direct impacts. For example, induced effects would include the impacts on the economy caused by the spending of wages by the development's employees in local retail stores. This spending creates jobs for the employees of the stores, further contributing to regional economic activity. These combined effects within a given political jurisdiction can also produce fiscal effects in the form of additional revenues from taxes and fees and additional demands for public services.

Union Station development site before construction with Seattle's skyline in the background.

At this point in time, the developer Nitze-Stagen acquired several acres of underutilized property at the southern edge of downtown Seattle with plans to redevelop the area into a modern office complex with six buildings, five of them new, and two parking garages. The property contained the old Union Pacific Railroad Station, a building constructed in 1911. Part of the redevelopment plan included preservation and restoration of this historic building.

It is common to assume that any income, employment, and tax revenue impacts associated with a proposed development are net new effects in the jurisdiction that would not occur without the development. Yet some of the activity might simply be transferred from another location in the same jurisdiction and the net impact of the new construction might actually be dependent on the new activity at the vacated sites. The indirect and induced effects can be particularly problematic, since it must be assumed that the spending represented by these effects occurs within the jurisdiction and, moreover, can be accommodated there without displacing other business activity. Needless to say, accurate estimates for indirect and induced impacts would depend critically on accurate estimates of the direct impacts. This case study focuses on the direct impacts of the Union Station Development on employment, income, and city revenues, estimated before and after construction.

THE UNION STATION DEVELOPMENT: PRECONSTRUCTION ANALYSIS

In 1996, the Puget Sound region was poised to enter an exceptional period of economic expansion that was fueled by the emergence of communications and internet-based businesses and the development of the hardware and software infrastructure that made those activities possible. In 1995, for the first time in more than four years, vacancy rates for the commercial real estate market in downtown Seattle had dipped below 10 percent. The market was one year into a recovery that was to last until 2001 and would see vacancy rates plummet to1.6 percent.

At this point in time, the developer Nitze-Stagen acquired several acres of underutilized property at the southern edge of downtown Seattle with plans to redevelop the area into a modern office complex with six buildings, five of them new, and two parking garages. The property contained the old Union Pacific Railroad Station, a building constructed in 1911. Part of the redevelopment plan included preservation and restoration of this historic building. Table 1 summarizes the size and scope of the project as envisioned in 1996.

As part of the project planning process, the developer commissioned an economic impact study for the proposed activity for the purpose of assessing the effects of such a large-scale construction project on the local economy. This EIS was

Table I

The Union Station Development Project Proposed in 1996

Proposed Project, 1996	
Site size (acres)	9.1
Building size (square feet)	
Office	1,088,500
Retail	34,500
Office and retail, Subtotal	1,123,000
Parking (square feet)	385,000
Parking Slots	1,100
Total developed square feet	**1,508,000**

prepared in 1996 by Ben Frerichs of Economic Consulting Services, Inc. at a time when the project was in the early planning phase. Since actual ground breaking did not begin until the middle of 1997, the report required numerous assumptions about how the project was going to be executed and what type of tenants the finished buildings would attract.[6]

The original study focused on the direct economic (employment and business gross receipts) and fiscal (tax and fee revenues) impacts of the Union Station Development (USD) on the city of Seattle for a typical (steady state) post-construction year.[7] Table 2 shows these projected effects, along with the estimated construction costs ($196 million) of the development described in Table 1. All monetary values are expressed in 1995 dollars. The 1996 study assumed the occupancy rate would average 90 percent over the business cycle and used that assumption in computing steady state employment for the project.[8]

A key factor determining these economic and fiscal impacts is the type of business occupying the development. The 1996 study projected that the businesses likely to occupy the office space portion of the buildings in the development would come from the following industries: professional and scientific instruments; finance, insurance, real estate; business services; computer services; legal services; and miscellaneous professional services (engineering, architecture, management consultants, and accountants). The types of jobs represented by firms from these industries are typically higher wage employment opportunities.

Steady state employment (3980) was estimated by dividing the total number of square feet of space by the average number of square feet per employee and then multiplying by the expected occupancy rate. The number of square feet of space per employee for office and retail uses was based on averages experienced in typical high rise offices in the Seattle market area, 250 square feet per office employee and 600 square feet per retail employee. Occupancy rates were estimated at 90 percent for office space and 95 percent for retail space.

The 1996 study projected steady state business gross incomes (or receipts) for the USD at about $451 million. Business gross income was estimated by multiplying the number of square feet for retail or office space by an estimate of revenue per square feet. The business gross income per square foot was obtained by dividing an estimate of business gross income per employee by the number of square feet per employee (250 for office; 600 for retail). Business gross income per employee was estimated by relating Washington state business gross income (upon which the state's business and occupation taxes are levied) to non-agricultural wage and salary employment for the same Standard Industrial Classification categories that were expected to occupy the buildings.

The construction and ultimate business activity were expected to generate increases in tax revenues for the city of Seattle. Seattle charges fees for construction permits and imposes taxes on business gross receipts, retail sales (including construction), assessed property value, and utility purchases. All of the space was assumed to yield taxable business gross receipts. Retail sales tax revenues were computed by multiplying the estimated retail sales receipts by the appropriate tax rates. Retail sales receipts were assumed to be a function of the space allocated to retail, the number of employees, and the average income per employee derived from state-wide data. The 1996 study assumed that real property would be assessed at the costs of construction and that personal property would be assessed at 10 percent of the value of construction. Finally, the city of Seattle imposes a 6 percent tax on utility revenues, which were estimated at $3.00 per square foot of office and retail space. In total, tax revenues were projected to increase by about $2.87 million.

Table 2

Economic and Fiscal Impact Comparisons

	1996 Projections Unadjusted
Permanent employment	3980
Business activity (revenues or expenses)	$ 450,675,000
Construction expenditures (1997-2003)	$ 196,007,500
Tax revenues, City of Seattle	$2,873,705

THE UNION STATION DEVELOPMENT: POSTCONSTRUCTION ANALYSIS

In 2004, Nitze-Stagen commissioned a review of the 1996 report to assess the accuracy of the projected economic and fiscal impacts of the Union Station Development. With the site completely developed, we could observe and measure what had actually occurred in terms of site development, occupants, business activity, employment patterns, construction costs, assessed values, and fiscal impacts on government jurisdictions. Most of these actual values are not available in published form on a project basis, thus the data had to be derived from confidential surveys of the current tenants.

We began by interviewing the building managers to obtain updated building-level data and tenant information. We reviewed the websites of all major tenants and contacted them for information on their 2003 activities. We obtained confidential information from major tenants via telephone conversations, e-mail inquiries or personal visits to their offices. Not all tenants responded to the survey, and not all responses were complete. About 65 percent of tenants provided some useful data and the building managers provided estimates of employment for nearly all tenants. When responses were incomplete and follow up telephone calls were unable to produce answers, we made estimates of values based on parameters derived from other tenants conducting similar activities or from other data sources. These attempts to match activities helped reduce, but naturally could not eliminate, sampling error.

Other data sources included published government reports, the budgets of local public agencies, annual reports of the tenants, and records provided by the property managers. We based the estimated fiscal impacts on tax records for the property, when available. When records were not available, we made estimates based on tax rates and base definitions set forth in the laws and regulations of the state of Washington and the city of Seattle. The 2003 study found that a significant portion of the employment at the USD site does not have directly attributable gross receipts. The 2003 estimates of activity recognized this by substituting an estimate of expenses for non-gross receipts generating activity, such as back-office business support functions and government services, tenant categories not considered in the 1996 report.

Union Station Development after underground garage construction. Structures to the left of Union Station are entryways to the bus tunnel.

The estimates of the economic and fiscal impacts of the USD for 2003 (in 2003 dollars) appear in Table 3, along with the original 1996 projections. Both the construction costs and the business gross receipts values turned out to be substantially higher, however employment and tax revenues came in lower than originally forecast. Construction costs were $306 million compared to the originally projected $196 million. Business gross income (or expenses) reached $752 million rather than $451 million. Employment, however, was 3,671 in 2003, below the projected 3,980. Finally, the estimated additional revenues for the city of Seattle in 2003 were $2.6 million compared to the 1996 estimate of $2.9 million. We are well aware that some differences are affected by the extreme difficulty of acquiring accurate information on a specific development project basis even after construction. In the next section we consider other possible reasons (some obvious, some less so) why the 1996 projections and the 2003 measures don't match.

Table 3

Economic and Fiscal Impact Comparisons

	1996 Projections	*2003 Estimates*
Permanent employment	3980	3671
Business activity (revenues or expenses)	$ 450,675,000	$751,821,376
Construction expenditures (1997-2003)	$ 196,007,500	$306,847,318
Tax revenues, City of Seattle	$2,873,705	$2,578,117

COMPARING THE ANALYSES: REASONS FOR DIFFERENCES

Differences Related to Changes in the Project and the Economic Environment

One obvious question in comparing the impact results is whether the actual project turned out to be the same as the proposed development. The completed Union Station Development differs slightly from the initial plan in 1996 (see Table 4). The space is slightly larger overall with increases in the amount of office space (1.5 percent), retail space (13 percent) and parking space (30 percent). Total developed square feet are 1,644,920 compared with the 1996 plan for 1,508,000. While accounting for some of the difference in construction costs and related fees and tax revenues, the impact of the larger development on differences in employment and business receipts is small, since almost all of this increase is in the parking garages.

Table 4

Comparison of the Union Station Development Project Proposed in 1996 and the Actual Project in 2003

	Proposed Project, 1996	*Actual Project, 2003*	*Percent Difference*
Site size (acres)	9.1	9.25	2%
Building size (square feet)			
Office	1,088,500	1,104,321	1%
Retail	34,500	38,907	13%
Office and retail, Subtotal	1,123,000	1,143,228	2%
Parking (square feet)	385,000	501,692	30%
Parking Slots	1,100	1,251	14%
Total developed square feet	1,508,000	1,644,920	9%

There are several general economy-related factors that could account for some of the differences. For example, for a valid comparison between the projections made in 1996 and the actual effects in 2003, both should be valued using the same prices. Between 1996 and 2003, the price level as measured by the Consumer Price Index for the Seattle Metropolitan Area increased 26.3 percent. Items reported in dollars from the 1996 study need to be increased by 26.3 percent when comparing them with the 2003 values.

In addition, productivity has increased significantly since 1996. National productivity data show that output per hour worked (and by inference output per employee and receipts per square foot) has increased by 26.5 percent since 1995. The 1996 projections for business gross receipts would not have accounted for productivity changes up to 2003, or any other unspecified future date, and therefore should be considered conservative estimates of future real values.

Finally, any true comparison must recognize that the 1996 study was not trying to predict what the impacts would be in 2003. The goal of the 1996 report was to project the long run, steady state annual impact of the development in a typical or average year and thus assumed a long run average 90 percent occupancy rate. The year 2003 was not the long run steady state average year that the 1996 study was trying to project. In fact, 2003 was a year characterized by the initial recovery from an economic recession in the local region. While the national recovery began in late 2001, Washington's unemployment rate was still among the highest in the nation in 2003. The 2003 occupancy rate for the development was 86 percent, partly because 2003 was still in the recovery phase of the business cycle and partly because one of the buildings was completed in 2002 and had not yet achieved steady state occupancy. To account for these differences we would need to adjust the 1996 numbers for employment and receipts down about 4.7 percent.

Table 5

Adjusted Economic and Fiscal Impact Comparisons

	*Adjusted 1996 Projections**	*2003 Estimates*	*Difference as a % of 1996 Adj.*
Permanent employment	3868	3671	-5%
Business activity (revenues or expenses)	$ 698,892,136	$751,821,376	8%
Construction expenditures (1997-2003)	$ 263,981,649	$306,847,318	16%
Tax revenues, City of Seattle	$ 4,238,304	$2,578,117	-39%

*Adjusted for project size, inflation, productivity increases, and occupancy rate.

One could argue that for a valid comparison between the preconstruction and post-construction estimations of economic and fiscal impacts that both sets of estimations should be based on the actual constructed development. Furthermore, the original estimates should be adjusted to reflect general economic changes in inflation, productivity, and the state of the business cycle. Table 5 shows the 1996 projections adjusted where relevant for these four factors, along with the 2003 estimates. After these adjustments, we would expect the 1996 estimate of employment in 2003 to be 3,868, around 5 percent above the actual 2003 value. The adjusted 1996 estimate for business activity in 2003 increases to $699 million, within approximately 8 percent of the 2003 estimate. Construction expenditures when adjusted are approximately $264 million, about 16 percent below the 2003 figure. The adjusted 1996 estimate for tax revenues to the city of Seattle rises to $4.2 million, 39 percent above the estimate in 2003.

Differences Related to Tenant Mix

Some of the remaining differences in the estimated impacts in the two studies can perhaps be attributed to differences in the assumed tenant mix. The types of firms originally projected to occupy the USD are indeed represented in the current list of tenants, as shown in Table 6. The 1996 study did not provide an estimate of the proportion of the total represented by each of these categories of tenants and employment, so no detailed comparison is possible.

Table 6

Union Station Development Tenants by Category, 2003

Industry	*Number of tenants*	*Employment*
Law Firms	5	97
Professional Services and Research	5	526
E-commerce or Internet Products	6	1664
Banks, Venture Capitalists	5	39
Government or Non-Profit	3	593
Retail stores or Restaurants	6	37
Other, including property managers	8	554
Total	38	3,510

While the expected categories of activity, other than government services, are well represented in the actual tenants, the actual gross business receipts (or expenses when receipts are not relevant or attributable) are substantially higher than the 1996 estimate. A couple of factors related to the specific tenants actually occupying the USD might contribute to this discrepancy. First, using state-wide gross income per employee estimates probably underestimates the gross receipts for businesses located in the major urban area of the state. Further, the state-wide proportions of the different categories of employment used to estimate the overall gross receipts per employee probably underestimate the proportions of the higher wage activities, such as consulting or legal services, that would appear in first class office space in the major metropolitan area for the state. Second, a new breed of business emerged after the 1996 study. Internet retailers, two of whom occupy the site, have much higher receipts per employee than the typical businesses expected to occupy the site in 1996. For example, Blue Nile, the jewelry and diamond internet retailer, has $1.5 million in sales per employee, nearly eight times the average for all tenants.[9]

Current wage patterns at the USD reflect the predominance of organizations with high percentages of information technology workers and skilled business professionals. Average earnings per employee are about $94,000 per year, more than double the national average for full-time workers and about 150 percent of the average for college graduates in the United States. These patterns have emerged even though a large portion of the space is occupied by government offices, where wages tend to be near the average. While, as stated earlier, the higher construction costs in the 2003 report are related in part to the larger size of the actual development, they are also associated with the choice of tenant improvements of higher quality than expected. This is consistent with the existence of higher wage employees, who typically expect a higher quality work environment. The higher wage tenants can also account in part for the lower actual employment observed in 2003, since a higher quality work environment likely includes greater square feet per employee than the average assumed in the 1996 projections.

While the adjustments for project size and general economic factors reduced the amounts by which the original projections underestimated income and construction expenditures, they increased the overestimation of city tax revenues. The tenant mix might also explain some of the difference in estimated tax revenues for the city of Seattle (see Table 7).

Seattle imposes a tax on the gross receipts of businesses (the Business and Occupation (B&O) Tax) with higher rates on professional and business services than rates on retail sales gross receipts. However, a significant fraction (14 percent) of the USD office space is currently used by government and non-profit organizations without taxable business gross receipts. Furthermore, a large block of property, the preserved Union Station Terminal building, was sold to Sound Transit and thus was removed entirely from the property tax rolls. On the other hand, personal property was assessed at 14 percent of construction costs in 2003 (even after accumulated depreciation) rather than the 10 percent used in the 1996 report. The higher value of personal property perhaps reflects in part the higher income and often higher tech tenants actually

Union Station Development under construction, July 1999. (The Kingdome, lower left, was replaced with a new stadium.)

occupying the development. The greater use of technology, especially telecommunications, also likely contributed to higher than expected utility tax revenues.

Retail sales tax revenues were lower than expected because a sizable share of the retail space was occupied by banks and property managers. Offsetting that loss in part were additional taxes on retail revenues from the garages not foreseen in 1996.

Another factor differentiating the studies relates to the large volume of internet sales being conducted by companies in the development. This type of activity was not foreseen in the 1996 study. Many of these retail sales involve out of state consumers. Unfortunately, survey responses do not provide sufficient information to allow us to estimate accurately the volume of retail sales by internet firms that is subject to the Washington state retail sales tax. To be conservative, none of the e-commerce firms' sales receipts were included in the retail sales tax base. Thus, taxable retail sales receipts and retail sales revenues might be slightly underestimated in the 2003 study.[10]

SUMMARY AND RECOMMENDATIONS

Forecasting far into the future is never easy, yet economic and fiscal impact analysis for any new proposed development requires just that, since most projects are expected to last many years. Even small errors in estimates can cumulate over time, leading to diverging paths between the forecast and the actual impacts. On the other hand, the forecast and actual impacts might be close simply as a result of offsetting errors, i.e., the blessing of St. Offset. In spite of the inherent difficulty of the process, the demand for impact analysis estimates continues. Our experience in attempting to determine the actual economic and fiscal impacts of a large urban commercial development eight years after the original projections has left us with some thoughts regarding issues to consider when conducting the original impact analysis and any subsequent comparison

Table 7

Comparison of Tax Base and City of Seattle Revenue Impacts

	*Adjusted 1996 Projection**	*2003 Estimates*	*Difference as a % of 1996 Adj.*
TAX BASE			
Business Gross Receipts Tax Base	$698,892,136	$524,513,460	-25%
Retail Sales Tax Base	$10,860,910	$ 6,362,874	-41%
Utilities Tax Base	$ 3,957,533	$ 6,323,910	60%
Real Estate Tax Base, buildings only	$ 263,981,649	$177,402,500	-33%
Personal Property Tax Base	$ 26,398,165	$35,289,994	34%
TAX REVENUES (City of Seattle)			
Business Gross Receipts Tax	$2,869,906	$1,546,362	-46
Retail Sales Tax	$92,318	$54,084	-41
Utilities Tax	$237,453	$379,435	+60
Real Estate and Personal Property Taxes	$1,038,627	$596,233	-43
Total Tax Revenues, City of Seattle	**$ 4,238,304**	**$2,578,117**	**-39%**

* Adjusted for project size, inflation, productivity increases, and occupancy rate.

