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Fostering Emerging Technology Sectors in Arlington County
An Economic Development Strategy for Knowledge Creation and Innovation

Program for the Rural Carolinas
Philanthropic "Venture Capital" for Rural Economic Development

Building a High-Impact Board-CEO Partnership
Leadership for Changing, Challenging Times

Premises and Performance of Headquarters Hotels
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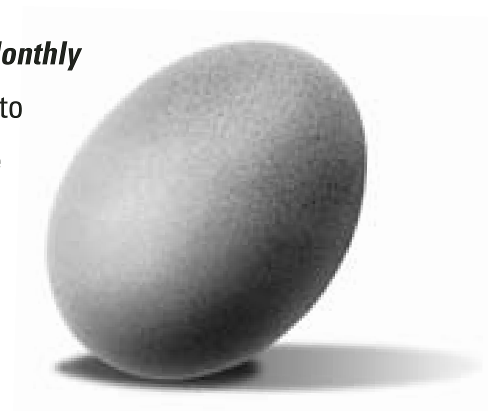

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Steven J. Budd, FM
IEDC Chair

dear colleague

I was pleased to see so many of you attending our recent Leadership Summit in Litchfield Park, Arizona. This event offered a wonderful opportunity to bring together the leadership of the economic development profession to identify and discuss the upcoming year's key economic development issues and to provide insight into building more effective economic development operations.

IEDC is trying to make a more effective organization as well. As a result, I have established the IEDC Governance Planning Task Force, which Vice Chair Ronnie Bryant is heading. This way we can focus on building the kind of high-impact Board of Directors leadership that these rapidly changing, always challenging times demand.

The primary responsibility of the Governing Planning Task Force is to generate an Action Report for presentation at the July 2005 Board meeting, consisting of detailed, practical recommendations for strengthening the IEDC Board's governing role, structure, and processes. Fortunately, IEDC is blessed with highly qualified, strongly committed Board members who are capable of moving toward higher-impact governance. Therefore, the work of the Task Force will be aimed at turning an already solid Board into an even stronger governing body, which will be a matter of fine-tuning the Board's role, structure, and processes, rather than radical reform.

As an organization that focuses on assisting our members and their communities in identifying the tools to build sustainable economies, it is IEDC's mission and responsibility to extend our services to the communities in Southeast Asia that have been affected by the tsunami. IEDC's Board unanimously approved allocating funds to the delivery of an economic development focused response to post tsunami relief. IEDC reached out to one of our partners, the Multilateral Investment Guarantee Agency, a group of the World Bank, to begin determining how we could combine efforts to provide assistance. In coming months, we will begin to structure tsunami relief assistance such as workshops, case studies, and technical assistance.

I recently had the pleasure of attending the World Association of Investment Promotion Agencies (WAIPA) Annual Conference in Geneva. WAIPA is a membership organization that helps to foster the exchange of best practices in investment promotion. Ian Bromley, International Committee vice chair, and I met with WAIPA's president and other senior officials to explore possibilities for developing a strategic alliance between both organizations. We are confident that a partnership between WAIPA and IEDC would present extensive opportunities for our members with valuable insights into global economic issues.

Finally, I need to remind you to mark your calendars for IEDC's Annual Conference, "The Global Economy Is Here…Now What?," September 22-28 in Chicago. Of note, we are offering an international track at this year's conference. This promises to be the economic development event of 2005!

Steven J. Budd, FM
IEDC Chair

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fostering emerging
TECHNOLOGY SECTORS IN ARLINGTON COUNTY

By Heike Mayer, Ph.D., Terry Holzheimer, and Hal Glidden

INTRODUCTION

To uncover emerging technology sectors, we conducted a quantitative and qualitative study of the Arlington County, Virginia, economy. The study took place from August 2003 to October 2004 and involved detailed analysis of employment trends in high technology[i] as well as an in-depth study of emerging technology sectors. Arlington County's economic developers are currently implementing the strategy and have already seen some success in promoting knowledge creation and innovation in the emerging technology sectors.

Arlington County is home to a number of fast growing, innovative high technology firms and numerous federal agencies that are involved with technology research and development. Given the presence of this strong technology community, the central question we examine in this article is the growth potential and suitability of emerging technology sectors such as cybersecurity, bio IT, wireless telecommunication, advanced distributed learning, nanotechnology, and homeland security.

Arlington Economic Development (AED), Arlington County's economic development department, partnered with Dr. Heike Mayer of the Department of Urban Affairs and Planning at Virginia Polytechnic Institute and State University to analyze emerging technology trends and examine how economic development efforts can be strategically targeted to foster emerging industry sectors. This article reports the findings of the larger study and implications for an economic development

Arlington companies are surrounded by innovation

strategy. The full report is available online at http://www.arlingtonvirginiausa.com/emerging technologies.