Left: The Union Station entry way, during construction.

Right: Union Station entry way after construction.

with the actual results.

Our estimates of the economic and fiscal impacts as of 2003 for the Union Station Development in Seattle differed in a number of respects from the forecasted impacts made in 1996 prior to construction. Several of the differences relate to changes in economic conditions and the project itself. Some differences arise from an actual tenant mix different from that assumed in the initial impact study. In some cases, methodological changes in the earlier study might have produced estimates closer to the 2003 results; in many cases, key parameter changes would have been very hard to predict. We summarize below what we view as the key sources of the differences in the results between the two impact studies and follow with a few recommendations.

Differences associated with project and economic assumptions:

1. Changes in project size and configuration. In this case the changes were small. However, these types of changes are very important, since space drives employment and income estimates and thus, directly and indirectly, determines the tax base for important local revenue sources.

2. State of the economy. The post-construction analysis took place during the early stage of recovery from a recession, not consistent with the long-run steady state assumption underlying the initial study. The effect of economic cycles on the economic and fiscal impacts of a particular project could be interesting and important to know, but any comparison of before and after studies needs to be based on similar economic states.

3. Inflation. Inflation was not considered in the original study. Assuming constant prices is common in impact analyses, where costs and benefits are thought to be affected equally by general price level changes. Comparisons between studies over time though do require an adjustment for inflation.

4. Productivity growth. Productivity changes were not considered in the original study, yet they can be important where employment is used as the driver for estimating business income.

Differences associated with tenant mix assumptions:

1. Tenant mix and fiscal impacts. The mix of tenants assumed by the original study did not exactly match the actual in 2003. The tenant mix can affect personal property values, and thus property tax revenues, and perhaps tax rate categories for certain business income taxes. Designated retail space might not yield expected sales tax revenues if it is occupied by tenants such as banks or property managers. Use of various utilities, e.g., telecommunications, could be affected by the tenant mix, with impacts on associated tax revenues.

2. E-commerce activities. The effect of e-commerce activities on retail sales and sales tax estimates for that location was not considered in the 1996 study. Forecasting and treating e-commerce sales may become an increasing problem in future business development impact analysis.

3. Non-revenue generating activities. Government agencies and the back office operations of private firms were not included in the tenant mix of the initial study. In the case of government occupancy, one could argue that society values the activity by the value of the actual expenditures, as well as the tax revenues forgone, when it occupies space that could be occupied by revenue generating business-

It goes without saying that the accuracy of surveys depends on engaging the participation of the tenants. When an office complex has multiple tenants, you can expect that not all tenants will provide complete responses to surveys requesting private information. Property managers are invaluable in providing basic information on tenant characteristics. Their cooperation and letters of introduction provide valuable credibility for the survey and motivation to tenants to participate.

es. For the business support services, the issue is more one of where the income and any related taxes will be attributed. Any attribution method will have some degree of arbitrariness and be a source of possible error.

4. Use of state-wide averages. State level averages on income per employee were used in the original study, yet a case can be made for different (higher) values for a modern facility in a large urban setting.

This list simply suggests some possible sources of difference between projected and actual economic and fiscal impacts for a commercial office development project and is by no means comprehensive. Whether any given difference is considered large or small depends on the loss function of the user of the study. The relative, not absolute, size of the error and how the estimate feeds into other impacts would seem to be critical in evaluating the accuracy of impact studies. Is what is being estimated a driver for other values; is it a big proportion of the projected impacts? We recommend that sensitivity analysis be considered to isolate the key drivers of the impact results and to give users the tools to engage in some "what if" kinds of analyses. For example, how would the results differ if the project office space were to increase by 10 percent, if 20 percent of the total space were occupied by non-revenue generating activities, or if the average income per employee were 10 percent above the state-wide average.

Finally, we must recognize that even though we can observe actual activity after the project is completed, our vision is not perfect. It goes without saying that the accuracy of surveys depends on engaging the participation of the tenants. When an office complex has multiple tenants, you can expect that not all tenants will provide complete responses to surveys requesting private information. Property managers are invaluable in providing basic information on tenant characteristics. Their cooperation and letters of introduction provide valuable credibility for the survey and motivation to tenants to participate. Without their cooperation, unless the analyst conducting the survey has prior contacts with the tenants, he or she will have a difficult job convincing them to divulge proprietary data. We found that the developer, unless also serving as the property manager, is unlikely to have sufficient influence with the tenants to encourage participation.

We recommend that more "before and after" analyses be conducted and published to help identify potential sources of forecast error. This shared experience can help analysts improve methodology and avoid repeating errors. We hope this case study adds to our knowledge both of impact analysis and the issues involved in making valid before and after comparisons.

NOTES

1 Some examples of fiscal and economic impact analysis are: Brooks (1984) and Braun (1990).

2 Some examples of post-construction assessment are Connaughton and Madsen (2001) and Sanders (2001). Bernthal and Regan (2004) is one of many assessing the impact of sports venues and events.

3 Nitze-Stagen, Inc., the developer of the property, contracted with the authors to perform this study. The authors wish to thank Kevin Daniels, President of Nitze-Stagen and his staff for their support of this research.

4 For a guide to fiscal impact analysis methodology see Burchell, Listokin, et al (1985). A PC-based fiscal impact model developed by Georgia Tech is discussed in Lann, and Riall (1999).

5 A recent example of these types of impacts applied to employment can be found in Phillips, Hamden and Lopez (2004).

6 To avoid potential bias, we chose to not contact the author of the original analysis. The authors of this article are responsible for any misinterpretations of the original report.

7 The original study also estimated revenue effects on the county and state and possible impacts on city government expenditures. This article focuses on the revenue effects on the city of Seattle.

8 The occupancy rate for downtown Seattle office space averaged 91 percent over the 1993 to 2003 period, a period that encompassed a full cycle from trough to trough.

9 The 2003 study used an estimate of Amazon.com's expenditure at the site rather than prorated receipts to reflect the business support nature of the activities. Otherwise the discrepancy between the studies would have been much larger.

10 We excluded e-commerce sales from the sales tax base. If we assume that 2 percent of Amazon.com's and Blue Nile's gross receipts is taxable retail sales in Washington state, and allocate a portion of those sales to Union Station activity, our estimate of city tax revenues increases by about $192,000. This would reduce the discrepancy to –35 percent.

what's the difference

BETWEEN GOOD AND GREAT ECONOMIC DEVELOPERS?

By Ted M. Levine

In this tourism themeline swift access and variety of attractions are combined in only six words.

Ted M. Levine is founder and chairman of Development Counsellors International, a firm that has specialized in economic development marketing and sales since 1960, New York, NY.

In 1960, I started Development Counsellors International with an associate, Millie Brown; it was then the first firm anywhere exclusively specializing in economic development marketing and sales.

It's now almost 45 years since then, and DCI is in a real sense still in the same niche position. The big difference, though, is that since then we've worked with some 376 development-driven clients including 38 of the 50 states; around 200 cities, regions, and counties; and a good many Canadian provinces and foreign countries.

In terms of their economic development programs, a sizable number of our past and present clients (maybe 40 percent) could be classified as "good," perhaps an equal number (40 percent) as "fair," and a lesser figure as "poor" (about 15 percent).

But only a relative handful (approximately 5 percent) or perhaps 15 to 20 could be considered "great," including North Carolina's Research Triangle, Puerto Rico's Industrial Development Company, the Greater Jacksonville Chamber of Commerce, and the Greater Phoenix Economic Council.

In preparing this article, I thought it might be interesting to look hard at these *crème de la crème* developers and see how they were or are different from their literally 10,000 to 12,000 competitors.

Here are a dozen of those differences that seem significant to me:

1. UNDERSTAND AND APPRECIATE YOURSELF

Many good and fair development communities have the updated and relevant statistics on their economic base, but only the best know what are their respective Unique Selling Propositions, where they're both better and different. And they can do this no matter what size or budget.

Take, for example, our smallest current client, Schuyler County (population 19,000) in New York's upstate Finger Lakes Region. Yes, like other less populated places, it has a top-drawer quality of life. Yes, it also has a strong work ethic, and yes, it has a relatively low crime rate and a high regard for social and political integrity.

But it also has other special qualities that set it apart and place it at a higher level and to us are exciting and full of business potential. Schuyler County has relative proximity, for example, to more populous locations like Elmira, Corning, and Ithaca and also to the Cornell University Research Park, with a strong possibility of technology spillover. It also has a sparkling new business park of its own. And also, perhaps most interesting of all, it has at least three major streams of often affluent visitors via wine tours, Watkins Glen International raceway, and one of the country's most glorious state parks.

These are characteristics upon which Schuyler County can build much and additionally characteristics of which it should not only be aware, but also feel justifiably proud.

SURPRISINGLY LITTLE IF YOU FOLLOW THESE 12 STEPS

This article takes a look at those crème de la crème developers considered great by the author. How are they different from their literally 10,000 to 12,000 competitors? The article offers a dozen described and prescribed best practices for development organizations.

2. GET EVERYBODY INTO THE ACT

Fair quality development groups often have a highly professional president and a dedicated board of directors. Good groups often add a mix of people whose self-interest depends in major part upon successful economic development: bankers, utilities, real estate brokers, and construction companies.

But great development organizations go a step further. They mobilize their whole citizenry in the cause of smart and continuous development.

A case in point: The Savannah (GA) Development Authority once drew up a 40-foot-long petition in which 5,000 citizens from every income group and walk of life pledged themselves to back economic development. The authority hung it out of the top floor of City Hall and it reached down to the ground and was a tremendous incentive for the whole community to become development-minded. A photo of the petition was also featured in a national news weekly which added to the community's pride and excitement.

The long time comedian Jimmy Durante had a famous line, "Everybody wants to get into the act!" That's a good slogan for any economic development group especially if it wants to get great!

3. MOBILIZE BEHIND A THEMELINE

Most development groups in this country have a themeline and most are pretty ineffective because they don't tell you anything new about the place:

"Anytown means business" for example, really says and means nothing because it could be attached to any location anywhere.

A good themeline encapsulates your community's special advantages for outsiders and further serves as an inspiring banner for local people to parade behind.

Here are three themelines DCI helped develop and that we are proud of:

- For Dayton, Ohio, *"The innovation location"* which not only rhymes but underlines the fact that since the time of the Wright brothers there have been more patents filed per capita than in any other city in the U.S.
- For Ocala, FL, *"Join the Winner's Circle,"* which is an allusion to the community's long heritage of horse breeding and actually helped make its citizens feel like winners instead of losers. And Ocala is now according to one report the ninth fastest growing city in the U.S.
- For Tacoma, WA, *"America's No. 1 Wired City,"* described one important high tech advantage and helped to attract an awful lot of entrepreneurial companies from the outside. It also marked a point of superiority to Seattle, its better-known Big Sister only a short distance away.

Let me now tell you about the worst themeline we've ever seen. It was launched by the Democrats in New Jersey in advance of a gubernatorial election, and it was only four words long: "New Jersey Has It," and "New Jersey Has It," appeared like mushrooms all over the state on billboards, road signs, in the airport, train terminals, and all kinds of other places.

Here's how the smart Republicans undermined that themeline. Wherever they came upon "New Jersey Has It," they stuck on a small note which said, "but at least there's a cure for it."

In our judgment, most communities should at least consider a themeline not only to underline their comparative advantages to investors, visitors, and new residents but to build at home a sense of pride of place.

4. TARGET WITH A TELESCOPE

Second rate development groups try to get everybody to come to or expand to their respective communities, but the best outfits figure out where they have a strong competitive superiority and then they place their chips there.

That's one of the things we often do with our clients – try to figure out what new and expanding target activities might yield the greatest return for the smallest investment. Wherever possible, we try to select at least some targets that are different from the usual vague wishful thinking categories such as "high technology" and "bioscience."

Here are just a few targets that seemed to us intriguing for one of our current clients: certain types of light manufacture, upscale technically oriented call centers and shared services facilities; alternative energy sources; hotels and related enterprises; and a special experimental thrust at the local university business graduates to get them to consider starting, relocating or expanding their enterprises in a region they already know and in the main like.

TACOMA
AMERICA'S #1 WIRED CITY

A leadership claim is often important in projecting a tagline nationally.

Many good and fair development communities have the updated and relevant statistics on their economic base, but only the best know what are their respective Unique Selling Propositions, where they're both better and different. And they can do this no matter what size or budget.

Some of these and other targets came from DCI itself and our experience in many places, but some of the best of them have come from our clients who always know who they are a lot better than we do.

5. MARKET TO THE RIGHT PEOPLE ONLY

It's right here that I think a lot of development organizations go wrong. They want to "tell the world" about themselves and often try to do so through what I feel are usually overly expensive and largely unnecessary so-called "branding programs," which work fine for Coca Cola or General Electric but seldom for Podunck USA.

The notion of local or regional unity is often attractive to outside investors.

But fortunately, it isn't necessary to reach "the world" in economic development when you really want to reach only a relative handful of people who might expand and invest in your country, state or community, along with their pivotal advisors.

What I think this means is that many marketing tactics in economic development tend not to work very well or cost-effectively. Here are three of these tactics: general purchased space advertising (too unfocused); exhibits at large national trade shows (too competitive); and glossy color photo filled booklets and brochures (too easy to throw away).

On the other hand, here are tactics that are sometimes less expensive and tend to work better and cheaper: a good website (increasingly the place site selectors go to first); individualized direct mail and especially e-mail because in its nature it is tightly targeted; and probably most important of all a relatively simple 130-year-old technical device called the telephone, because that's often the best place to register your sales points and overcome a target's sales objections.

Happily in economic development the least expensive forms of marketing often tend to be the most effective.

6. FOLLOW-UP, FOLLOW-UP, AND ALSO FOLLOW-UP

I sometime analogize economic development to an iceberg; the one-sixth above the surface is marketing, and that's the basket where most economic development groups put their eggs. But the really smart ones emphasize the follow-up sales that tend to differentiate great developers from merely mediocre ones. For many, that may mean mobilizing a team of volunteer salesmen and women who can deal with company decision makers who show definite interest, following up with phone calls, or hosting them on red carpet tours and helping to answer the literally hundreds of questions that may arise in choosing a location. This makes sense because prospect business people tend to listen to local business people more avidly than to professional developers who after all have a special ax to grid.

And believe me this process can take lots and lots of time; for one of our clients, the Government of Puerto Rico, it took almost seven years for a New York-based communications company to decide to build a huge branch facility there, but it also became one of the most profitable operations in that island Commonwealth.

7. PARTNER WITH ANYBODY AND EVERYBODY

I stated previously that there are 10,000 to 12,000 economic development groups and that is probably too many. The less successful development outfits either go it alone or actually compete with nearby counterparts, but the super smart ones create a network of partnerships to pool talent, resources, and budgets.

In economic development today, partnership is literally the name of the game: partnership between communities, between communities and one or more utilities, also with the state, the banks, the real estate brokers, the construction companies, the academic community, and in a few cases even the labor unions.

And the trend is all toward matching private, public, and civic funds under all manner of formulae.

Here's a prediction: ten years from now most of the state development programs will be funded and financed by at least 50 percent private money.

The dot on this "i" is an upward arrow suggesting improving prospects.

8. PICK SMART SPOKESPERSONS

Again, there's a difference among developers. Most use their development officials as their official spokespersons, but the great ones also ring in private business leaders who can in essence say to fellow entrepreneurs: "This worked for me, and it might also work for you." Thus in our assignment for the Austin, TX, Chamber of Commerce awhile back we selected a 21-year-old fellow who happened to be named Michael Dell as a private enterprise spokesperson, and he surely went places after that, not only for himself but for Austin.

For Charleston, SC, we found a pioneer in the field of non-profit softwear. For Dayton, OH, we

A graphic triangle here symbolizes the Research Triangle.

managed to locate a sort of successor to the Wright brothers— a man named Ernie Fraize who in 1952 invented the pop-top soda and beer can and who actually collects a royalty every time anybody rips up the tab anywhere in the free world.

In every country, county, and community there are business leaders that in their own self-interest should be playing a more active role in the economic development process.

9. MARRY TOURISM WITH ECONOMIC DEVELOPMENT

Unfortunately in economic development this is too seldom done. But it can work beautifully. Let me give you two examples:

- **Example A:** In Watkins Glen, NY, I was talking to Craig Rust, president of Watkins Glen International Raceway, one of the biggest in the country, and he pointed out that at some of the vintage automobile races, a good number of the participants are literal Captains of Big Time industry. This led us to the notion of a couple of wine parties sponsored by the county development organization, SCOPED, to talk to these important people about profit opportunities including their new business park.

Here's a logo that really "asks for the order."

- **Example B:** For Puerto Rico, the tourism people built a special campaign to attract the Annual Conference of the Young Presidents' Organization comprised of CEOs under the age of 40. It was very expensive to lure them to the island Commonwealth, but part of the deal was for pre and post convention tours of three industrial and research parks near San Juan. The net result was that four companies actually set up manufacturing facilities in Puerto Rico worth many times the cost of the whole promotion.

10. KEEP SCORE EVERY STEP OF THE WAY

Again, here is a difference: a dichotomy between good developers who move ahead aggressively and achieve both successes and failures, and great developers who keep painstaking records of what works and what doesn't work.

As the Schuyler County development program emerges and matures, I suspect it's awfully important to measure the record of every respective marketing tactic and technique.

One simple way of doing this is by a scorekeeping system that measures such evolving steps as these:

- Initial inquiries,
- Qualified inquiries by companies in an indicated state of expansion,
- Projects in active discussion,
- Projects in negotiation, and
- Projects established.

A system like that will help you build your future marketing and sales program not on hope or hypothesis but on proved experience.

11. SIMPLY DON'T GIVE UP

Pressured by a political need to get fast bottom-line results, too often development groups give up on projects that could yield huge returns with proper and persistent cultivation such as the Puerto Rico example previously cited.

On this point here's something to keep in mind: the famous Research Triangle in North Carolina and the even more famous Silicon Valley in California's San Jose region didn't arise fully formed like the Phoenix. Instead they each took about 30 years to evolve.

Rome wasn't built in a day and your own development program won't be either.

And finally:

12. CELEBRATE SUCCESS

We now end right where we started with the importance of local understanding and pride. Both CEOs of expanding companies and their trusted advisors and consultants tend to favor competitive communities that seem on-the-way-up and who project a strongly positive self-image.

So celebrate your successes as loudly and proudly as possible: new resources and funding sources, new and expanded companies, improvements in the economic climate, and recognition by writers and editors in the local, regional, and national press.

Finally, here is a key question: if a development organization follows these dozen described and prescribed best practices, will its program of economic development and diversification necessarily succeed?

The answer is absolutely not. But if the whole community joins up and if it really believes in itself, if it can blend tourism and development advantages and efforts, and if it's in it for the long run I would think it would be pretty tough to stop.

IEDC would like to give *special thanks* to **our sponsors** of the 2005 Annual Conference in Chicago, this past September. With your generous support, IEDC was able to offer more sessions, attract world-renown speakers, draw in representatives from around the world and create a conference dialogue between economic developers unmatched in the industry. IEDC accomplished all of this while providing for over 400 more registered attendees then the previous year.

The 2005 Annual Conference described, by so many, as our most successful conference would not have been possible or certainly not as spectacular without the contributions of these prized sponsors.

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chicago curbs

RESTRICTIVE LAND USE COVENANTS

By Peter Skosey and Amy Kish

A portion of this former Osco Drug in Chicago's 49th Ward is being leased to Family Dollar, as the site cannot operate as a drugstore until August 2024.

Peter Skosey is vice president of external relations for the Metropolitan Planning Council, a 71-year-old nonprofit that advocates for and helps implement improved policy and planning in greater metropolitan Chicago. Amy Kish is MPC's urban development research assistant.

Imagine a neighborhood where a national grocery chain has opened a new store, usually to much fanfare. At the groundbreaking ceremony, the local alderman and community development group congratulate one another on their business acumen, and residents quickly become accustomed to the convenient full-service shop. But in just a few years, the grocer decides that the store isn't profitable enough to keep in its national portfolio, so it closes its doors. The neighborhood is upset, but rallies around the idea of marketing the site to a smaller, independent grocer with less stringent corporate profitability requirements.

Then the neighborhood discovers the fine print: the national chain placed a restrictive land use covenant on the land deed, prohibiting other grocery store operators from using the space forever.

This type of restrictive land use covenant, intended to control markets and foil the competition, is commonplace in many retail industries, including among grocery and drugstore chain proprietors such as Albertson's, Inc., The Great Atlantic and Pacific Tea Company, Inc., Safeway, Inc., and Stop & Shop Supermarket Company, Inc. Communities often fail to notice such covenants when developments are approved because they rear their ugly heads only after stores go bust. Then surrounding neighborhoods are left "high and dry" - stripped not only of immediate access to food and medicine, but also of the legal right to attract similar retailers to the site, sometimes forever.

Snap back to reality, where in Chicago's 39th Ward, a Dominick's closure at 4014 W. Lawrence left many residents – including seniors, the disabled, and people dependant on public transportation – wondering where they would do their grocery shopping.

"As aldermen, we are responsible for the public welfare of our communities," said Ald. Margaret Laurino (39th Ward). "If a grocery store leaves a community, it puts the entire neighborhood in a tailspin. When the Dominick's closed at 4014 W. Lawrence, I received petitions signed by hundreds of senior citizens for another grocery at this location. Because of the restrictive covenant, I was left without options."

BANS GROCERS AND DRUGSTORES FROM USING COVENANTS TO FOIL COMPETITION

Although restrictive land use covenants are not uniformly harmful to communities, it has become common around the country, and even in Canada, for supermarket and drugstore proprietors to use restrictive covenants in an anti-competitive manner. To gain control of the market, many industry leaders use restrictive covenants to prevent competitors from using formerly occupied groceries and pharmacies. This practice has resulted in two neighborhood redevelopment challenges: dangerously limited access to fresh food and vegetables not offered at the "corner store;" and blight caused by stubbornly vacant retail parcels designed and best suited for grocery and drugstores. Recently, the Chicago City Council unanimously approved an ordinance that severely limits the ability of supermarkets and drugstores to use restrictive land use covenants for this purpose. The ordinance, believed to be the first of its kind, is expected to serve as an international policy model.

Laurino's frustration mounted when she learned that she had no legal recourse against the covenant. She began talking with her fellow aldermen and discovered that the 39th Ward was not alone: several Chicago communities had run up against restrictive covenants as they worked to redevelop shuttered sites, and similar restrictions plague dozens of cities nationwide and even in Canada.

For instance, in Chicago's predominantly middle-class West Lawn neighborhood, a Dominick's grocery store pulled out more than a year ago from a site at 7000 S. Pulaski Road. All that remains today is some 50,000 square feet of vacant retail space. Most residents must catch the bus or carpool to other neighborhoods for necessities such as fresh meats and produce.

Across town in East Village, Ald. Manuel Flores (1st Ward) was preparing to welcome a Dominick's to the neighborhood. He started researching Dominick's and parent company, Safeway, Inc., and learned that their business forecast included the possibility of store closures.

"That motivated me to ask the question: from a land planning perspective, what happens when you have a store that closes?" said Flores. What he learned was that the company regularly places restrictive covenants on the site, complicating redevelopment for communities.

"People want and need a full-service grocery store, and such an amenity speaks well for the development of the community. I didn't want to lose a grocery store," says Flores, echoing Laurino's concerns. Yet neither did he want to stifle competition. "Competition ensures that these companies do a good job of maintaining their property and providing quality customer service," he said. "If you undermine competition, you're at the mercy of whoever is left."

Together, Laurino and Flores decided that enough was enough. On May 11, 2005, they introduced a citywide ordinance to curb the use of restrictive land use covenants by grocery and drugstore proprietors. On Sept. 14, 2005, the Chicago City Council passed the ordinance, becoming the first city on the globe to strike a blow against this destructive practice. Supporters say the ordinance will nip in the bud two neighborhood redevelopment challenges: dangerously limited access to fresh food and vegetables not typically offered at the "corner store;" and blight caused by stubbornly vacant retail parcels that were designed and are best-suited for grocery and drugstores.

On Sept. 14, 2005, the Chicago City Council passed the ordinance, becoming the first city on the globe to strike a blow against this destructive practice. Supporters say the ordinance will nip in the bud two neighborhood redevelopment challenges: dangerously limited access to fresh food and vegetables not typically offered at the "corner store;" and blight caused by stubbornly vacant retail parcels that were designed and are best-suited for grocery and drugstores.

"This ordinance is an issue of making sure we have healthy competition in the marketplace, and that we're promoting the best and most efficient use of property, balanced with the need to provide residents with important retail products, such as food and medicine," Flores said.

"This is as much a public service issue as it is an economic development issue," added Denise M. Casalino, commissioner of the City of Chicago Department of Planning and Development. "The lack of grocery stores within communities not only impacts redevelopment efforts in those areas but the quality of life of residents, many of whom may be elderly, sick or without the necessary means to travel longer distances."

EXCEPTIONS TO THE RULE

It is important to note that most restrictive covenants are fully legal under federal and state constitutions. However, it is also important to note that not all restrictive land use covenants are created equally.

By the broadest definition, restrictive covenants allow landowners - for a nominal recording fee - to limit the use of their property for an infinite amount of time, even after the land is sold or transferred to a new owner. The vast majority of restrictive covenants are put to good use in communities across the country. For instance, in newly established residential subdivisions, neighborhood associations use restri-

This former Dominick's grocery store in Chicago's 39th Ward has a restrictive covenant that "runs with the land." In other words, it can never again be occupied by a supermarket or grocery store.

From a community development perspective, the problem with restrictive covenants arises when the private sector uses them to dangerously limit who can participate in the free market. Deprived of access to food and medicine – and with no legal avenue for overturning the restriction on attracting similar stores to the site – a neighborhood is bound to suffer.

Formerly a Jewel grocery store, this building in Chicago's 28th Ward is being demolished because a restrictive land use covenant prohibits the site from being redeveloped as a supermarket or pharmacy larger than 20,000 square feet until June 2012.

tive covenants as a regulatory tool to preserve property values. Covenants common in residential developments dictate density, building setbacks and materials, vehicle storage, minimum square footage, and even the types of lawn fertilizer permitted. While private landowners lose some control, they willingly trade it for a well-maintained, predictable neighborhood. Covenants of this nature tend to supplement, rather than supplant, local zoning regulations; however, the city of Houston, Texas – often cited as the "wild west" of the development frontier for its lack of a zoning code – has the local right to enforce private restrictive land use covenants just as other cities enforce zoning codes. (Elsewhere, municipalities do not enforce private covenants. That responsibility remains with the private party, who may opt to file a lawsuit against anyone violating the restrictive covenant.)

Some restrictive covenants also serve very important public benefits. For example, occasionally a family estate will bequeath land to a local forest preserve or park district with a restriction stating that the land may never be sold or developed. Such restrictions protect the open space benefits of that property for the community for generations to come.

Certain retail industries use restrictive covenants to guard their investments. However, unlike the covenants being targeted by Chicago, these covenants do not adversely affect public well-being. Shopping center developers, for instance, often ensure exclusivity and minimize competition for anchor tenants by allowing covenants that limit or rule out specific types of retail. From a community development perspective, safeguarding the investment of a shopping mall anchor is logical and even preferable: such agreements help establish retail centers and lead to economically healthy neighborhoods. Furthermore, these types of restrictive covenants affect only willing lessees, who are enticed by the limits on direct competition that the covenants provide. And, such covenants are null and void once the anchor tenant departs.

A recent court case illustrates this final distinction. In 1983, Kroger closed all of its stores in Tippecanoe County, Indiana, and assigned its lease to Pay Less Super Market. Pay Less opened outlets at most of the former Kroger sites, but left the store at Sagamore Shopping Center vacant. Thirty years later, Pay Less took action to enforce the restrictive covenant against the owner of Sagamore Shopping Center, who planned to lease a vacant Target in the shopping mall to a grocer. However, on June 23, 2005, the Indiana Supreme Court ruled in favor of the defendant in the case Tippecanoe Associates v. Kimco Lafayette. The court ruled that, since Pay Less subleased the space to a furniture proprietor and no longer occupied the space, it effectively extinguished its right to protect the space.

Indeed, most restrictive land use covenants operate in the best interest of both the public and private sectors. However, restrictive covenants legitimately earned a bad rap during the first half of the 20th century, when private landowners used them as a way to legally discriminate against minority races and religions. The Supreme Court's decision in a 1926 case, Corrigan v. Buckley, upheld this manipulation of private covenants. The Court determined that private covenants did not mandate state action; thus, despite a party's motivation, private covenants were not in violation of the Fourteenth Amendment's Equal Protection Clause. It was not until 1948, in the case Shelley v. Kramer, that discriminatory private covenants were deemed unconstitutional. In this case, the judge reasoned that using the courts to enforce private covenants does qualify as state action, and state action cannot and will not enforce discriminatory dealings.

A COMMON MENACE

From a community development perspective, the problem with restrictive covenants arises when the private sector uses them to dangerously limit who can participate in the free market. Deprived of access to food and medicine – and with no legal avenue for overturning the restriction on attracting similar stores to the site – a neighborhood is bound to suffer.

Though the discriminatory motivations tied to restrictive covenants in the early 20th century differ sharply from the anticompetitive nature of covenants used today by grocery stores and pharmacies, both practices undermine public protections provided under law. Yet corporate legal departments operate within the gray areas of the law to narrowly maintain the legality of these covenants. Overly zealous grocers have gone as far as luring other businesses to place restrictive covenants on their property in exchange for money. For instance, in Northampton, Massachusetts, a large chain paid another land owner to place a restriction on property across the street from one of its sites. (This same company is currently being investigated for unfair restrictions on trade by the attorney general in neighboring Connecticut.)

Additionally, it is common for grocers to purchase a vacant store, record a covenant to the deed, and place it back on the market, with no intention of ever opening its doors for business - all to lock a competitor out of a potential marketplace. Ald. Tony Zielinski (14th Ward) of Milwaukee, Wisconsin, has experienced this practice first hand. Zielinski was originally happy when Jewel-Osco purchased a vacant Piggly Wiggly in his ward; his feelings changed after years passed, and Jewel-Osco made no indication that they planned to open an outlet at the site. Frustrated by the neighborhood's scarcity of fresh food markets and the deadening effect the vacancy had on the commercial strip mall, Ald. Zielinski met with Jewel-Osco representatives, who conceded that they would no longer "sit" on the vacant store. Indeed, Jewel-Osco sold the site; but what Zielinski didn't know was that the company added a restrictive covenant to the deed before making the sale. As a result, the site can never be used as a grocery store. The space has since been subdivided and a portion remains vacant, while the remainder houses a Family Dollar and a Blue Kangaroo Coin Laundry. The alderman and his residents must leave the ward to buy groceries.

In the Tippecanoe, Indiana, case, presiding Judge Sullivan cited a similar situation in his opinion. The plaintiff, Pay Less Super Market, "cheerfully concedes that it never intended to operate a grocery store in its Sagamore Center and acquired the Sagamore lease for the purpose of excluding competitors of its nearby stores." It is quite clear in these cases retailers never intended to open stores on the sites they purchased – their sole objective is to restrict competition.

Many cities are feeling the negative effects of restrictive covenants; the examples are endless. In Chicago's Rogers Park neighborhood, a national drugstore chain closed, but not before placing a restrictive covenant on the site, barring another pharmacy from opening there until August 2024. Half of the former building is occupied by Family Dollar, the rest is vacant, and the corridor to this day lacks a local pharmacy.

Toronto City Councilor Shelly Carrol began documenting the number of vacant stores in Vancouver with restrictive land use covenants. Only three stores remain to serve the 112,000 residents in her community. In one area, which used to be served by a full-line store, most residents now shop at a local drugstore, where just a few aisles hold all their grocery options.

In Vancouver, British Columbia, a grocery store in City Councilor Anne Roberts' neighborhood closed, and the restriction on the site left her and her neighbors without access to fresh groceries. She worked with city lawyers in an attempt to overturn the restriction, but to no avail. The city even tried to use its master plan as justification for removing the covenant, because the plan calls for grocery uses in every community and identifies the site in question as a location for retail use. A report by city lawyers acknowledged the predicament, but concluded there is nothing that can be done: "The covenants restricting food sales placed on former supermarket properties are preventing diversification of food retailing businesses," reads the report "However, no legal resources are available to the City to remove these covenants."

This former Jewel in Chicago's 7th Ward cannot operate as a supermarket, drugstore, liquor store, pharmacy or photo processing store until March 2010. It is currently being leased to Family Dollar.

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FIGHTING BLIGHT

Indeed, when land use covenants are wielded like bully clubs to assert monopolistic and exclusionary power over the free market, a system of inequities is embedded into communities. The solution lies in ensuring that restrictive covenants serve a regulatory function only among willing participants.

The Metropolitan Planning Council (MPC) is one of Chicago's longtime planning advocates and became a natural ally in Alds. Laurino and Flores' battle against restrictive covenants. The Council actively supported the Chicago City Council ordinance, just as it championed banning racial covenants in the early part of the century. Much as racial covenants were banned to protect the common good, MPC and the Chicago City Council believe that grocers' and pharmacies' use of restrictive covenants to foil competition is another instance where the public good must outweigh private property rights.

When this Dominick's grocery store in Chicago's 39th Ward closed, Ald. Margaret Laurino received a petition signed by hundreds of senior citizens asking for another grocery store on this site. However, Laurino's hands were tied: due to a restrictive land use covenant, this site can never again be occupied by a grocery store.

"Restrictive land use covenants are not uniformly bad, but in this case, they present an onerous challenge to communities," said MarySue Barrett, MPC president. "It's difficult enough to find a suitable buyer to adapt an empty big box because of its size and retailers' strict design guidelines; preventing similar stores from using the site makes redevelopment much more difficult. In the case of grocery and drugstores, the negative effects go far beyond the fiscal hardship caused by blight; the lack of fresh food and medicine can be truly life threatening."

Despite the overwhelming arguments in favor of the ordinance, the Chicago Chamber of Commerce challenged the City Council at an August 2005 preliminary hearing. The chamber argued that banning such covenants created an unfair burden on local businesses. However, 16 out of 50 City Council aldermen showed up to voice their support for the ordinance, and chastised the chamber for speaking against it.

MPC and other supporters believe that, should anyone challenge the ordinance in court, it will be upheld for the same reasons Shelley v. Kramer was upheld in 1948. Also, to help ensure that the ordinance would survive a legal challenge, the aldermen opted to modify a first, more stringent draft of the ordinance. The proposal that ultimately was put to a vote before the full City Council allows restrictive land use covenants for a very limited duration under specified circumstances. Legal counsel reasoned that this approach - rather than an all-out ban - is likely to prove more friendly to the courts.