To assess the suitability of emerging technology sectors, we analyzed data about Arlington County's high technology economy and created a profile of the county's high technology sectors. In a second step, we convened focus groups comprised of national and regional experts and "thought leaders" from key emerging technology sectors. In these focus groups, we assessed Arlington's potential to foster emerging technology industries and gained

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AN ECONOMIC DEVELOPMENT STRATEGY FOR KNOWLEDGE CREATION AND INNOVATION

Industry cluster studies have become a mainstay in economic development practice. Such studies can tell planners what industry sectors their economies are specializing in. However, cluster studies don't anticipate trends and opportunities in fostering those technology industries that are just emerging. Arlington County, Virginia, is going beyond cluster-based economic development by adopting an economic development strategy to foster emerging technology sectors. In this article, we report on a study assessing the county's potential in growing technology sectors such as nanotechnology, cybersecurity, bio IT, homeland security, wireless communication, and e-learning. Adopting a forward-looking approach to economic development positions the county well to foster next generation technologies and to take advantage of innovation and knowledge creation.

insights on trends, issues, and strategies. In the next section we briefly review key findings. We then provide a detailed overview of the Arlington County high technology economy and data from the focus groups.

SUMMARY FINDINGS

1. **Arlington County has a strong and established economy.** Arlington experienced strong economic growth in high paying industry sectors in the 1990s. Within the region, Arlington County ranks fifth behind Fairfax County, the District of Columbia, Montgomery County and Prince George's County in terms of jobs, but has the highest concentrations of technology jobs in certain subsectors.
2. **Arlington's high technology industry specializes in the service sector.** Arlington County is home to over 26,000 workers who are employed in more than 1,200 high technology service businesses. While Arlington's high technology manufacturing employment counts for a minimal share of total high technology employment, the high technology service sector is very strong. The most concentrated service segments are management consulting, computer systems design, human resource consulting, R&D in social science and humanities, engineering services, custom computer programming, environmental consulting, and other scientific and technical consulting services. Overall, Arlington County maintains a 14 percent share of Northern Virginia's high technology economy. Over the last two years, Arlington County saw a decline in high technology employment, but this is consistent with regional and national trends.
3. **Arlington's technological competencies relate to federal government agencies.** Arlington's high technology firms are very innovative and contribute to emerging technology sectors. Arlington's innovation capacity (as measured by registered patents) has increased since the mid 1990s (with a slight decrease in 1999). Most patents are registered in high technology areas. Arlington County firms attracted venture capital mainly for computer software and services, Internet, communications and media. Additionally, Arlington has a strong base of innovative and R&D-oriented federal government agencies. Some, like the National Science Foundation and the Department of Defense (Defense Advanced Research Projects Agency (DARPA), Office of Naval Research (ONR), Air Force Office of Scientific Research (AFOSR), fund, set policy, and contract for emerging technologies.
4. **The federal government is the major innovation driver for policy, funding and application.** Federal government agencies and laboratories that are located within the Washington, D.C. region are the major innovation drivers for the examined emerging technology sectors. In particular, the federal government plays a key role in policymaking (especially with regard to standard setting), funds high-risk research and development, and is the world's largest customer for emerging technology applications.
5. **Existing industry clusters are important innovation drivers.** The Washington, D.C. region's strong industry clusters: information technology, telecommunications and biotechnology, play an important role in advancing industrial activity. These clusters have distinct geographic locations, while offering opportunities for synergy. For example, opportunities exist for Northern Virginia's information technology industry to leverage Maryland's biotechnology industry for Bio IT applications. These clusters offer a deep and talented labor pool, entrepreneurs, supportive business services, cutting-edge customers and suppliers, and a "brand" for which the region is known. Located at the center of these industry clusters, Arlington County is ideally positioned to leverage this strength.
6. **Certain "high value" federal government agencies and laboratories drive research and development**. Not all federal agencies are involved in advancing science and technology. Our research revealed that certain agencies influence emerging technologies more than others, and warrant specific focus by AED. These agencies include: the Department of Defense (DARPA, ONR, AFOSR), Department of Homeland Security, National Institute for Standards and Technology, Office of Naval Research, National Science Foundation, National Institutes of Health, National Telecommunications and Information Administration, Federal

The Washington, D.C. region's strong industry clusters: information technology, telecommunications and biotechnology, play an important role in advancing industrial activity. These clusters have distinct geographic locations, while offering opportunities for synergy. For example, opportunities exist for Northern Virginia's information technology industry to leverage Maryland's biotechnology industry for Bio IT applications.

Communication Commission, and the CIA's venture capital arm In-Q-Tel. These agencies drive technology development as both customers and financiers.

7. **The region's universities play a relatively minor role.** Most focus group participants agreed that the region's universities play a minor role in the growth of emerging technology sectors. Areas of academic strength include law and policy, as well as life science and biotechnology. Findings indicate that there is a need for more interaction among industry, academia and government as well as increased technology transfer to foster the emergence of new industry sectors.
8. **The region's advantages can support emerging technology sectors.** The region in general and Arlington County specifically possess several strategic advantages that can support the growth of emerging technology sectors. First, proximity to the federal government is the most important comparative advantage. Government contractors, academic institutions, and industry associations, among others, critically depend on personal interactions with government officials. Second, the region has developed an entrepreneurial climate that can contribute to the development of new technology sectors. First and second generations of entrepreneurs have evolved in the area, as well as the availability of necessary support services including venture capital, incubator facilities, and mentoring services. Arlington County in particular has a strong reputation for emergency response; Arlington should leverage this reputation for the application of innovative technology to homeland security.
9. **The region's disadvantages offer opportunities for an effective economic development strategy.** Findings indicate that some regional disadvantages, including a lack of a risk-taking, entrepreneurial culture, may offer opportunities for targeted economic development efforts. Focus group participants also reported a lack of innovation and technological advancement and a perception of being "too stodgy" when compared to other high technology centers such as Silicon Valley and Boston. Closely associated with these disadvantages is the lack of a major scientific university. Nevertheless, these disadvantages offer opportunities for Arlington Economic Development. In particular, a focus on entrepreneurship and innovation would help to change these perceptions.
10. **Arlington County is strategically positioned in the government-industry-university triangle.** Arlington County's geographic proximity to key economic actors in the Washington, D.C. area provides the basis for an economic development strategy. Government agencies, key industry sectors, and academic institutions form the innovation triangle. The triangle metaphor implies that there are close linkages among the three sectors and that these connections are instrumental for economic development. Examples include contracting between defense firms and the Pentagon or research relationships between DARPA and leading academic institutions. Arlington County should position itself at the center of the triangle and facilitate interaction among the three sectors.

Arlington is located in the center of public policy making for all technologies.

To gain an in-depth understanding of the challenges and opportunities in fostering emerging technology sectors, we had to examine the county's high technology industry. The next section illustrates an in-depth analysis of high tech employment trends and a location quotient analysis at the six-digit NAICS level utilizing ES-202 data.

ARLINGTON'S HIGH TECHNOLOGY ECONOMY

In 2003, about 1,300 businesses comprised Arlington County's high technology economy. These firms employed 26,321 workers[ii]. From 2000 to 2003, total high technology employment in Arlington County declined on average by 2.6 percent per year. This rate of decline is lower than the national rate (- 4.0 percent) but higher than the rate of decline (- 1.3 percent) in Northern Virginia[iii]. The decline in Arlington County's high technology employment is consistent with the national and

Table 1: High Technology Employment in Arlington County, 2000-2003

	2000	2001	2002	2003	Average Annual Growth Rate 00-03
High Technology Manufacturing	651	842	830	848	6.6%
High Technology Services	28,564	28,742	26,527	25,473	-2.9%
Total High Tech Employment	**29,215**	**29,584**	**27,357**	**26,321**	**-2.6%**

Source: ES-202 (Virginia Employment Commission)

Table 2: Number of Establishments in High Technology
Arlington County, 2000-2003

	2000	2001	2002	2003
High Technology Manufacturing	79	97	96	86
High Technology Services	1,106	1,168	1,219	1,217
Total High Tech Firms	**1,185**	**1,265**	**1,315**	**1,303**

Source: ES-202 (Virginia Employment Commission)

regional technology slowdown that began in 2001, especially in the telecommunications and Internet sectors which were hit especially hard.

Compared to other high technology regions such as Silicon Valley or Boston, the Washington, D.C. metropolitan region was less affected by the national technology slowdown. Overall, the metropolitan economy outperformed the national economy for the last six years. The area's strong economic performance is tightly linked to continued strong federal spending (especially in technology-related sectors) and increased opportunities to grow non-federally dependent businesses (Fuller, 2004). The outlook for Arlington County's high technology economy bodes well. Fuller (2004) projects economic growth for the Washington, D.C., metropolitan region in the range of 2.0 to 2.3 percent.

Arlington County's high technology economy is primarily concentrated in technology services. This bias towards services may serve Arlington County well as the national economy experiences a shift from a manufacturing-based to a service-based economy. In addition, the concentration on high technology services may shield Arlington's economy from cost-driven outsourcing of high technology manufacturing.

Arlington's high technology services economy is driven by a concentration in computer systems design and programming, various knowledge-intensive consulting and engineering services, scientific research and development services, and Internet-related and data processing businesses. These sectors have strong contractual ties to federal agencies located within Arlington County and the broader Washington, D.C., regional economy. Arlington County's high technology economy accounts for 14 percent of Northern Virginia's total high technology economy.

Figure 1 illustrates each jurisdiction's share of the total high technology economy in Northern Virginia. Fairfax County garners the majority of high technology activity, with Arlington County ranked second.

The Arlington high technology economy accounted for 1,303 firms in 2003 as shown in Table 2. Of the 1,303 high tech firms, only 86 were manufacturing related firms while 1,217 were service related firms.

The majority of firms engaged in the high technology service sector in Arlington are very small, with more than half employing fewer than five people (see Table 3). Firms with more than 100 employees accounted for only about 4 percent of the total. Some 90 percent of all high technology service firms in Arlington's economy employ 20 or fewer workers.