At the Sept. 14 meeting of the Chicago City Council, where the ordinance passed with a majority, most aldermen agreed that the decision was a no-brainer. Indeed, they were all too eager to recount their own horror stories of how a shuttered store wreaked havoc in their ward. They told of seniors taking two busses to a neighboring ward, sometimes even out of the city, to access the next closest store due to a restriction on a site in their ward. And they recounted the frustrations of local merchants and interested grocery store chains who were barred from providing much-needed services to their community because the restriction prevented them from doing business on the site.

"Regulating restrictive covenants puts Chicago ahead of the rest of the country," said Ald. Laurino. "My City Council colleagues and I hope that this ordinance will become a national model for public policy."

Certainly, the costs of these exclusionary and dangerous practices are high and fall entirely on the community. When a landowner uses covenants to restrict the future use of his or her property, the value of the land to others is diminished. Also, in many cases, the city is stuck with the cost of making the land more attractive, effectively financing grocers' greed. Buildings and land can remain vacant for years because few viable options for adaptive reuse of a 50,000-square-foot building exist - other than another grocery store. Vacancies of such magnitude blight communities, as well as deprive them of access to fresh food and medicine sometimes for generations to come. Furthermore, the blight is not limited to the store itself. Nearby retail establishments that depended on traffic generated by the anchor grocery store also are harmed. The net effect: the entire community loses tax revenue and vibrancy as a result of the blighted mall or retail corridor.

pounding the pavement

By Karen Dickson

Onsite training for welders at Dynamic Lighting.

Every economic developer knows how important it is to have some sort of business retention or outreach program to the local businesses in one's community. Unfortunately, due to other demands placed on staff and resources or a higher priority being given to recruitment efforts, retention activities are often placed on the back burner. In 2003, the Pearland Economic Development Corporation (PEDC) made a momentous step in moving the priority of a local business outreach program to the front burner.

PEARLAND, TEXAS: THE RISE OF A SMALL COMMUNITY

Located on Houston's southern border, just minutes from downtown, the world-renowned Texas Medical Center, and NASA's Johnson Space Center, Pearland, Texas, is positioned in a prime location for growth. With a population of 54,000, Pearland's current growth rate is 11 percent, and due to future annexations and continued growth, the population in five years is estimated to double to 100,000.

Pearland's primary industry sector is oilfield and energy related manufacturing and service, followed by retail, then office/professional and health care. Residential growth has driven significant retail growth in the city with well more than 1 million square feet in new retail built in the last three years with an anticipated additional 2 million square feet to be built in two years. Residential and retail growth is good, but a diverse economic base is essential to a healthy economy. In 1995, Pearland residents approved the passage of the city's 4B sales tax and established the PEDC, whose core mission is to act as a catalyst by improving private investment in the local economy to benefit residents, education, government, and Pearland's future.

Since its inception, the PEDC has provided grants totaling more than $1 million to 43 Pearland businesses. Additionally, PEDC has provided needed infrastructure to support business growth and development. Roadway improvements, water and sewer extensions, and drainage programs totaling more than $11 million have been committed within the three Foreign Trade Zones and along the commercial districts.

THE BIRTH OF THE BRE

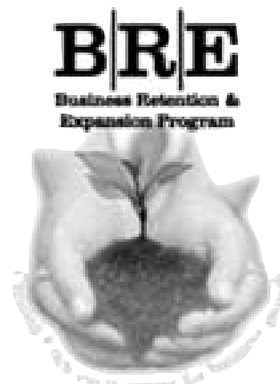
The PEDC board of directors is the governing body of the PEDC and is appointed by the Pearland city council to approve PEDC policy, incentives, and expenditures. The city council approves PEDC expenditures in excess of $100,000. In order to address all aspects of a fully comprehensive

Karen Dickson was formerly the manager of the Business Retention & Expansion program of the Pearland Economic Development Corporation in Pearland, Texas. She is currently the vice president of economic development for the Denton Chamber of Commerce in Denton, Texas.

PEARLAND'S PATH TO BUSINESS RETENTION & EXPANSION SUCCESS

The establishment of a formalized business retention and expansion outreach program can be a challenging, yet fulfilling journey. An outreach program is unique and tailored to a community based on the local businesses' needs and the economic developers' commitment to serving local businesses. In Pearland, the "pound the pavement" approach has proven to be the outreach solution for the Texas community.

In 2004, the BRE program became a formalized program with a core mission to address those needs and interests of existing businesses and to place significant emphasis on creating a positive business environment for stable, successful companies. Program objectives with measurable goals and metrics were established, therefore, establishing the Pearland BRE program as the only one of its kind in the Houston area.



economic development program, the PEDC's board of directors agreed that PEDC staff would focus on existing local businesses to: 1) establish relationships; 2) address the unique issues or needs they are facing; and 3) share information of available business resources. Therefore, the Business Retention & Expansion (BRE) program was established.

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The first-year goals of the program were to personally visit each of the major industry employers in the city and survey the top executive/manager during the visit. Through the survey and general conversation, red flag issues would be identified and addressed.

To accomplish this goal, a PEDC representative initially sent letters and called businesses in advance in an attempt to set up appointments to visit with them. We quickly found that business owners were either too busy to speak to us or we would have to leave a voicemail. Our phone calls were never returned. We did, however, talk to one business owner via telephone. When he found out we were with the city, he told us he did not want to talk to us because we were "the government" and for us not to visit him because he did not want to visit with us…period!

After that conversation, it became very clear that our local businesses were not going to open their arms to these ambassadors of good will and that we needed a vastly different plan. Some options were to keep the appointment-making task in-house or contract it out. But, the drawbacks of those two options included additional unanticipated expenditures of staff time and resources. However, a different, more aggressive, yet effective approach was still needed.

POUNDING THE PAVEMENT

The next day, after the conversation with the business owner, we went out and made business calls — unannounced and without appointments. We would arrive at a business and someone (usually the business owner) would eventually take time to talk to us and tell us about the business, often times giving us a tour of the facility. We may have had to wait 10, 20 or 30 minutes before we could be seen, but our persistence and patience usually paid off. At that time, we would educate the individual about the programs that are available to businesses and how the PEDC could help him or her in accessing available resources. More importantly, we expressed to the business owners how happy we were to have them in our community and thanked them for having their business in Pearland. Some businesses would talk to us for a mere five minutes.

BRE Team visits local company – Specialty Gas Company.

But, the majority of the businesses engaged in a conversation ranging from 30 minutes to an hour. Those days of dropping by businesses for unannounced visits quickly became known as our "Pound the Pavement" days.

Shortly after the "Pound the Pavement" days began, the Center for Workforce Development with the Alvin Community College-Pearland Campus and the Greater Houston Partnership (GHP) were each given directives to visit local businesses. The Pearland Area Chamber of Commerce also wanted to participate in an outreach program to businesses. We all agreed to combine forces and "pound the pavement" together as a means to reach out to businesses and accomplish organizational goals.

A TEAM EFFORT

Having the chamber, the community college, and the GHP as part of a newly expanded BRE team, the PEDC was able to leverage the partners' existing relationships with local businesses and open new doors for the BRE team to attain its goals. Businesses were more willing to take the time to talk with community representatives who were showing an interest in their business versus "the government who probably wants more money."

During our visits, we begin with general conversation in an effort to establish a relationship. Throughout the conversation, we work in questions as part of our informal survey to identify issues and/or barriers the businesses are facing, as well as successes they have experienced. Two or three BRE team members visit with the business owner, while another BRE representative takes notes and completes a survey form based on the information revealed by the owner. Having PEDC, chamber, college and GHP representatives all present on the "Pound the Pavement" days also provides an opportunity to address business issues on the spot. For example, any employee training or skills development issues are addressed by the community college; available business assistance resources are addressed by the PEDC and the GHP; and the chamber shares business-to-business opportunities.

As a result of more doors being opened to the BRE team, much synergy and success has taken place.

- In 2004, nine companies enrolled in multiple employee training courses as a result of being introduced to the BRE program. Such training included: ESL (English as a Second Language), Command Spanish, computer training, soldering training, an OSHA audit, CPR training, and accounting training.
- PEDC is working with the city's community planning department to revise Pearland's Unified Development Code, which some business owners said contained regulations that had become barriers to business growth.
- The PEDC's previously established CEO Roundtable luncheon program was integrated into the BRE program. This peer-to-peer business forum updates business owners on issues that could potentially impact their companies, as well as provides a forum for owners to discuss their issues.
- Local businesses are becoming advocates of working with the city rather than criticizing it and its processes.
- In an effort to reach out to the ever-burgeoning retail industry in Pearland, the PEDC has contracted with the Pearland Area Chamber of Commerce to conduct retail business calls. The chamber ambassadors follow the "Pound the Pavement" model for conducting these business visits.

Robert Buchanan, president and owner of First Impression Sign & Design, Inc. in Pearland, recently had a successful expansion and relocation within Pearland as a result of the BRE program.

"True assistance is keeping a business working and viable by allowing that business to keep

Third Coast Terminals received assistance from the PEDC for the installation of a concrete street along the company's new 6-acre development property.

momentum while meeting the requirements of the city officials," Buchanan said. "Without this form of intangible BRE assistance, which is a time-abatement only, we could not have made the anticipated move at all."

The BRE program has been effective in meeting businesses' needs in a number of ways. The following case study is a strong representation of the program's success.

CASE STUDY: SHAWCOR PIPE PROTECTION, LLC

ShawCor Pipe Protection is a pipe coating company specializing in coating and insulation systems for corrosion protection and weight-coating applications on land and marine pipelines. In 1975, the company established a presence in Pearland and currently employs 101 individuals in a 70,000-square-foot facility.

In 2004, the company began evaluating its options on where to move its 25,000-square-foot glass syntactic polyurethane pipe coating plant, which was located in Alabama. The options were to keep the facility in Alabama or move the facility to either Mexico or Pearland. PEDC staff met with ShawCor representatives to explore what the PEDC could do to help convince the company's decision-makers to relocate the Alabama-facility to Pearland. During this meeting, the PEDC also reviewed the city requirements that would need to be fulfilled in order to create a new facility in Pearland.

In February 2005, the PEDC board approved a $60,480 cash grant to assist ShawCor with relocation expenses based on the value of ShawCor's fixed assets, the number of employees gained in the city, and the rate of return on PEDC's investment. The approval of the cash grant helped seal the deal in moving the glass syntactic polyurethane pipe coating plant to the existing facility in Pearland. In addition, the city granted a three-year, 50 percent tax abatement on the new facility. However, due to a previous customer commitment ShawCor had made, production on the new Pearland facility would have to begin in mid-July – a mere five months – therefore, creating the biggest challenge of the project.

Computer Training at Alvin Community College – Pearland Campus for local businesses.

To help ShawCor honor its customer commitment, the PEDC, the city's planning department, and the company's development team met to discuss what each department could do to assist in the project's very restricted development timeline. PEDC assisted ShawCor in the required zoning change process, as well as guided them through the tax abatement process. The city's planning department worked to expedite the site review and building permit and inspection processes. PEDC also served as the project facilitator, keeping constant updates on the development process and working to keep the project on schedule.

With the coordinated efforts of the city, ShawCor received its Certificate of Occupancy from the city of Pearland for its new glass syntactic polyurethane pipe coating plant on time. In addition, Pearland will have an additional 37 jobs in five years and a more than $700,000 immediate increase to the city's tax base based on the additional $5 million in fixed assets in the new facility.

Josh Croix, plant manager for ShawCor's Pearland plant, says these tremendous results are solely based on one of the BRE's "Pound the Pavement" visits.

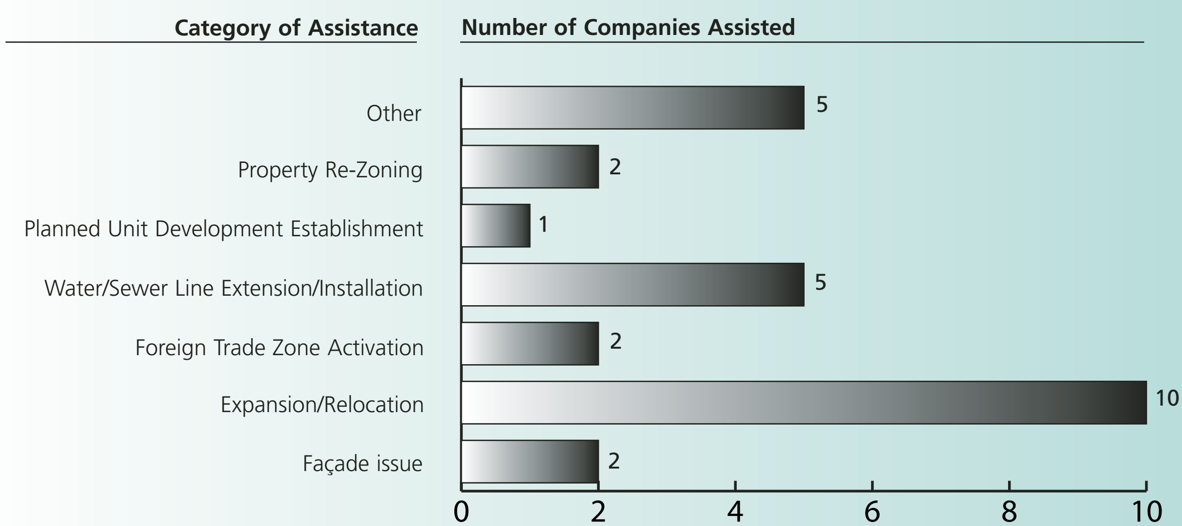
"We never knew a business assistance-type program such as the BRE existed in Pearland until the PEDC dropped by my office for a visit," Croix said. "They were instrumental in the expansion of our Pearland plant. This project never would have happened, nor would it have happened in a timely manner without the assistance of the BRE program. They were indispensable to us."

We are especially proud of this project as we were not only able to con-

Year-to-Date BRE Cash Grants Issued

# Companies Assisted	# Employees Retained	Capital Investment	Facility (S/F)	Total Grants Amount
5	313	$2,598,000	147,000	$179,590

Types of BRE Services Provided



vince ShawCor decision-makers in locating the new plant in Pearland but we were able to keep 37 jobs in the United States and not letting them slip away to Mexico.

The BRE program is a young program that has forged a pathway of outreach and assistance in a variety of areas in the Pearland business community. The "Pound the Pavement" days have proven to be a successful component of the BRE program in terms of relationship building. The aggressive approach we chose in reaching out to businesses turned out to be the right decision. Businesses are truly appreciative of the attention given to them and the sincere desire on our part to help them.

OUTREACH BREEDS RESULTS

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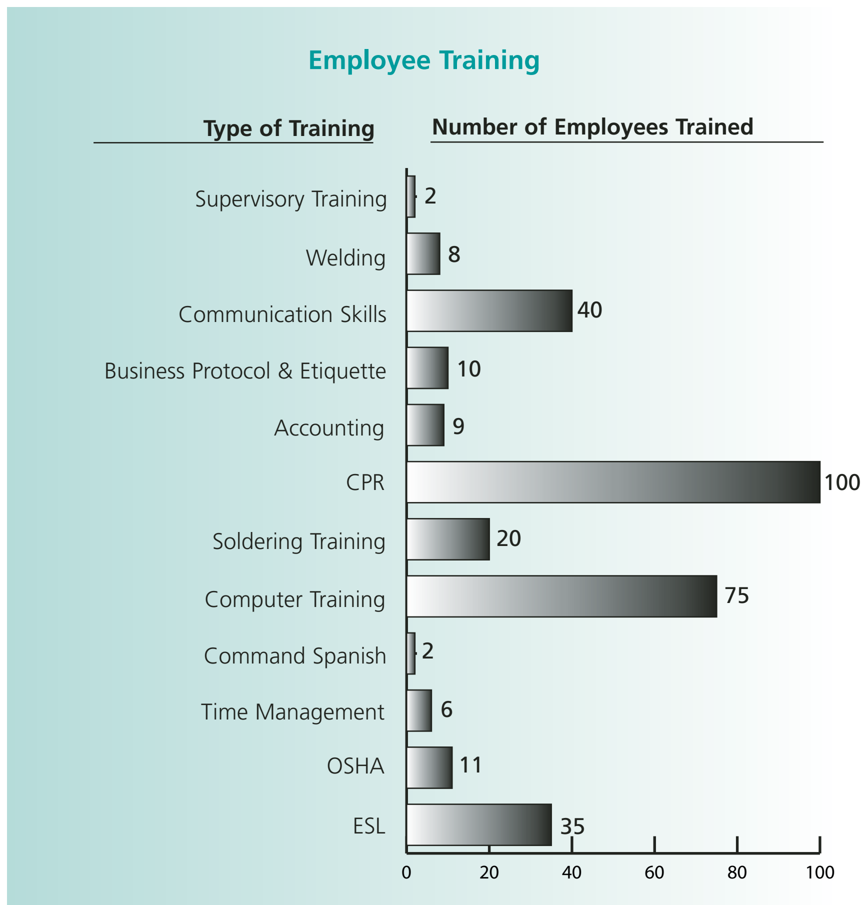
Since its inception, the Pearland BRE program has visited 92 companies and assisted 27 Pearland companies in the following areas: provided cash grants for expanding businesses to be used for relocation expenses from a previous location within the city or for utility extension; revision of the city's development codes and ordinances; expansion/relocation within Pearland; Foreign Trade Zone activation; resolution of new development issues; guidance and facilitation through the development process; infrastructure issues and needs; and employee skills and job training.

By showcasing the mission, work, and results generated by the BRE program, the PEDC was selected as one of seven finalists for CoreNet Global's 2005 Economic Development Award in the Leadership and Innovation category. The BRE program also won the 2nd Place award in the Special Continuing Education Student Recruitment Effort category at the Texas Association Continuing Education Conference.