Arlington County's concentration in small high technology service firms has several advantages. First, small, high technology firms are commonly

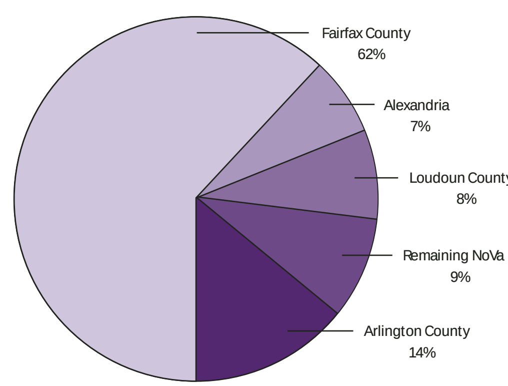

Figure 1: Share of high technology economy in Northern Virginia, 2003
Source: ES-202 (Virginia Employment Commission)

more flexible and adapt better to changing economic conditions and market opportunities. Second, a high concentration in small- and medium-sized firms is also a positive indication for entrepreneurial dynamics. The most successful high technology industry clusters are characterized by a set of dynamic small- to medium-sized firms. Among this group of firms, incentives for collabo-

Table 3: High Technology Service Firms by Firm Size

Arlington County, 2003

Firm Size (Number of Employees)	**Number of Firms**
250 to 499	8
100 to 249	38
50 to 99	73
20 to 49	136
10 to 19	146
5 to 9	142
under 5	698

Source: ES-202 (Virginia Employment Commission)

Table 4: Location Quotient Analysis for Northern Virginia and Arlington County, 2001-2003

	Northern Virginia			Arlington County		
	2001	**2002**	**2003**	**2001**	**2002**	**2003**
High Technology Manufacturing	0.54	0.57	0.61	0.21	0.24	0.27
High Technology Services	4.52	4.59	4.68	5.31	5.42	5.43
Total High Technology	**2.71**	**2.80**	**2.91**	**3.01**	**3.13**	**3.21**

Source: ES-202 (Virginia Employment Commission) Bureau of Labor Statistics

ration and subcontracting are higher because each firm typically specializes in a certain technological or market niche.

To determine the relative concentration of a certain industry segment in Arlington's economy relative to other geographic areas, we conducted a location quotient (LQ) analysis.[iv] Arlington's overall location quotient for the high technology economy increased from 3.01 in 2001 to 3.21 in 2003. This means that high technology industries were 321 percent more concentrated in Arlington than in the nation as a whole. High technology services are particularly concentrated in Arlington as indicated by a location quotient of 5.43 in 2003. Arlington County's high technology economy has higher location quotients compared to Northern Virginia as a whole (see Table 4).

The industry segments with the highest location quotients reflect the region's specialization in information technology and consulting services. Arlington has very high location quotients (above 1.25) for computer systems design and programming, management, scientific, and technical consulting services, scientific R&D services, Internet services, architectural and engineering services, and data processing.

Industry segments in which employment in Arlington is more concentrated than in the Northern Virginia region as a whole include management consulting, human resource search consulting, environmental consulting, scientific and technical consulting, social science and humanities R&D, and engineering services. The management, human resource, and social science R&D segments may benefit from Arlington's close proximity to the District of Columbia while the technical and engineering services may benefit from the presence of federal agencies such as the Pentagon, NSF and DARPA (see Table 5).

As our location quotient analysis shows, Arlington County specializes in high technology services. The next question we asked was about the

Table 5: Detailed Location Quotients for Arlington County, 2003

High Tech Sector (4-digit) / High Tech Sector (6-digit)	**LQ NoVa**	**LQ Arlington County**
5112 Software Publishing		
511210 Software Publishing	3.41	0.63
5415 Computer Systems Design & Related Services		
541511 Custom computer programming services	7.07	7.11
541512 Computer systems design services	9.47	8.95
5416 Management, Scientific and Technical Consulting Services		
541611 Admin & general management consulting services	6.21	10.64
541612 Human resource & exec. search consulting services	2.63	8.68
541613 Marketing consulting services	1.55	2.04
541614 Process, phys dist & log consulting services	12.96	3.39
541618 Other management consulting services	3.58	2.74
541620 Environmental consulting services	3.25	6.27
541690 Other scientific & technical consulting services	1.89	5.84
5417 Scientific Research and Development Services		
541710 R&D in physical, engineering & life sciences	2.18	2.80
541720 R&D in social sciences & humanities	3.22	8.58
5181 Internet Service Providers		
518111 Internet Service Providers	8.98	1.53
5413 Architectural, Engineering, and Related Services		
541310 Architectural services	1.35	1.37
541330 Engineering services	4.08	7.69
5182 Data Processing		
518210 Data Processing, Hosting, and Related Services	3.02	2.31
Total High Technology Services	**4.68**	**5.43**

Source: ES-202 (Virginia Employment Commission) Bureau of Labor Statistics innovation capacity of the county's economy. The following section examines patenting activity and the amount and type of venture capital investments as indicators for innovation.

INNOVATION COMPETENCIES

The volume and types of patent activity can be a barometer of technological innovation. According to patent analysis, Arlington County's high technology firms and federal agencies are extremely innovative. Patents registered by organizations and individuals in Arlington County have grown by 3.4 percent annually during the 1975 and 1999 period. This rate is slightly lower than the rates for Washington-Baltimore CMSA and for the states of Virginia and Maryland.

Patents in Arlington County are registered in a variety of technology areas. Those technology areas that show a higher concentration of patents are associated with telecommunications, television, education and demonstration, and military related technologies.

Arlington County has attracted a healthy share of venture capital investment to support the growth of entrepreneurial businesses. Most venture capital was invested in firms in the communication and media sector as well as the computer software and service sector. Investment was also made in Internet-related businesses. Following their peak in 2000, venture capital investments began to decline nationally between 2001 and 2003. A similar pattern emerged for the Washington, D.C., region and for Arlington County. Investments in Arlington County startups peaked with $231 million in 2000 and declined to $23 million in 2003 in the midst of a national economic contraction.