LESSONS LEARNED

As the BRE program continues to evolve and expand, we have learned many constructive lessons along the way:

Lesson 1: After we began pounding the pavement as a group, it became clear that the one getting the "pounding" was the PEDC because we were part of "the government." The businesses that originated in the county, but were eventually annexed into the city, were our unhappy customers. When these owners built their facilities in the county, the building requirements were less stringent than those imposed by the city. When it came time to expand facilities, these owners were required to adhere to currently adopted city codes and ordinances, which cost them more money.

In hearing these frustrations, the PEDC explained the philosophy and rationale for the city codes and ordinances and how the business owner's money was being utilized by the city. By educating the owners, the city's regulations became a little more palatable. It didn't make the business owners any happier to expend the extra funds, but at least they understood the reasoning behind the regulations. Education is the key to everything.

Lesson 2: In trying to achieve big numbers to report to the board, we found that big numbers were not necessarily effective numbers. The BRE team schedules one day a month to visit five to 10 businesses. We tried a more frequent visitation schedule, but there was not enough time to address

ShawCor Pipe Protection – new building expansion.

The establishment and execution of the BRE program has not only been a journey of challenges, but it has been a fulfilling journey as well. The BRE team genuinely enjoys helping our businesses; it is always a pleasure seeing business owners fulfill their business goals and dreams.

and resolve the businesses' issues before launching a new series of business visits and dealing with their unique challenges. Therefore, limiting the visits to once a month allows us time to address and resolve that month's business issues before moving on to a new group of challenges. This has produced realistic reporting and effective customer service.

Lesson 3: Immediate follow-up communication with the business owner is imperative to building program credibility. There is no reason to expend time and resources on a program if a timely follow-up is not performed. We found that even if we did not have the answers to business issues within a week of the visit, we needed to call the business owner and tell him or her that we were still working on the issue. If we waited longer than a week to check in, it seemed the business owner grew skeptical of our true intentions of helping him or her, therefore making it more difficult to get back in the door at a later date.

LOOKING AHEAD

As we gain more time and experience in the program, and by looking to other cities' best BRE practices, we recognize we still have a long journey toward program maturity.

The next step in the program—which has begun— is to personally re-visit those companies we visited a year ago. It has never been the intention of this program to visit businesses once and then casually keep in touch. We are committed to keeping in personal contact on a regular basis. Besides, the businesses are happy to see the team so they can share their latest news with us. We also are working to identify small businesses in the city that we did not know existed and to visit them.

In order to effectively promote the program, we are in the process of establishing a team name, brand, and logo for the program. As our promotion efforts increase and the word spreads among the businesses about the program, we will be adding another "Pound the Pavement" team to aid in further business outreach.

CONCLUSION

The establishment and execution of the BRE program has not only been a journey of challenges, but it has been a fulfilling journey as well. The BRE team genuinely enjoys helping our businesses; it is always a pleasure seeing business owners fulfill their business goals and dreams.

We want to continue to be of assistance to our businesses. We will strive to make them happy because not only are they positive contributors to our local economy, but they are our friends as well. We also want to spread the word about the importance of the establishment of a BRE or outreach program as part of a fully comprehensive economic development program. Economic developers might be surprised to learn that their local businesses are not quite as happy as they thought and that these businesses are craving the developers' attention. It is exciting to chase new development for a city, but as with any business, it is easier to retain or grow current customers than to win new ones.

IEDC CALENDAR OF EVENTS

IEDC sponsors an annual conference and a series of technical conferences each year to bring economic development professionals together to network with their peers and learn about the latest tools and trends from public and private experts. IEDC also provides training courses throughout the year for professional development, a core value of the IEDC. It is essential for enhancing your leadership skills, advancing your career, and, most importantly, plays an invaluable role in furthering your efforts in your community.

For more information about these upcoming conferences and professional development training courses, please visit our website at www.iedconline.org.

IEDC Certified Economic Developer Exam
January 21-22, 2006
St. Petersburg, FL

2006 IEDC Leadership Summit
January 22-24, 2006
St. Petersburg, FL

Business Retention and Expansion
January 25-26, 2006
St. Petersburg, FL

Economic Development Credit Analysis
February 20-22, 2006
Baltimore, MD

Advanced Course: Business Credit Analysis
March 1-3, 2006
San Diego, CA

Neighborhood Development Strategies
March 16-17, 2006
Washington, D.C.

IEDC Certified Economic Developer Exam
March 18-19, 2006
Washington, D.C.

2006 IEDC Economic Development Summit
March 20-22, 2006
Washington, D.C.

Real Estate Development and Reuse
March 20-21, 2006
Albany, NY

Economic Development Marketing and Attraction
April 13-14, 2006
Atlanta, GA

Technology-led Economic Development
May 18-19, 2006
Princeton, NJ

IEDC Certified Economic Developer Exam
May 20-21, 2006
San Jose, CA

Tech Led Economic Development Conference
April/May, 2006
San Jose, CA

Business Retention and Expansion
May 22-23, 2006
Phoenix, AZ

Economic Development Credit Analysis
June 6-8, 2006
Atlanta, GA

Real Estate Development and Reuse
July 27-28, 2006
Baltimore, MD

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21st century jobs

By Richard A. Cobert

Breakaway Ltd. One of more than a dozen interactive technology firms in Baltimore County, applies video game technology to military and healthcare training and simulations.

Richard A. Cobert is a business development associate of the Baltimore County Department of Economic Development in Towson, Maryland. Members of the DED team assisted with this article.

Predicting the future of the workplace in Baltimore County initiates considerable debate. Creating debate, communication, and discussion about the future of work in Baltimore County are the reasons this article focuses on this subject and addresses these new challenges.

Employment in America has undergone extensive transformation in the 20th century. If this article had been written in 1905, the three largest job clusters in the country would have been farmhand, laborer, and domestic worker. Advances in technology and a better-educated workforce have created jobs unimaginable a century ago.

Similar transformations lie ahead. What are the opportunities, the job sectors, and the skills required for workers in this new century? By analyzing labor, demographic and economic trends, we highlight the fastest growing industries and outline job titles expected to grow in our region. Additionally, information is presented on changes occurring in the county that will dramatically affect the local labor market. For those entering the job market for the first time and for those considering new careers, these facts provide ideas to help explore career options. Economic development professionals may utilize this data to validate these workforce changes in their respective communities, and inspire their schools, community organizations, and government to prepare for the turbulence and new opportunities.

THE AGE BOOM

Baltimore County, typical of other suburban communities, experienced extensive growth in population in the late twentieth century. The World War II generation moved to the area, and the birth of the "baby-boom" generation effectively doubled the population of the previous generation. Today, the first boomer is 59 years old. Over the next 20 years, the age of the county population will rise dramatically. The generation following the boomers will be approximately half their size. Susan Mitchell described the share of population in her 1998 book *American Generations*:

- Millennial, aged 4-21 26.0%
- Generation X, aged 22-33 16.4%
- Baby Boom, aged 34-52 28.8%
- Swing, aged 53-65 11.2%
- World War II, aged 66 or older 12.0%

Baltimore County's population aging suggests that the smaller generations that immediately follow the baby boom will find an abundance of work opportunities in virtually every field. However, the natural course of economics and business is to compete for scarce resources. As the experienced working population retires and contracts, businesses will merge and consolidate in order to maintain economic and market strength. By increasing produc-

IDENTIFYING THE CHALLENGES IN BALTIMORE COUNTY, MARYLAND

The emerging job market presents new opportunities and uncertainty for every community. This article examines and compares national workforce history and trends with those of Baltimore County, Maryland. Understanding the fundamentals from both a national and local perspective assists in educating the community on the emerging industry sectors and skills necessary for future jobs. By accomplishing this, economic development organizations can determine if their communities are taking appropriate action to prepare for imminent workforce volatility.

tivity through newer technologies, these companies will need fewer workers. The community may experience some job loss complemented by the decreasing working population.

Baltimore's printing industry provides an excellent example of new technology eliminating jobs. The advancements in personal computers and printers since the 1980's have allowed businesses to publish in-house their newsletters, leaflets, flyers, menus, and other items previously contracted to local printers. Many print shops closed or merged, but some businesses added staff for their in-house publishing and websites. Thus, a print shop that employed 10 people in Baltimore County closed, but a local small business added one or two new positions to its administrative staff.

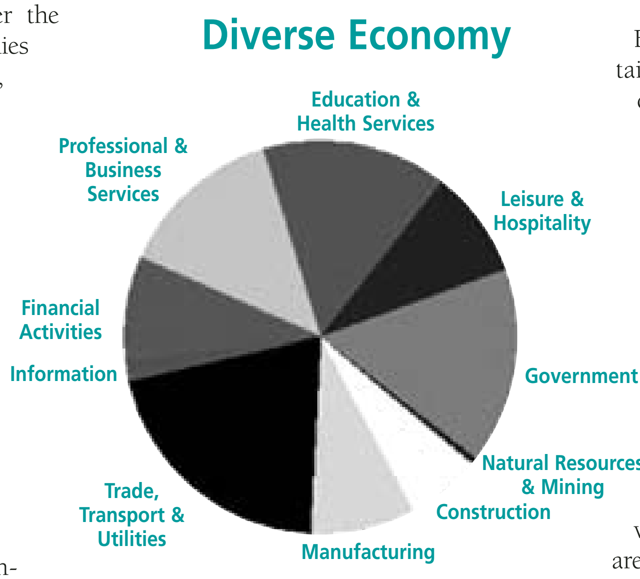
SMALL (AND DIVERSIFIED) FLOURISHES IN THE LOCAL ECONOMY

Baltimore has witnessed the demise, merger, or relocation of many larger corporations over the last 20 years. Companies such as Bethlehem Steel, USF&G, Noxell, Alex-ander & Alex-ander, Commercial Credit, and Alex Brown & Sons no longer exist. Martin Aircraft became Martin-Marietta and later merged with Lockheed. These companies em-ployed hundreds of workers throughout the region, and were renowned for their corporate philanthropy. In the banking sector, an extreme example of "merger mania" in Baltimore County can be found. Beginning in the mid 1980's, Equitable Bank merged with Maryland National Bank, which became First American Bank, then NationsBank, and is now Bank of America. The author has the checkbooks to prove it.

In the place of these Fortune 500 firms, an increasing number of productive small and medium size companies has emerged. These smaller companies work to retain better control of productivity and resources, adapt rapidly to change, and gain expertise and control of market niches in order to compete with larger firms.

The American Psychological Association recently published information indicating that the county is no exception to this view of organization transformation. It suggests there will still be large corporations – just fewer of them, as organizations continue to decentralize operations. Kevin Murphy, Ph.D., president of the Society for Industrial-Organizational Psychology, sees organizations continually moving toward today's flatter, more flexible structures with fewer levels of supervision and more wide ranging job descriptions.

Advances in technology will launch new jobs, providing new tools for all businesses that require additional education and training. In addition, an aging population living longer than any preceding generation presents new workforce and societal challenges. The ability to continue to learn throughout a working career is a clear requirement in the new century.



Baltimore County's business diversity is fundamental to long term job growth, and buffers the region from swings in any single industry sector.

Baltimore County contains many examples of this decentralized model. Vulcan-Hart, Signode, and Hobart Corporations all operate as individual business profit centers. All three companies are owned by ITW, a Fortune 200 firm near Chicago. Dietrich Metal Framing operates as one of 28 plants of Dietrich Steel, whose corporate offices are located in Pittsburgh. Dietrich is owned by Worthington Industries, a Fortune 1000 corporation located in Ohio.

BUILDING SKILL SETS

Advances in technology will launch new jobs, providing new tools for all businesses that require additional education and training. In addition, an aging population living longer than any preceding generation presents new workforce and societal challenges. The ability to continue to learn throughout a working career is a clear requirement in the new century.

Producing tomorrow's worker begins with developing student skills. The ability to learn, to retain, and to understand the objective of the lesson allows the student to build a strong academic base. A new job enables the student to gain practical experience applying the learned knowledge to a specific task.

There is a natural evolution in vocational experience. This base of knowledge and experience is the springboard from which advanced instruction and skills are obtained.

First Jobs – Train & Focus

First jobs commence the experience of building work skills. Even basic jobs require you to show up on time, dress appropriately, and complete assigned tasks. The development of personal responsibility and confidence begins in these positions. As skills expand, new work and higher wages provide the incentive to continue to develop.

Vocation – Finding Your Niche

In school, we tend to excel in and enjoy certain fields of study above other subjects. At work, certain tasks capture our interest beyond other duties. These tendencies focus us toward the type of work and career suited to our abilities, interests, and temperament. Education, work, and life experience ***combined*** provide the *platform of vocation discovery.*

Senior Jobs – Experience & Coach

The need for qualified employees who show up for work, set the example, and have the skills and ability to learn on the job and influence others will include a growing number of senior citizens. Good health, longevity, and the desire to contribute will enable many individuals to continue to work beyond their retirement. Indeed, many workers will have to continue to work to supplement pensions and obtain health insurance as they live longer.

THE "KNOWLEDGE" SOCIETY OR "CREATIVE CLASS"

In the 21st century, unskilled and semi-skilled jobs that produce a living wage will continue to disappear. Jobs, based on knowledge, or skill sets of specific knowledges, will be the key to economic opportunity. A majority of workers will need both formal education and practical experience for the better jobs in this society. Many workers in Baltimore County have embraced this "knowledge society;" many more must advance. Recently, the summit on "21st Century Skills for 21st Century Jobs" conducted by the U.S. Office of Personnel Management reiterated that "knowledge is becoming our greatest strategic resource and learning our greatest strategic skill."

Investment firms like T. Rowe Price (financial campus pictured) and Legg Mason expand operations to meet growing investor demand.

THE SERVICE SECTOR – HOME OF THE HOT INDUSTRIES

People entering the job market for the first time or looking at a career change must look at where the jobs are today, and where they will be in the years to come. According to the book *Best Jobs for the 21st Century* by Ron Krannich, these fields are expected to see a higher average growth rate throughout the next decade:

Healthcare

- Positions in administration, nursing, physical health, dentistry, and mental health.

Technology

- Biotechnology, Engineering, and Information Technology

Business & Professional Services

The need for qualified employees who show up for work, set the example, and have the skills and ability to learn on the job and influence others will include a growing number of senior citizens. Good health, longevity, and the desire to contribute will enable many individuals to continue to work beyond their retirement. Indeed, many workers will have to continue to work to supplement pensions and obtain health insurance as they live longer.

- Financial Services (Banking, Securities, Accounting, Insurance), Human Resources, Law, Communications, Public Relations, Sales and Marketing, Food Services

Public Service

- Social Services, Education, Federal, State & Local Government

Baltimore was recently listed in "The Top 20 Boom Towns in America" in *Business 2.0 Magazine*. Specific growth by 2008 in its list of designated "Hot Professions" included:

- Data Communication Analysts – 57%
- Information Systems Analysts – 30%
- Lawyers – 10%

The Bureau of Labor Statistics (BLS), according to *Money Magazine*, projects the U.S. economy will add 21.3 million jobs by 2012, a 15 percent increase. Service-providing industries are expected to account for approximately 20.8 million of the 21.6 million new wage and salary jobs generated over the 2002-12 period. Job growth in the education, health, professional, and business service industries is expected to exceed 30 percent. High job growth is anticipated in information, transportation and warehousing, and the leisure and hospitality industries. Additionally, private educational services will grow by 28.7 percent and add 759,000 new jobs through 2012.

The ten fastest-growing occupations in the BLS study include medical assistants, network systems and data communications analysts, and physician assistants. Manufacturing jobs are expected to decline by 1 percent. This is better than the recent 8.9 percent decline from 1992 to 2002, perhaps indicating that we are near the end of the three decade downtrend in manufacturing jobs and can look forward to more stability in this sector.

The Maryland Department of Business and Economic Development and the Baltimore County Department of Economic Development have targeted marketing efforts in the biopharmaceutical, technology, high-value manufacturing, and other industry sectors where the county holds competitive strengths. Initiatives from the county's Executive Advisory Board on Higher Education and Chambers of Commerce focus on improving interaction and communication among business, government, and higher education.

INDUSTRY AND TRADE PROFESSIONS - JOBS NECESSARY TO THE COMMUNITY

Today's expectation of the secondary education system is preparation for college. This single-mindedness causes us to sometimes fail to recognize the opportunities in choosing another direction. As the economy moves from manufacturing to services, the trade professions will remain a stronghold for job creation, training, and ownership. Often overlooked in the past as the "vo-techs," and not carrying the social cachet title of "attorney" or "software engineer," positions in the trades require technical skills and practical experience in order to gain mastery. To be a carpenter, electrician, HVAC mechanic or plumber, education focuses primarily in on-the-job training. Today, even more technical and computer skills are required.

Mittal Steel, the successor company to

Williams Scotsman World Headquarters in White Marsh is the latest Baltimore County firm to be traded on the NASDAQ.

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Mittal Steel USA applies new manufacturing technology to classic steel production methods in its Sparrows Point cold roll mill.

International Steel Group and Bethlehem Steel at Sparrows Point, provides such an example. The cold-rolled steel mill relies heavily on computer-based automation, a clean environment, and workers who combine computer knowledge with classic steel production models. Unlike their predecessors who typically were responsible for single tasks in the mill production process, today's steel workers must be able to run the machines and repair them when necessary.

GM Powertrain in White Marsh is one of GM's newest facilities, and an acknowledged "benchmark" facility for transmission assembly. Operating in a scrupulously clean environment, employees and managers work in a team effort. The nearby Community College of Baltimore County (CCBC) provides on-site and classroom instruction in the facility. Examples include: Team Skills classes - Coaching, Relationships, and Values, and the Apprenticeship Program. GM is working with CCBC on a new course - Skill Centers Plans - an on-site UAW skills training center using a CCBC teacher.

In *The Millionaire Next Door* by Thomas J. Stanley, the author highlights the trades as one of the leading job categories for building wealth in the United States. Trade expertise or owning a business often brings high income to the owner who can manage and train workers. A "software engineer" rarely puts the call from their auto mechanic or homebuilder on hold.

BUSINESS OWNERSHIP – THE AMERICAN ENTREPRENEUR

Missing from the lists of jobs and careers is the title of owner. Ownership represents potentially the greatest opportunity available in this country. In America, we have the right to own – to build, develop, create, grow, and profit. Defining owner income is as varied as the careers mentioned above. Owners of small businesses can make very small incomes, but reap exceptional privileges in tax and other benefits, as well as the privilege of owning their enterprise. Owners of larger corporations can annually receive incomes and benefits in the millions. Moreover, the business entity provides job creation for communities, and an investment shelter for the owner or shareholders as the business grows.

Not everyone is cut out to be an owner. The risks and difficulties in managing, hiring, financing, and building businesses are well known and intimidating. Some individuals prefer to remain part of the team, rather than own the team.

HISTORY REVEALS PATHS FOR THE FUTURE

No one knows exactly what the future will hold for job creation in the county. A study of its history does provide interesting parallels. If we look back one century, one such path is revealed.

In December 1903, Wilbur & Orville Wright flew their first motorized airplane. Most people viewed this flight as a novelty. Five years later, Orville Wright demonstrated his updated airplane to the military at College Park Airfield in Maryland. The plane crashed, and the co-pilot was killed.

More people now saw air travel as a risk instead of a novelty.

A man named Glenn L. Martin saw beyond the novelty and the risks. He saw opportunity and teamed up with Wright Aviation. In 1929, he opened his own factory in Middle River, Maryland. Farmers, laborers, and domestic workers transformed to become mechanics, engineers, and pilots. Martin employed over 50,000 people during World War II. New housing was constructed. Machine shops, subcontractors, retail services and housing boomed, and a strong new community was created.

The revelation from the Glenn Martin example is that the new job-creating device already exists. The innovator will discover and improve the product. Our society must create the demand for the product, and the workforce to build it. In the Washington-Baltimore region, government and industry are "spinning-off" a variety of tasks and "privatizing" divisions. Outsourcing contracts for project staffing, consulting, and vendors offers many opportunities. The business environment in Baltimore County must nurture such innovation and experimentation. Behold, a new enterprise is born.

Economic development professionals may recognize a growing industry that barely existed 25 years ago – economic development. Utilize these vignettes to create local comparisons to national societal and workforce trends. Target goals for new strategies and programs to educate students, businesses, community organizations, and non-profits. Prepare for the emerging new society and its opportunities and challenges.

What is the future? Who will be the next Glenn Martin? Baltimore County businesses today range in scope from software development, computer gaming, medical technology, defense, and finance to retail, professional services, and building and utility construction. Advances in products, equipment, and technology will impact each group, through the continuing process of "creative destruction." We are a nation of "tinkerers," always experimenting to improve products and methods.

One example of creative destruction that benefits everyone is a safe supply of drinking water and effective treatment of waste. It is acknowledged that the Baltimore region must rebuild its aging water and sewer system over the next two decades. Government will contract with private companies to create a newer system to meet the demands of citizens and industry. The contractors will construct the new system to include state-of-the-art materials, construction methods, and computer technology. Companies involved in the projects will initiate hiring. Innovations to the old system will upgrade the fundamental services government is expected to provide to the community.

Baltimore County workers of tomorrow will earn their living innovating products that don't exist today. Companies like Breakaway Games began by developing video games for entertainment. Game-based learning is the latest innovation for this cutting edge industry. This technology led to contracts with the U.S. military to provide games for virtual training of military defense exercises. The health care profession is also turning to computer games for training. A game called *Code Orange* helps doctors learn to manage mass casualty incidents.

Economic development professionals may recognize a growing industry that barely existed 25 years ago – economic development. Utilize these vignettes to create local comparisons to national societal and workforce trends. Target goals for new strategies and programs to educate students, businesses, community organizations, and non-profits. Prepare for the emerging new society and its opportunities and challenges.

Baltimore County government must continue to engage with the community, educational institutions, and with industry to facilitate action. The three steps the county can utilize as a guide to innovation are to communicate, focus, and implement. The new rules are that simple, and that complicated.

cluster monitor

By Heike Mayer, Ph.D.

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The Urban Center houses Portland State University's Institute of Portland Metropolitan Studies (IMS). IMS conducted industry cluster studies and followed the model outlined in this article.

INTRODUCTION

The purpose of this article is to provide economic development practitioners with the information they need to understand the nature and performance of specific industry clusters in a metropolitan economy, the relative economic performance of a region compared to its primary competitor metropolitan regions, and the links between public and private decisionmaking and the overall regional competitiveness. Regular assessment of industry cluster performance is important because clusters are the building blocks of today's regional economies.

The concept of industry clusters is frequently mentioned in the local economic development planning literature and in planning practice. While most economic development plans mention clusters, their definitions vary greatly and there is only minimal knowledge about identifying established and emerging clusters as well as target industries. The literature on this topic – both the academic as well as the practice literature – typically provides descriptive statistics of industry clusters in a certain region. A detailed discussion about how to identify, analyze, and observe industry clusters is, however, missing.

This article describes the methods and products of what should be an ongoing effort to monitor the economy, clusters, and cluster competitiveness in metropolitan areas. It serves as a "recipe" for economic developers about how to do an assessment of a regional economy, and for linking the findings of that assessment to local, regional, and state economic development efforts. In this article, local economic development practitioners will find the ingredients they need to analyze their industry clusters. It also provides a list of principles that can guide cluster-based economic development. Taking on a cluster-based approach to economic development can prove to be very useful because the concept represents both a method to analyze an economy as well as a new approach to practicing economic development.

A GUIDE FOR ANALYZING INDUSTRY CLUSTERS IN REGIONAL ECONOMIES

Economic development practitioners are increasingly interested in conducting industry cluster studies. This article outlines a framework for analyzing industry clusters and will guide practitioners step by step. In addition to providing an analytical framework, the article discusses the importance of early grassroots involvement by industry representatives in the cluster study. It stresses that the concept of industry clusters is not just a method to analyze the economy, but also a way to organize and conduct policies and programs that involve certain principles for cluster-based economic development.

WHAT ARE INDUSTRY CLUSTERS?

An industry cluster is a group of firms that, through their interactions with each other and with their customers and suppliers, develop innovative, cutting-edge products and processes that distinguish them in the market place from firms in the same industry found in other places. The term "cluster" is used specifically to focus on the activities within an industry in a specific geographic location, usually a metropolitan region, that result in economic activities and the creation of new knowledge. It is that new knowledge that confers a competitive advantage on the firms and in turn on the region.

Harvard business professor and cluster expert Michael Porter defines industry clusters as follows:

> A cluster is a geographically proximate group of interconnected companies and associated institutions in a particular field, linked by commonalities and complementarities. The geographic scope of clusters ranges from a region, a state, or even a single city to span nearby or neighboring countries […] More than single industries, clusters encompass an array of linked industries and other entities important to competition. They include, for example, suppliers of specialized inputs such as components, machinery, and services as well as providers of specialized infrastructure. Clusters also often extend downstream to channels or customers and laterally to manufacturers of complementary products or companies related by skills, technologies, or common inputs. Many clusters include governmental and other institutions […] that provide specialized training, education, information, research and technical support. Many clusters include trade associations and other collective bodies involving cluster members. (Porter, 2000, p. 16-17)

Michael Porter's industry cluster model is summarized in the "Diamond of Competitive Advantage." The four components to the diamond are: firm strategy and rivalry, demand conditions, related and supporting industries, and factor conditions. For some industries, certain locations provide a better combination of these four elements than do other locations in the state or the nation.

It is important to keep in mind that a cluster is not simply the result of the presence of a large firm, or of multiple firms in the same industry. Rather, identifying the presence of a cluster in a community refers specifically to the ability of the firms in an industry to interact in ways that create competitive advantages through the creation and incorporation of new knowledge into products and processes.

Therefore, cluster strategies focus on the relationships among firms, not just on the individual businesses themselves. A cluster strategy is based on the assumption that creating new knowledge confers advantages on all firms in that industry in the same geographic location, even if those firms are, in fact, competitors within their industries.

It is important to differentiate between existing and emerging clusters:

- **Existing or established clusters** show evidence that the industry segment is well established in a region versus nationally. The cluster is capable of generating new knowledge and creates internationally competitive products. For these existing clusters, there is strong evidence of formal and informal interactions among firms.
- **Emerging clusters** can be detected using national industry metrics and qualitative data. They show some evidence of knowledge creation and links to existing regional knowledge strengths. Firm interactions, however, are not as developed as in existing clusters. Often emerging technologies and industrial strengths are not easily detectable from outside the region.

The concept of industry clusters is frequently mentioned in the local economic development planning literature and in planning practice. While most economic development plans mention clusters, their definitions vary greatly and there is only minimal knowledge about identifying established and emerging clusters as well as target industries. The literature on this topic – both the academic as well as the practice literature – typically provides descriptive statistics of industry clusters in a certain region. A detailed discussion about how to identify, analyze, and observe industry clusters is, however, missing.

Economic developers often focus on certain industries that are prominent in their regional economies. These sectors, however, may not exhibit systemic cluster dynamics. In contrast to existing and emerging clusters, these sectors can be described as **target or support industries**, and most often they do not exhibit cluster characteristics. Target or support industries emerge through economic development efforts that, from time to time, identify opportunities for firm retention or attraction that may or may not ultimately emerge as a cluster or part of a cluster. Downtown retail can sometimes be a target industry because shops, restaurants, etc. are seen as important for

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the vitality of the central city. An example of a target or support industry is the venture capital sector. Some economic developers have identified venture capitalists as targets and want to attract them to their jurisdiction. They can be part of a high technology cluster, but by themselves they do not constitute a cluster. For target or support industries, there is typically little to no evidence for inter-industry linkages and resulting knowledge creation in the region.

CLUSTER METHODOLOGY AND DATA SOURCES

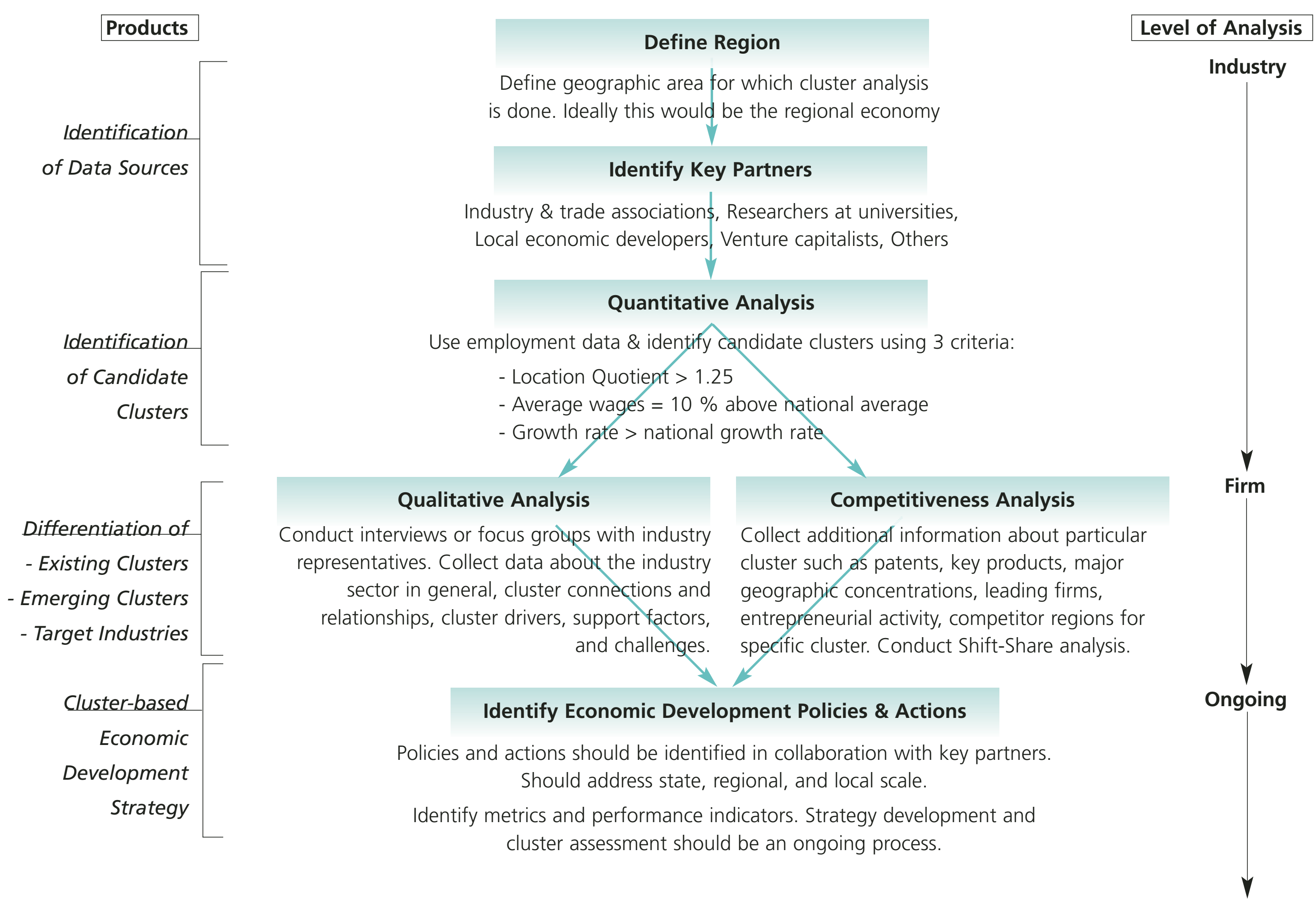
An industry cluster study provides important data about a region's economic structure and serves as a powerful tool to develop cluster-based economic development strategies. By involving key partners such as industry representatives, cluster analysis informs policymakers and economic developers about the needs and challenges of a particular set of firms.

The analysis of industry clusters requires several different modes of data gathering. Figure 1 describes the methodological framework of an industry cluster analysis. Such an analysis is a dynamic, iterative, and ongoing process that involves a variety of key partners. The partners are instrumental in gaining access to data sources and as a sounding board for the interpretation of results.

Moreover, the active involvement of firm representatives in focus groups, for example, contributes to networking and relationship building among cluster firms. It is often the case that firm representatives do not know each other and that their participation in cluster research might lead to doing business with each other. By incorporating networking and relationship building as components for the analysis, cluster studies serve not only as a mode of inquiry but also as an organizing tool.

Often cluster studies stop with the quantitative analysis of employment data. This is an important shortcoming that should be avoided. The most valuable insights into a region's clusters are obtained through qualitative and competitiveness analyses. Qualitative analysis at the firm level will shed light on cluster dynamics such as the mechanisms of buyer-supplier relationships, the importance of crucial support factors, and the challenges that a clus-

Figure 1: Methodological framework for analyzing industry clusters



ter faces in a certain locale. These insights will help differentiate existing clusters from emerging clusters and target industries.

The competitiveness analysis is necessary because it allows for comparison to other regions. Careful analysis of the "economic fingerprint" for the region is an essential building block for the development of strategy. The following sections describe the steps needed to fully assess existing and emerging clusters. Figure 1 provides a schematic diagram for this process.

IMPORTANT STEPS IN ANALYZING CLUSTERS

This section describes the major components of an industry cluster analysis. Practitioners interested in analyzing clusters should follow these six steps:

- Step 1: Define the region
- Step 2: Identify key partners for the endeavor
- Step 3: Conduct a quantitative analysis
- Step 4: Conduct a qualitative analysis
- Step 5: Conduct a competitiveness analysis
- Step 6: Identify economic development policies and actions

Step 1: Define the Region

Industry clusters are part of the regional economic fabric. Clusters typically do not stop at jurisdictional boundaries and their economic activity can be distributed across the whole metropolitan area. Today, metropolitan regions represent the relevant economic geography for most cities (Barnes & Ledebur, 1998). The easiest approximation of a regional economy is the metropolitan statistical area that the U.S. Census defines. The U.S. Census provides definitions for metropolitan statistical areas and lists each MSA's components on the following website: http://www.census.gov/population/www/estimates/metrodef.html. Economic developers interested in conducting a cluster analysis and devising cluster-based economic strategies need to be aware that the concept can be a regional phenomenon in reality. This may involve collaboration among economic developers and other government representatives from different jurisdictions.

Step 2: Identify Key Partners

The key to a successful industry cluster analysis is to partner with industry or trade associations. These groups will help the researcher gain access to data sources. They will also function as important developers and implementers of cluster-based economic development strategies. The goal is to involve key partners early in the process and to keep them informed during the data-gathering phase. It is helpful to provide regular updates in order to get advice and interpretation of preliminary results.

Industry associations and trade organizations can function as important partners in collecting qualitative information and conducting the competitiveness analysis. These groups work as intermediaries between the researchers and the individual firm in the cluster and can provide access to individuals. Local industry groups are usually very accessible and they often will collaborate on tasks such as setting up focus groups, conducting surveys of their members, etc.

Step 3: Conduct Quantitative Analysis

The third step in industry cluster analysis is to identify industry sectors that appear to have a competitive advantage based either on employment concentration, high levels of wages, or fast relative growth. The product of this analysis is the identification of **candidate industry clusters.** This method of identifying candidate clusters is based on Cortright's analysis of Oregon's industry clusters (Cortright, 2003).

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Data source: Detailed firm-level employment data can be obtained by the state's employment department. The dataset is called Covered Employment and Wages (CEW), also known as ES-202 data and is based on tax reports submitted quarterly by employers subject to the Unemployment Insurance (UI) law. The dataset documents employment for those who are required to have UI coverage. There are a number of specific groups that are, by law, excluded from this coverage such as those who are self-employed (i.e. artists) and the agricultural labor force (this can affect industry clusters such as specialty foods, nursery products, creative services, artists, etc.).