In Arlington, venture capital investments in computer software and services remained strong and received $15 million in 2003. This pattern follows a national trend: software companies have generally garnered a large share of venture capital investments after the downturn in 2001. The other sectors that had strong growth nationally are telecommunications and biotechnology. Both of these sectors have a strong presence in the Washington, D.C. metropolitan region and are among the top sectors that attracted investments.

Finally, Arlington County hosts a range of federal agencies. However, in terms of innovation potential and economic development impacts through subcontracting, spinoff activity, and innovation spillovers, only certain federal agencies should be

Table 6: "High Value" Federal Agencies in Arlington County

Federal Agency	Submarket	Technological / R&D Competencies
Air Force Office of Scientific Research (AFOSR)	Ballston	Aerospace Sciences, Material Sciences, Chemistry, Life Sciences, Space Sciences, Math, Physics, Electronics
Immigration & Naturalization Service (INS)	Ballston	Homeland Security
National Science Foundation (NSF)	Ballston	Across many sectors
Office of Naval Research (ONR)	Ballston	Information, Electronics, Surveillance, Ocean, Atmosphere, Space Engineering, Materials, Physics, Human Systems, Data Mining
Defense Intelligence Agency (DIA)	Clarendon	Military intelligence
Defense Information Systems Agency (DISA)	Columbia Pike	Defense Information System Network, Systems Interoperability
US Marshals Service	Crystal City	Electronic/Air Surveillance Court Security
Department of Defense (DoD)	Pentagon	See DARPA and ONR
National Guard Bureau	Pentagon	IT Applications
Transportation Security Administration (TSA)	Pentagon City	Homeland Security (Shipping, IT infrastructure)
US Drug Enforcement Administration (DEA)	Pentagon City	Computer Forensics Laboratory testing
Mine Safety and Health Administration (MSHA)	Rosslyn	IT Applications
State Department Bureau of Diplomatic Security	Rosslyn	IT Applications, Homeland Security
Defense Advanced Research Projects Agency (DARPA)	Virginia Square	R&D for DoD: Security applications,Military products
Federal Deposit Insurance Corporation Training Center	Virginia Square	IT Applications

Source: Arlington County Economic Development considered as "high value." Table 6 presents a brief description of the R&D concentrations of certain "high value" agencies.

EMERGING TECHNOLOGY SECTORS

During the course of the study, seven focus groups with regional and national technology experts were conducted to determine detailed information about emerging technology sectors. The groups explored emerging technologies such as cybersecurity, bio IT, nanotechnology, wireless telecommunication, and distributed learning. A separate group was conducted with venture capitalists. These focus groups provided insights into the technology trends, innovation drivers, major players and linkages within industry sectors, the locational advantages and disadvantages of the Washington, D.C. region, and suggestions for ways in which AED could contribute to economic development (see Table 7).

Discussions about technology trends were the most varied among the groups. This is not surprising because each emerging technology has different technological challenges. Still, several trends and issues were common to all of the focus groups. Two issues that stand out were interoperability and the need for common standards. Both issues deserve attention by Arlington's economic developers because there may be ways to strategically position the county. The key to interoperability across technologies is to incorporate interaction among different sectors into the development process. Standard setting involves close collaboration and coordination between industry and standard-setting agencies such as the National Telecommunications and Information Association and Federal Communications Commission in the field of wireless telecommunication. Across the groups, there was also a strong consensus on a variety of market applications. In particular, focus group participants saw homeland security (including emergency management and response and cybersecurity), bioinformatics, and telecommunications as very promising fields.

In terms of innovation drivers for the emerging technology sectors, participants commonly saw the federal government as the most important driver. Several groups made the distinction among three aspects of the federal government that drive innovation in the fields. The first is policymaking, with an emphasis on standard setting. The second driver is funding for research and development in fields such as nanotechnology or bio IT. The third driver is related to the government as the customer, and its application of technological advancement in military, homeland security, and other areas. Several groups mentioned the region's industry clusters – in particular Northern Virginia's information technology and telecommunication industry and Maryland's biotechnology industry – as important innovation drivers.

Table 7: Commonalities Across Focus Groups

Issues	Commonalities Across Focus Groups
Technology Trends	– Interoperability – Convergence – Standards
Market Applications	– Homeland Security & Emergency Management – Wireless Communications – Bio IT – Military
Innovation Drivers	– Federal government: Policy, Funding, Application – IT and telecommunication industry in Northern Virginia – Biotechnology industry in Maryland – Competitors in respective sectors – Needs and threats
Major Players and Linkages	– Federal government agencies and labs with contractors (tight connections) and with academia (national reach) – Federal agencies most important: DARPA, DHS, NIST, ONR, NIH, NTIA, FCC, In-Q-Tel – Industry groups and associations (ITAA, TIA, PCIA, etc.) – State and local governments – Universities play a role but not as strong in the Washington DC region
Regional Advantages	– Proximity to federal government – Region's industry and workforce capacity (IT, telecommunication, biotech) – High educational attainment – Technology entrepreneurship – Political leadership (especially in Virginia) – Quality of life – Arlington County's reputation for emergency response – Arlington County's information and communication technology network (fiberoptics) – Universities strong in some fields (i.e. law, policy); other strong academic institutions (i.e. UVA, VT, GMU, GWU, Marymount) – Pool of potential entrepreneurs and funders: retired government scientists, cashed-out/serial entrepreneurs
Regional Disadvantages	– Lack of "Silicon Valley like" entrepreneur and investment culture – High cost of living and labor – Region not known for innovation and technological advancement ("too stodgy") – Lack of a major scientific research university – No national direction/strategy for some fields (like cybersecurity and homeland security)