The use of the dataset is restricted by confidentiality concerns. Most state departments do not allow the publication of employment, wage, or any other data that could identify an individual employer. Researchers typically have to sign a non-disclosure agreement. The Oregon Labor Market Information System published some helpful information about the ES-202 data set that can be found at http://www.qualityinfo.org/olmisj/ArticleReader?itemid=00001367&print=1.

The Bureau of Labor Statistics (BLS) produces a comprehensive national set of the ES-202 data. It is available online at http://www.bls.gov/data/home.htm. BLS provides the data at the state, county, and MSA level. This is helpful in calculating equivalent data for certain industry sectors at the national level.

The goal of this step in the industry cluster analysis is to analyze industry segments at the lowest level of aggregation. This means that researchers have to analyze ES-202 data at the 3-digit or 4-digit SIC or 5-digit or 6-digit NAICS level. In 1997, a new industry classification system, the North American Industry Classification System (NAICS), was introduced. This new 6-digit system replaces the old Standard Industrial Classification (SIC) system. Associated with the classification system change is the problem of comparisons over time. Since some industries are now classified differently, comparisons over time may not be possible anymore.

Identifying Candidate Clusters

To identify candidate clusters, researchers have to conduct a comprehensive analysis of a region's economy regarding its employment concentration, wage levels, and relative growth. This quantitative analysis employs a triangulation strategy because it allows us to distinguish between growing and declining clusters as well as low paying and high paying clusters. The product of the quantitative analysis is the identification of **candidate clusters**, which will be subject for further investigation through qualitative and competitiveness analyses. To identify candidate clusters, the researcher can use three criteria. The first criterion is a location quotient that should be higher than 1.25. The second would be that the industries that could be candidate clusters should have average wages that are 10 percent above the national average. The third criterion is that the industry's growth rate should be higher than the national growth rate. The following briefly describes the three criteria:

Credit: Adidas-Salomon

Adidas is located in Portland, Oregon, and is part of the region's apparel cluster.

Criterion 1: Employment Concentration and Location Quotient Analysis

The location quotient (LQ) analysis can be used to determine the relative concentration of certain industries in a region compared to national averages. A location quotient for a particular industry is a ratio that compares the percentage of employment in a particular industry in a local economy to the percentage of employment the same industry constitutes in a reference economy (i.e., the national economy).

The formula for computing a location quotient is as follows:

$$\mathbf{LQ_I = (e_i/e)/(E_i/E)}$$

Where: e_i = Local employment in industry I

e = Total local employment

E_i = National employment in industry I

E = Total national employment

LQ analysis indicates which industries have a comparatively larger (or smaller) presence in the local economy. A LQ equal to 1.0 means that the share of employment in a particular industry in a local economy is exactly the same as the share of employment in the same industry nationally. If the LQ is larger than 1.0, the local share of employment in a particular industry exceeds the national share of employment in the same industry and it means that locally the industry is more concentrated and might have a comparative advantage.

The threshold value for the LQ analysis is 1.25. This suggests that the analysis should focus on industries with a concentration 25 percent or greater than the concentration found in the United States as a whole. For a more detailed elaboration of the location quotient and its analysis see McLean and Voytek (1992) *Understanding Your Economy: Using Analysis to Guide Local Strategic Planning.*

Criterion 2: Wage Level Analysis

Wage levels are important determinants of the value that is placed on the production of certain goods. In a knowledge-based economy, average wage levels should be high for those industries that value innovation and knowledge creation. The objective is to find industry segments with wages levels that are significantly above the national average. To do this, we have to compute industry average annual pay for the nation and for the unit of analysis, i.e. the region, for a given year. Cortright (2003) uses the threshold value of average annual wage levels that are 10 percent above the national average.

Criterion 3: Growth Rate Analysis

The growth rate analysis identifies industry segments that are growing faster in the region than in the nation as a whole. Knowing which industries are fast growing is important because economic developers need to know which industries are doing well. Cortright (2003) uses a methodology that examines the five-year growth rates at the 4-digit industry level. He argues that the timeframe is long enough to minimize distorting effects of short-term changes.

McLean and Voytek (1992, p. 33-35) provide an excellent guide to computing annual growth rates. According to them, calculating annual growth rates is a more precise method than averaging because "it takes into account the incremental change in the base amount from year to year." (p. 34) They add that "the annualized growth rate is always slightly lower than the rate produced by averaging (sometimes considerably lower if growth rates are really high)." (p. 34) The following formula can be used to compute annual growth rates:

$$\mathbf{Emp_t = Emp_b\,(1+r)^n}$$

Where Emp_t = terminal year employment

Emp_b = base year employment

n = number of annual intervals in the time span

r = growth rate over each interval

McLean and Voytek (1992) provide the following example:

> Assume that from 1973 to 1979 employment increased 25 percent (from 20,000 to 25,000) and that from 1979 to 1988 it increased 30 percent (from 25,000 to 32,500). To find the compound annual growth rate for each period, one more piece of information is required: the number of years (or other time intervals) covered in each period. The 1973-79 period covers six years of change while the 1979-88 period covers nine years. Solve for r as follows:

$$Emp_{1979} = Emp_{1973} * (1+r)^6$$

$$Emp_{1979}/Emp_{1973} = (1+r)^6$$

$$25{,}000/20{,}000 = (1+r)^6$$

$$\sqrt[6]{1.25} = 1+r$$

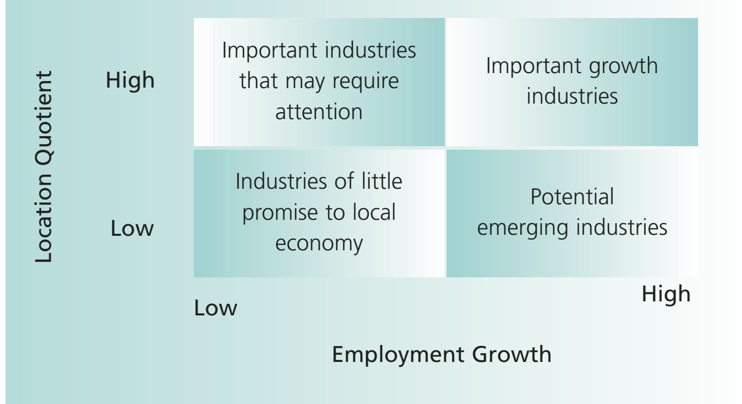
$$1.0379 = 1+r$$

$$.0379 = r$$

If converted to a percentage, the annual growth rate is 3.8 percent.

Once candidate clusters have been identified, the analyst could map the industry sectors using two of the criteria. Figure 2 might help in classifying candidate clusters using the location quotient and growth rate analyses.

Figure 2: Method for Classifying Industry Clusters



Source: Center for Economic Development, Carnegie Mellon (2002)

The graph illustrates the following cluster types:

- Candidate clusters with a high location quotient and low employment growth may represent segments of the economy that have a stronghold in the region but do not experience any significant growth.
- Clusters with a high location quotient and high employment growth are important growth industries in the region. They may represent healthy existing clusters that export their products and that have a competitive advantage here because they are disproportionately more concentrated in the region than in other areas.
- Industry segments with a low location quotient but high employment growth can be potential emerging clusters. High employment growth is an indication that the industry's products are in demand and that the demand has to be met with adding labor.
- Industry segments with a low location quotient and low employment growth don't represent candidate clusters. They have little promise to contribute to economic growth in the region. However, they might be important support industries.

Step 4: Conduct Qualitative Analysis

After identifying candidate clusters, we have to differentiate **existing clusters** from **emerging clusters** and from **target industries**. An in-depth qualitative and competitiveness analysis of the candidate clusters will help with this differentiation. While the quantitative analysis focused on industry

Industry Cluster Interview Template

Introductions
- Researchers introduce cluster study (goals, timeline, partners, etc.)
- Ask whether taping the interview is ok.

General Business Information
- Could you give us a brief description of your company, the products you make, and also the history of it?
- Probe for the following:
  - Company Name
  - Contact Name
  - Current Employment (Full Time / Part Time)
  - Anticipated Employment for the following year
  - Annual Sales (Breakout by % regional, elsewhere in the state, in US, International)
  - Years in Business
  - Founder(s)'s previous employer (for firm genealogy purpose)
  - Headquarters or Branch Location
  - Brief description of business and industry, the firm's main products
  - SIC/NAICS classification (if interviewee knows)

History of the Region's Industry
- What were the pivotal events determining the development of your industry cluster in this region? What firms and people have shaped the industry?

Cluster Connections and Relationships
- In what ways does proximity to your suppliers but also to your competitors and other companies matter?
- In what ways are the companies in your cluster connected with each other?
  - In terms of supplier and customer relationships, in what ways did the industry evolve into a cluster/agglomeration of firms?
  - How and why does proximity to suppliers and customers matter in/to the industry?
  - In addition to proximity, what other types of connections are critical to innovation and growth of the industry?

Cluster Drivers
- What are the most important factors that contribute to the competitiveness of your company/industry?

Innovation
- What are the main sources for new product and process ideas?

Talent
- How would you rate the availability of a skilled workforce in this region?
- How easy/difficult is it to attract and retain workers? What makes it easy/difficult?

Support Services
- What kind of support services does your industry rely on?
- Are these available locally?
- In what ways do you interact with (local) firms that provide your support services?

Competitor Regions
- In what ways is this metropolitan region different from other competitor regions?

Challenges
- What kind of challenges does your industry face locally/nationally/globally?
- How do these challenges affect your company's ability to remain competitive here in this region?
- What is your sense of where the industry is headed in the future?

Potential for Collaborative Action
- In what ways could firms in your industry collaborate with each other?
- How could the public and the private sector help with creating these collaborative relationships?

Public Policy
- What policy factors will influence the industrial growth in the next 10 years?
- In what ways can public policy help your industry be more competitive?

Wrap-Up
- Ask if there was a topic left out.
- Are there additional topics/issues of concern?
- Promise to follow-up with the interviewee/focus group participants.

After the interview
Send a thank you card/e-mail.

sectors as classified by SIC or NAICS codes, the qualitative and competitiveness analyses focus on in-depth information about individual firms and their connections with others within industry clusters. In addition, through qualitative research one can assess the quality of the business environment, support services, demand conditions, etc.

Examining individual firms in more detail is important because quantitative sector analysis does not capture the full range of firms that are part of a particular industry cluster. For example, professional service firms such as public relations companies in a high tech region can be very specialized and focused on the high tech industry. They can be an essential part of the high technology cluster. Temporary labor agencies may also be part of high technology clusters. They provide high technology manufacturing firms with production workers. However, these public relations firms and the temporary labor agencies are not captured in the SIC or NAICS codes that are selected for high technology manufacturing and their relationship to core firms may only be discovered through interviews.

Qualitative analysis also reveals the extent to which cluster firms work together and are connected to each other through buyer-supplier relationships and other more informal networks. These networks are critical for cluster performance because they provide a vehicle for information sharing and knowledge exchange that can lead to competitive advantages. Such network relationship can only be assessed through interviews or focus groups in which industry representatives share insider information about their firms.

In-depth interviews and focus groups also reveal the importance of factor inputs such as natural, human, and capital resources, physical, administrative, information, and scientific and technological infrastructure. The presence and the quality of these factor inputs shape the competitiveness of industry clusters and need to be examined from a public policy perspective. Qualitative inquiry can give researchers and economic developers important clues as to whether there are factors missing or in decline.

Qualitative inquiry needs to be done in cooperation with the identified key partners. These partners function as conveyors and help with gaining access to industry representatives. Economic development practitioners can aid with the qualitative data gathered through their firm interviews and site visits.

It is important to follow-up the interview with presentations, interim reports, etc. This will be valuable confirmation of the data and a good way to reach out to industry cluster partners. It will also get them further involved in strategy formulation and the development of economic development action plans. Feser and Luger add to this and emphasize that cluster analysis serves as a mode of inquiry and can spark broader discussions of economic development in a community (Feser & Luger, 2003).

Data analysis of qualitative interviews: The analysis of qualitative data in a cluster study should focus on common themes and topics that the various interviewees bring up. Cluster analysts should take notes during the interview. Notes will help to write an interview summary that highlights important points that were raised by the interviewee. Over the course of several interviews, the researcher will recognize common themes and topics across interviews or focus groups. These common themes will add up to a synthesis of the qualitative data.

A note on focus groups: Focus groups can be the ideal methodology for collecting data about industry clusters. Focus groups are interviews conducted in a group setting. They provide the advantage of gathering various firm representatives who belong to one industry cluster. For more information on focus group methodology, see David Morgan's book on focus groups (1997).

Step 5: Conduct Competitiveness Analysis

The competitiveness analysis is an important component of any industry cluster study because it provides regional leaders with information about the relative competitive advantage of a respective industry cluster compared to other clusters in other regions. Such information in turn will help practitioners devise an economic development strategy that is aimed at differentiating the region and its clusters from competitors.

Comparing key variables

The competitiveness analysis is done by collecting data that compare the region to other regions along a variety of different variables such as:

- gain in employment in industry clusters compared to other regions (shift-share analysis),
- knowledge creation as evidenced by patents,
- major firms and their products,

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Key Variables for Competitiveness Analysis

- *Gain in employment in industry clusters compared to other regions (shift-share analysis)*
- *Knowledge creation as evidenced by patents*
- *Major firms and their products*
- *Venture capital investments*
- *New firm formation and entrepreneurial activity*
- *Federal funding for science and technology*
- *Data on talent and labor (educational attainment, etc.)*

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- new firm formation and entrepreneurial activity,
- federal funding for science and technology, and
- data on talent and labor (educational attainment, etc.).

Shift-share analysis

Shift-share analysis is a method to analyze differences between growth in a local economy and growth in the national or other regional economies. The method allows for isolating the effect of local influences on growth from effects that operate industry-wide or at the national level.

The method divides local employment into three components:

- national share (NS),
- industrial mix (IM), and
- local factors (LF).

The national share reflects national trends. The industrial mix refers to specific trends in the industry. Local factors account for local influences on an industry's performance.

McLean and Voytek (1992, p. 68-71) provide the following formula:

Total Employment Shift $= NS_i + IM_i + LF_i$

National Share: $NS_i = e_i^{t-1} (E^t/E^{t-1})$

Industry Mix: $IM_i = e_i^{t-1} ((E_i^t/E_i^{t-1}) - (E^t/E^{t-1}))$

Local Factors: $LF_i = e_i^{t-1} ((e_i^t/e_i^{t-1}) - (E_i t/E_i^{t-1}))$

Where:

e_i and E_i are local and national employment in industry i,

e and E are local and national total employment for all industries, and

t-1 and t are beginning and end of the time period, respectively.

Shift-share analysis helps the analyst to identify industries that are strong or weak in a region compared to elsewhere. It also helps to determine to what extent shifts in employment share are due to local factors or to broader trends and whether existing clusters are growing, stable, or declining

Knowledge creation measured by patent activity

Knowledge creation is key to the competitiveness of an industry cluster. The creation of ideas with commercial value can be measured by patent registration. The U.S. Patent and Trademark Office (USPTO) regularly publishes detailed information on patent registration. Patents are normally registered under the first-named inventor. Data is collected for the first-named inventor's residence, the patent's technology class, the year and the name of the company for which the patent was registered. This data can be analyzed by industry cluster and by region.

USPTO publishes patent data online at:

http://www.uspto.gov/web/offices/ac/ido/oeip/taf/reports.htm#by_geog

For a searchable full-text patent database, see:

http://164.195.100.11/netahtml/search-bool.html

Major firms and their products

An analysis of the major firms and their products is essential for cluster analysis because it adds a level of specificity that will help regional leaders to characterize particular industry clusters. Research has shown for example that high technology regions specialize and that a region's particular industrial strengths are shaped by the region's industrial history (Cortright & Mayer, 2001).

Helpful data sources are industry directories, membership lists, and published firm lists. Regional business journals typically publish the so-called Book of Lists every year. These books list the major employers (ranked by sales, revenues, employees, etc.). For more information, check your local business journal's website.

Other sources for information about individual firms include:

- EDGAR – *U.S. Securities and Exchange Commission (SEC)*
  All companies, foreign and domestic, are required to file registration statements, periodic reports, and other forms electronically through EDGAR. A complete list of filings is available through EDGAR online at: http://www.sec.gov/edgar.shtml

- **Hoover's -** http://www.hoovers.com/
  Information that can be accessed for free is limited to data about a company's top competitors, subsidiaries, financial data, information about products, etc.
- **Dun & Bradstreet -** http://www.dnb.com/us/
  This is a subscription-based data set, which means that you would need to pay a fee for each record. Records typically include the name of the company, its mailing address, information about ownership and the executives, employment, industry sector, and sales volume. It may be a good dataset for geographic mapping of industry clusters.

Venture capital investments

Venture capital is necessary to support an entrepreneurial economy because new startup companies need outside capital investment to become successful businesses. The inflow of venture capital into a cluster and a region indicates how entrepreneurial and vital a region is. If a region attracts a relatively large amount of venture capital into certain industry segments, then that region might have a competitive advantage in these areas over others.

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There are two data sources that can provide helpful information about venture capital investments. One of them is a database that restricts access to venture capital firms that reported their activities in a survey. To access this database, researchers would need to partner with a venture capital firm in their region.

- **PricewaterhouseCoopers' MoneyTree:** This database contains information about venture capital investments. It's collected through venture capitalists. Detailed data on metropolitan investment patterns is accessible through login passwords only. http://www.pwcmoneytree.com/moneytree/index.jsp
- **Venture Economics -**
  http://www.ventureeconomics.com/vec/statshome.htm

This database contains statistical summaries by nation, region, and metropolitan region. The source for the data is PricewaterhouseCoopers' MoneyTree survey.