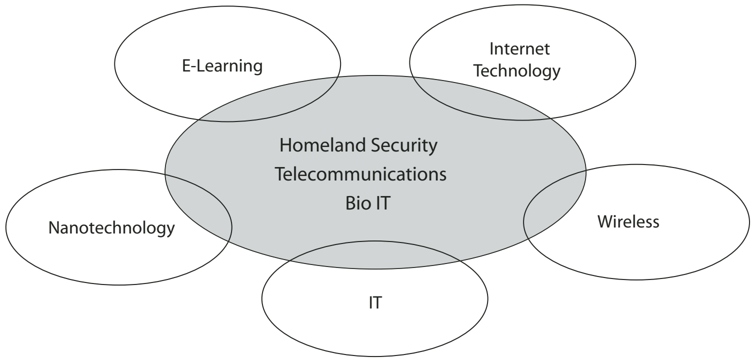

Figure 2: Convergence of Core Competencies and Emerging Technology Applications

Major players in the region include several agencies of the federal government. Participants most often mentioned the Department of Defense, the Department of Homeland Security, the National Institutes of Health, the National Institute of Standards and Technology, the CIA's venture capital arm In-Q-Tel, and standard setting agencies such as NTIA and FCC.

Interestingly, the discussions of the region's advantages and disadvantages revealed many commonalities among focus group participants, regardless of the industry they represented. The proximity to the federal government was seen as the most important comparative advantage the Washington, D.C. region has over other parts of the nation. Participants mentioned the continued importance of face-to-face interactions despite other means of communication. The second most mentioned advantage was the region's information technology, telecommunication and biotechnology industries and the associated labor pools, sets of competitors, and support services. Participants highlighted the industry cluster effects and opportunities associated with this critical presence. Technology entrepreneurship, the region's quality of life and educational attainment, and university strength in law and policy were cited as well. Arlington County's reputation for emergency response was reiterated by the majority of the groups.

The most commonly mentioned location disadvantages include the lack of a more risk taking entrepreneurial culture and venture capital investments, high costs of living and doing business, the region's "stodgy" character, and the lack of a major scientific research university. Participants felt that the region is not known for innovation and technological advancement in spite of its high levels of technology employment.

BASIS FOR AN ECONOMIC DEVELOPMENT STRATEGY

This analysis shows that the Washington, D.C. region benefits from the presence of three industry sectors: information technology, telecommunications and life sciences/biotechnology. These sectors have strong ties to the federal government through contracting, funding, and policy-making relationships. Related industries such as the association and nonprofit sector, R&D, engineering, technical services, and business support services (law, public relations, venture capital, etc.) support this economic ecosystem and are necessary for the growth of the dominant industry clusters. Arlington County benefits from this economic constellation because the county is located in a geographically strategic location.

The findings indicate that an economic development strategy should focus on the convergence of multiple technologies around a core area of competitive advantage. For Arlington County, these core competencies, or areas of excellence, are homeland security, bio IT, and telecommunications. Figure 2 illustrates the inter-connectedness of the core competencies and the emerging technology applications.

Arlington County is in a unique position to leverage the emerging technology sectors we examined in the report. Arlington is geographically close to critical federal government agencies that not only contract for high technology services, but also invest in research and development and set policies and standards for emerging technology applications. The study shows that AED must strategically position itself at the center of a government-industry-university triangle (see Figure 3).

The government-industry-university triangle can serve as the basis for Arlington's economic development strategy. The triangle metaphor implies that there are close linkages among the three sectors and that these connections are instrumental for economic development. Examples include contracting relationships between defense firms and the Pentagon, research relationships between DARPA and national and local academic institutions, lobbying relationships between small technology start-ups and regulatory federal agencies, among others. In these cases, the federal government functions as the customer, as the funder, and as the regulator.

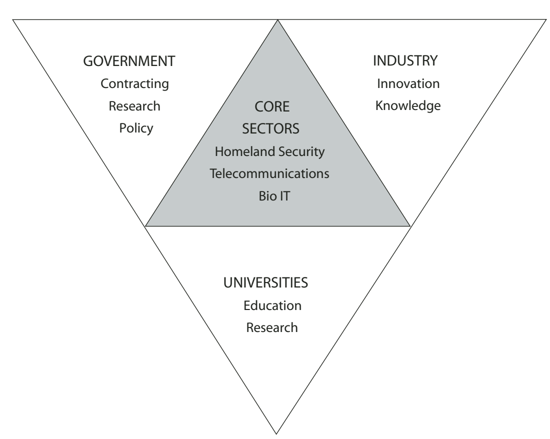

Figure 3: Arlington County's Innovation Triangle

Crystal City represents the highest concentration of defense contractors in the nation.