New firm formation and entrepreneurial activity

Data on new firm formation and entrepreneurial activity is not readily available. Ideally, this information is collected through a survey of companies in a region. The survey would assess a company's history and its genealogy.

There are a few sources that compare entrepreneurial activity among regions. One of these sources is the Progressive Policy Institute's New Economy Index, which is available online at: http://www.neweconomyindex.org/. Specifically, the Metropolitan New Economy Index (http://www.neweconomyindex.org/metro/index.html) lists a variety of new economy measures and compares the 50 largest consolidated metropolitan areas (CMSAs). The report assesses regional entrepreneurial activity as measured by the number of newly publicly traded companies. This is also called initial public offerings. The source of this data is the EDGAR Online database of the Securities and Exchange Commission, EDGAR-ONLINE, for 1999 and 2000. For more information about the new economy index's data sources: http://www.neweconomyindex.org/metro/sources.html

Talent and labor

The most readily available data that give an indication about the level of education of a regional population is Census data on **educational attainment**. This data can be accessed online through the American FactFinder at http://factfinder.census.gov/servlet/DatasetMainPageServlet?_ds_name=DEC_2000_SF1_U&_program=DEC&_lang=en.

To get education attainment data for all the metropolitan areas in the U.S., one needs to build a query by selecting "Census 2000 Summary File 3 (SF 3) - Sample Data" and then clicking on geographic comparison tables.

Another indicator for a region's talent pool is the **share of the managerial, professional, and technology jobs of total regional employment**. This data can be accessed through the Current

Population Survey that the Bureau of Labor Statistics and the Bureau of the Census provide. The data is available at: http://www.bls.census.gov/cps/cpsmain.htm.

A third important method for analyzing a region's labor market is **migration patterns**. Analyzing census information can do this. Cortright analyzed the migration patterns of the 25-to 35-year-old population. To examine migration patterns, researchers can also use data from the Internal Revenue Service (IRS). Such migration data is available at http://www.ire.org/datalibrary/databases/migration/. With this data, one can track people coming and leaving a metropolitan area and it can help to gauge whether a community is gaining or losing wealth and brainpower.

Principles for Cluster-Based Economic Development

- *Use clusters to understand your economy*
- *Help build relationships among cluster firms*
- *Become cluster-driven*
- *Metropolitan economies and unique metropolitan economic "fingerprints"*
- *Economic geography varying by industry*
- *Talent as the least fungible resource*
- *Linking cluster competencies to develop defensible strategies*
- *Strategy and differentiation*
- *The importance of place and becoming a location of choice*
- *Cluster initiatives need to have private support and leadership*

Step 6: Identify Economic Development Policies and Actions

Through industry cluster studies we are able to see a regional economy in a different light. A detailed examination of cluster dynamics will tell regional leaders in what ways their companies and sectors are connected to each other. A cluster study ought to reveal gaps and missing links in cluster relationships, and economic development policies and actions should be designed to address such deficiencies and to support cluster development.

Ideally, cluster analysis is done in cooperation with key partners such as industry representatives, trade associations, and economic developers. Incorporating these partners into every step allows the analysts to incorporate feedback and multiple interpretations. It will also provide a unique opportunity to educate key partners about the industry cluster concept and its value to policymaking and economic development practice.

Cluster-oriented economic development policies can be applied to a variety of groups such as workforce development agencies, state and local economic developers, higher education institutions, industry groups, and utilities among others. These groups can use their cluster understanding as an organizing method for their programs. For example, economic development agencies can employ a cluster orientation in the ways they organize their departments and have their business or industry managers work in groups that focus on individual clusters (Waits, 2000).

SOME PRINCIPLES FOR CLUSTER-BASED ECONOMIC DEVELOPMENT

As this article has shown, industry clusters are a method and at the same time an instrument for economic development. Local economic development practitioners would need to focus on several aspects to bring cluster-based economic development to life. First, industry cluster analysis should be an ongoing and regular process. Industry cluster studies only make sense if the collected data is updated regularly. Cluster analysis done well represents a significant commitment of time and resources, and insights to be gleaned from longitudinal analysis make that commitment justifiable and worthwhile. Cluster performance should be monitored. Second, collaboration with partners is key to the success of cluster-based economic development. Local economic developers should collaborate at the regional level in conducting industry cluster studies and developing cluster-based economic development policies. After a cluster study is conducted, economic development practitioners, industry experts, and other regional groups should continue their conversation about the results and the progress in implementing policies.

Typically, the cluster concept is not widely understood, and regional leaders would need to be educated about the value of cluster-based economic development. Such outreach and education can be done in meetings with interested economic development organizations, through newspaper articles, public forums on the topic, and other events that invite regional leaders into a conversation with cluster representatives and researchers.

The following principles can help economic development practitioners and other regional leaders in developing cluster-based economic development strategies.

- **Use clusters to understand your economy** In the most successful regions, the economies are organized into industry clusters of interrelated, export-oriented firms. It is important for regional leaders to understand the structure of

Useful Web Sites

Useful Internet Portal to Online Socio-Economic Data

EconData.Net:
http://www.econdata.net/

Geographic Definitions:

http://www.census.gov/population/www/estimates/metrodef.html

Explanation of Covered Employment Data:

http://www.qualityinfo.org/olmisj/ArticleReader?itemid=00001367&print=1

Bureau of Labor Statistics:

http://www.bls.gov/data/home.htm

Patent Statistics:

By Geography:
http://www.uspto.gov/web/offices/ac/ido/oeip/taf/reports.htm#by_geog

Full Text: http://164.195.100.11/netahtml/search-bool.html

Firm-Level Data:

SEC Filings: http://www.sec.gov/edgar.shtml

Hoover's: http://www.hoovers.com/free/

Dun & Bradstreet: http://www.dnb.com/us/

Venture Capital Statistics:

MoneyTree Survey:
http://www.pwcmoneytree.com/moneytree/index.jsp

Venture Economics:
http://www.ventureeconomics.com/vec/statshome.htm

Entrepreneurship Statistics:

New Economy Index:
http://www.neweconomyindex.org/

Metropolitan New Economy Index:
http://www.neweconomyindex.org/metro/index.html

Census Statistics:

(includes data on educational attainment, occupations, etc.)

Census' American FactFinder:
http://factfinder.census.gov/servlet/DatasetMainPageServlet?_ds_name=DEC_2000_SF1_U&_program=DEC&_lang=en

Current Population Survey:
http://www.bls.census.gov/cps/cpsmain.htm

Migration Data:

Internal Revenue Service:
http://www.ire.org/datalibrary/databases/migration/

Examples of Cluster Studies from Portland's "Regional Connections" project:

http://www.pdx.edu/ims/regcon.html

their regional economies and in particular to understand cluster dynamics. The industry cluster perspective provides several benefits. The focus on industry clusters allows regional leaders and economic developers to focus on a group of firms rather than on an individual firm. This allows focusing on collective rather than individual benefits. By extending the analysis beyond the individual firm, economic developers and decision makers take a variety of factors into account that are important for knowledge creation and competitiveness (such as suppliers, customers, the location and the existing support factors). This in turn, provides policymakers with a broader set of factors that can be influenced more easily than an individual firm's decisions.

- **Help build relationships among cluster firms**
  The goal of cluster-based economic development strategies should be to help build relationships among cluster firms to promote the synergy and intangible factors that contribute to a firm's competitiveness. Through cluster relationships, firms exchange ideas and knowledge and upgrade products and processes. This in turn makes them more competitive in the marketplace. Clusters in essence help individual firms to compete. A cluster-based economic development strategy ought to focus on these relationships. The strategy should focus on creating firm relationships because often firms do not know that they are part of an industry cluster. Through participating in cluster-based economic development programs, industry leaders have the chance to get to know each other.

The goal of cluster-based economic development strategies should be to help build relationships among cluster firms to promote the synergy and intangible factors that contribute to a firm's competitiveness. Through cluster relationships, firms exchange ideas and knowledge and upgrade products and processes. This in turn makes them more competitive in the marketplace. Clusters in essence help individual firms to compete.

- **Become cluster-driven**
  The key to conducting a successful cluster analysis and to developing cluster-based economic development strategies is to become cluster-driven. Economic development agencies for example need to organize their activities by clusters. The practice of economic development currently focuses too sporadically on individual companies. In most cases, business recruitment, retention and expansion programs do not follow a particular strategy, but are rather responsive to a firm's call and tactical in nature. The key to being strategic is to be cluster-driven.

- **Metropolitan economies and unique metropolitan economic "fingerprints"**
  Over time, regions develop unique economic strengths and regional leaders need to build on these strengths. Firms that already have a stronghold in a region are there for good reasons and are less likely to move. Regional leaders need to take advantage of the benefits that industry clusters provide to these individual firms. They need to examine what their regional economic "fingerprint" looks like and how they can sustain continued growth in these areas of specialization.

- **Economic geography varying by industry**
  Different industry clusters have different location requirements. In the case of the Portland, Oregon, metropolitan area, for example, the nursery cluster has very different location needs than the creative services industry cluster. The former industry relies on fertile farmland for growing shrubs and tress while the latter industry is located in the central city to accommodate employee preferences for a lively downtown. The economic geography varies by cluster.

- **Talent as the least fungible resource**
  A talented pool of labor is critical to the ability of firms to be innovative and competitive. Knowledge-based industry clusters thrive in places that are attractive to a workforce which is skilled and educated. However, we still know little about labor migration patterns, especially among young populations. Regional leaders should examine the factors that contribute to the attraction and retention of young people. The cluster methodology and framework falls short in analyzing the importance of talent. More attention has to be paid to the ways in which talent contributes to cluster formation and competitiveness.

- **Linking cluster competencies to develop defensible strategies**
  Knowledge gained from the presented methodology about a region's industry clusters can be used to develop unique and defensible strategies for economic development. If a region designs strategies that fit its fingerprint, then economic niches will be built that are unique and do not represent mere copies of other successful places.

- **Strategy and differentiation**
  Cluster-based economic development is strategic if regional leaders pay attention to efforts that help differentiate their region from its competitors. A strategy outlines the areas in which a region strives to be exceptional and how it will achieve this. It outlines the connection between economic development actions and visions. Focusing on differentiation requires being clear about what will not be done in cluster-based economic development. Thus, a successful

cluster strategy requires focus, clarity of purpose, and knowledge about what competitors are already doing.

- **The importance of place and becoming a location of choice**
  Clusters rely on a variety of factors that a location can provide for them. Cluster firms and their suppliers, customers, and support services are rooted in a place. Place is important in determining a cluster's competitiveness because proximity to the components of a cluster provides advantages. Regional leaders have to recognize the importance of place and that place can become a location of choice for companies and talent.
- **Cluster initiatives need to have private support and leadership**
  Only sustained private sector involvement and leadership make cluster initiatives successful. Leadership is necessary to keep the momentum and to achieve measurable results. To the private sector, involvement in cluster initiatives and programs offers collective benefits. For example, lobbying collectively for more investments in higher education is more beneficial and effective than if only a few or an individual firm voices their opinion. Furthermore, functioning and healthy clusters benefit private companies by improving the base of local suppliers, upgrading necessary production factors such as workforce and the R&D infrastructure, etc.

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Mark Your Calendars

2006 Economic Development Summit
March 19-22, Washington, D.C.

Co-sponsored by IEDC and various national, regional, and state economic development associations, the 2006 Economic Development Summit will be the largest economic development legislative event of the year. Hear firsthand and ask questions of federal lawmakers, senior agency officials, and political insiders about upcoming funding, budget, and regulatory issues.

The Summit spotlights federal policy, programs, and regulations impacting economic development operations nationwide. Possible changes to HUD, Department of Commerce and other agency programs could mean significant alterations for ED programs. Learn what the changes are and how they might affect the delivery of services and funding to practitioners.

Sessions will explore the following topics:

- Changes to federal community and economic development programs
- Rural economic development programs
- Federal disaster relief for small businesses
- The future of state tax incentives
- The impact of federal eminent domain legislation
- Accessing federal funds to support your community's innovation economy
- The federal government's role in facilitating venture capital

One of the most popular events is Capitol Hill Day, which includes scheduled meetings between conference attendees and House and Senate offices to discuss your community's projects and the profession's legislative priorities. When you register for the conference, IEDC organizes the meetings for you. Hill lobbyists and Congressional staff will tell you how to build a stronger relationship with members of Congress and their staff. You'll leave the conference knowing how to get the most out of your federal delegation.

Creating a Strategic Economic Development Plan for Tulsa, Oklahoma

In association with Development Strategies, Inc., IEDC is assisting the city of Tulsa, Oklahoma, in the creation of a strategic economic development plan. The plan is designed to identify specific strategies, actions, and programs to enhance the city's economic and fiscal position, and its competitiveness in the region.

The project team has conducted an inventory of current policies and programs, economic analysis, retail analysis, and an evaluation of three comparable cities (Omaha, NE; Des Moines, IA; and Kansas City, MO) to identify practices that will help Tulsa. The plan will be complete over five months, including three visits to the city.

Economic Development Administration: Information Dissemination

We are again partnering with the National Association of Regional Councils (NARC) to identify and provide information about new or emerging areas of economic development needed by practitioners in distressed areas. Dissemination mediums include satellite telecasts, an electronic newsletter, and print magazines. IEDC produces *Economic Development America*, a quarterly magazine covering a range of issues. The fall issue covers workforce development.

New IEDC Staff

As the International Economic Development Council, it is especially fitting that IEDC has recently welcomed several new staff members from around the world. Andrea Baurfeind, an economic development associate in Advisory Services and Research, Germany; Swati Ghosh, education program associate, India; and Cheyenne Lau, accounting coordinator, Hong Kong. Roy Luo is our Chinese Program Fellow, joining IEDC from China under a unique program through the United Nations.

Other new staff include Jackie LeGates as development coordinator. She will lead the organization's activities in growing its sponsorship efforts.

Become an Economic Development Partner

IEDC's Economic Development Partners' mission is to encourage the ongoing professionalism of the economic development practitioner through dissemination of information on successful strategies, promulgation of standards of operation, and advancement of research on significant topics. Economic Development Partners can be public and private organizations seeking to invest in economic development on an elevated scale.

The initial group of primary private sector partners will consist of national and regional foundations with a focus on community and economic development, national and regional financial institutions, utilities, and consulting firms with an interest in economic development. Initial public sector partners would include larger economic development organizations, primarily those operating as quasi-public or public/private corporations. The first two partners are Kurt Chilcott, president & CEO, CDC Small Business Finance Corporation, San Diego, CA and James C. Epolito, president & CEO, Michigan Economic Development Corporation, Lansing, MI. "The ED Partners program is a great opportunity to support economic development and the work of IEDC beyond your standard membership dues," says Chilcott. "Our investment represented an affiliation, not only with the top economic development agencies in the world, but with the professional people leading those agencies," according to Epolito. To find out how you can become an Economic Development Partner, contact Crystal Davis at cdavis@iedconline.org or (202) 942-9482.

ADVISORY SERVICES AND RESEARCH

For over 20 years, IEDC Advisory Services & Research (ASR) has delivered sound economic development solutions and advice to its clients. An experienced membership and in-house library complement a dedicated and forward-looking staff, on-call to bring customized reports and research to your community. Our services are responsive to the ever-changing set of issues facing the economic development profession. Local and state economic development organizations, federal agencies, and many others rely on ASR for help in:

- Strategic planning
- Organizational development and program analysis
- Real estate development
- Finance and funding
- Technology-led development
- Business attraction, retention, and expansion

HOW CAN ASR HELP YOUR COMMUNITY?

ASR is a cost effective way to bring valuable resources directly to your community. IEDC maintains an unparalleled body of technical information for quick access by ASR team members. With a membership base of 4,300 economic development professionals, we can easily research best practices and bring nationally recognized member experts to your community.

IEDC clients include regions seeking to fine-tune their existing portfolio of economic development services, at-risk urban neighborhoods, rural areas, and cities seeking to redevelop their central business district, inner suburbs, or transit corridors. IEDC also works with federal agencies, corporations, and foundations to provide research for education and policy development.

For more information, visit www.iedconline.org today.

"Business retention and expansion in Islip is our number one priority. IEDC helped us develop a professional marketing strategy that refocused our efforts and brought us closer to our goal."

William Mannix, Executive Director, Town of Islip Economic Development Authority, NY

"The high quality work IEDC did on the re-use of the former Rhodia Chemical plant changed the way Metro Government was thinking of the site and led to a more constructive channel with potential for greater impact on our community. The excellent report IEDC prepared has become the foundation for future planning efforts."

Bonnie Biemer, Assistant Director, Environmental Division, Metro Development Authority, Louisville, KY

"IEDC's case studies, scenario alternatives, and sample RFQ helped us plan for the redevelopment of a key property in our downtown."

Vern Morgan, Senior Planner and Brownfields Coordinator, Springfield, MO

"IEDC was retained to develop a strategy for reinventing the Fiesta Mall "Super-Regional Retail District" and sustain a significant retail presence. Recommendations prepared by an expert panel of retail specialists were deemed insightful, practical and promise to reposition the district to compete more effectively with new retail centers located throughout Greater Phoenix. Local elected officials and economic development advisory board-members consider it to be one of the finest consulting reports prepared on our behalf."

Richard K. Mulligan, CEcD, Economic Development Director, City of Mesa, AZ

Get Hot!

A well-funded economic development program is the spark that can put your community on the "hot list."

If your community is not hot, why not?

NCDS can help your organization stoke the development fire with new, aggressive and innovative economic stimulation programs. Our proven funding strategies have fired up the hottest communities—those that consistently make the 'best places' lists.

The kindling you'll need to start building a hot community:

- Smart People
- Great quality of life
- Solid infrastructure
- Top-notch marketing
- A well-capitalized development organization on fire to meet and beat the competition.

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