As a customer, agencies will drive innovation by establishing their needs.

Currently, technology applications related to homeland security represent a high priority for the federal government. Increasingly, technology companies are focusing on these security-related needs, indicating a promising sector for local economic development purposes. As a funder, the federal government (through DARPA and NSF, for example) shapes and influences the national research and development agenda and is in close contact with academic institutions. As a regulator, the federal government critically influences the evolution of technology sectors, such as wireless telecommunication.

In the Washington, D.C. region, the university connection is often the weakest link in the triangle. Much of the technology-based research in the core areas important to Arlington is conducted elsewhere. Arlington's strategy may be to "import" universities through development of special research centers or through partnerships or alliances.

COMPONENTS OF A STRATEGY

Arlington County could more effectively focus on emerging technology sectors if it would develop an economic development strategy that focuses on the following components:

- **Support technology entrepreneurship**

  AED should support high technology entrepreneurs. An explicit focus on technology entrepreneurship would allow Arlington to capture dynamic, high-growth companies that are active in emerging technology sectors. Specific economic development activities could include the facilitation of interactions among governmental agencies, venture capitalists, and potential entrepreneurs, making flexible office space available, and developing incubator facilities, mentoring programs, and the support of technology transfer programs.

- **Use Arlington as a test bed or pilot for emerging technology**

  Several focus groups highlighted Arlington County's reputation for emergency response, and suggested that Arlington could benefit by leveraging this reputation. In partnership with industry, Arlington could develop a facility where technological applications to homeland security are tested and piloted. These applications could then be showcased to policymakers and industry. A similar approach may be applicable to telecommunications, where the compactness of Arlington's business districts would be ideal for testing wireless applications.

- **Function as a facilitator among academia, government, and industry**

  The focus groups themselves proved to be a successful economic development strategy. The groups functioned as facilitation exercises and brought industry, government, and academia together, offering insights not only for the participants themselves but also for Arlington's economic development staff. Focus group participants often remarked on the positive experience they had in the groups and suggested that Arlington continue such facilitations. In addition, AED should host events at which entrepreneurs interact with government representatives, venture capitalists, and academics.

- **Provide information on micro-sectors or market niches**

  Information dispersion is imperfect and can be greatly improved through collection and dissemination. AED can serve as a repository of information that integrates research activities and findings that are directly applicable to the core competency areas.

- **Serve as a focal point for policy-making**

  Arlington could gain competitive advantage by promoting policies that support industry growth in target sectors. The alignment of local tax and land use policies with the overall strategy would also prove beneficial. Lastly, industry would value access to the federal and state policy processes through connections among federal agencies, industry groups and university policy vehicles.

- **Promote local education and workforce development**

  Arlington should develop resources that ensure that the local and regional labor force have the skills needed to implement the strategy, as well as seeking to expand educational offerings at all levels. Greater opportunities may exist through recruitment of educational institutions with exceptional capabilities in the core competencies.

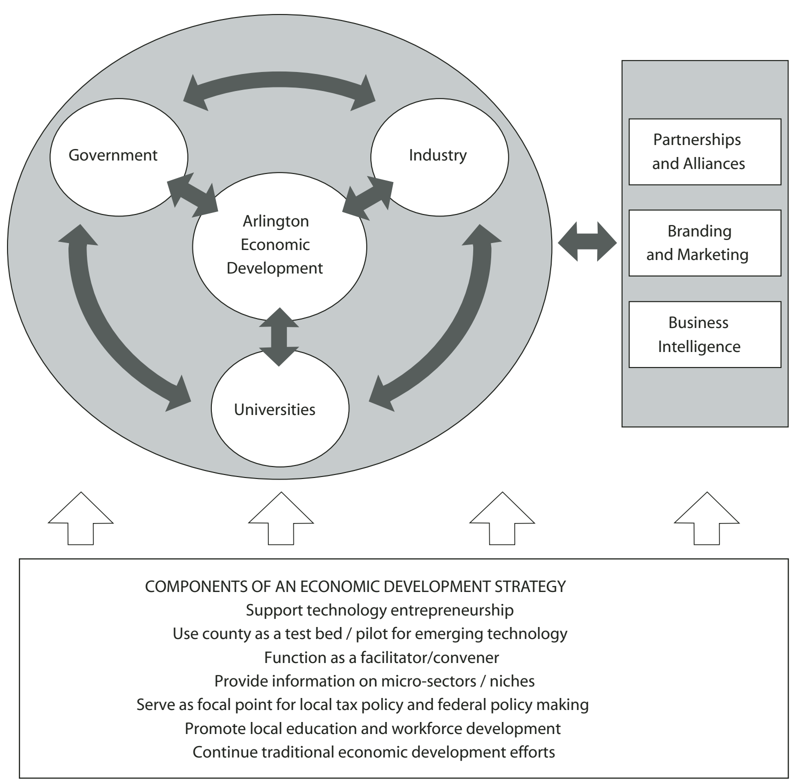

Figure 4: The Strategy Model

CACI is one of the nation's leading information technology companies.

- **Continue traditional economic development efforts and support strategic, long-term emerging technology strategy**

  Arlington should also continue with its traditional economic development efforts, but make sure that industry, academia and federal government agencies know the services and programs AED offers. In addition, Arlington should ensure that the strategy for supporting emerging technology sectors has a strategic focus and a long-term orientation.

Each of these components of the economic development strategy need to be applied through a series of actions that will implement the strategy.

- **Create partnerships and alliances with critical participants**

  Major participants in the policy and convening arenas include industry associations such as the Information Technology Association of America, the Telecommunications Association, among others. These organizations provide access to the companies, agencies, and individuals that are major players in the Washington, D.C. area, and will add to the innovation triangle.

- **Brand and market Arlington as a location for developing emerging technology**

  Once the strategies mentioned are underway, Arlington should focus on marketing and branding itself as a location where emerging technology is developed and commercialized. The power of being known for certain kinds of economic development activities cannot be underestimated. Silicon Valley, for example, has built a powerful reputation as the premier technology hub. Executives, high tech engineers, and entrepreneurs know that the region offers them plenty of opportunities.

- **Develop business intelligence (thorough knowledge) of the linkages among government, industry, and academia.**

  Only a clear understanding of these linkages can result in effective action. The maintenance of databases and ongoing research efforts will continually update knowledge of the linkages, which change constantly as new firms enter the market, research is commercialized, and as contractual relations evolve.

These components and action recommendations form the basis of a strategy model that integrates all of the pieces into a coherent strategy. The key element is the innovation triangle – the relationships among government, industry and academia. While the triangle concept applies to each of the core competency areas separately, the connections among the three players differ for each target industry niche. What is common to each niche is the need to form partnerships and alliances, to brand and market Arlington relative to each niche, and the process of collecting business intelligence about each triangle. The strategy for effecting economic growth within each market niche is the customized application of the key strategy components. Figure 4 illustrates the integrated strategy approach.

CONCLUSION

Arlington County is in a good position to leverage the growth of emerging technology sectors. Arlington's strategic location at the center of the government-industry-university innovation triangle provides a comparative advantage over other business locations. AED is committed to leveraging its strengths and to fostering the creation and expansion of technology businesses. As a next step, AED will implement the strategy components to support knowledge creation and innovation. Furthermore, Arlington will study in more detail the relationships among government, academia, and industry around key thematic areas such as homeland security, bio IT, and telecommunications.

ENDNOTES

i We utilized a definition of high technology industries that was developed by Carnegie Mellon University's Center for Economic Development (Paytas & Berglund, 2004). Their definition was used to analyze the ES-202 data. Paytas and Berglund's (2004) derived their definition from a systematic analysis of industries that employ at least nine percent science and technology occupations. The occupation-based definition was developed by Chapple et al (Chapple, Markusen, Schrock, Yamamoto, & Yu, 2004).

ii The ES202 data (which will soon be called Census of Quarterly Employment and Wages (QCEW)) is "employer based", in other words, where the data covers employment numbers for locations where the employer is physically located. The high technology definition used in this report covers only those employers that are classified in the respective NAICS codes. Federal government agencies such as DOD or NSF will be listed under NAICS code 92 "Public Administration" and are *not* counted in this high technology definition.

iii The Northern Virginia (NoVa) economy includes: Arlington County, Clarke County, Culpeper County, Fairfax County, Fauquier County, King George County, Loudoun County, Prince William County, Spotsylvania County, Stafford County, Warren County, Alexandria city, Fairfax city, Falls Church city, Fredericksburg city, Manassas city, and Manassas Park city. Es-202 Data was analyzed at the 6-digit level for Northern Virginia only because of data limitations for the other states that are part of the Washington, DC metropolitan area.

iv The formula for computing a location quotient is as follows: LQI = (ei/e)/(Ei/E); where:

ei = Local employment in industry I

e = Total local employment

Ei = National employment in industry I

E = Total national employment

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program for the
RURAL CAROLINAS

By Bonnie R. Renfro, CEcD

Shell building increases industrial product inventory.

Bonnie Renfro is President of the Randolph County Economic Development Corporation, Asheboro, North Carolina.

INTRODUCTION

Across the Southeastern United States, rural areas have experienced a significant decline in traditional manufacturing resulting in loss of jobs, tax base, and an overall contraction of the economy over the last 10 to 15 years. Rural areas struggling to rebuild their economy are challenged by low educational attainment among their population, limited financial resources, and a lack of infrastructure.

In 2000, trustees of the Duke Endowment became increasingly concerned about a growing disparity between urban and rural prosperity in the two Carolinas. After careful evaluation, trustees created the Program for the Rural Carolinas to assist economically distressed communities to revitalize their economies and to create models for economic development that other communities can adopt.

THE DUKE ENDOWMENT BEGINS A NEW FORM OF RURAL GRANTMAKING

The Duke Endowment was established in Charlotte in 1924 by James B. Duke, a North Carolina industrialist, to serve the needs of people in North and South Carolina. Over the last 80 years, the Endowment has concentrated on education, health care, residential children's programs, and rural Methodist church needs. Guidelines of the Endowment specify grant eligible organizations that include rural hospitals and Methodist churches along with specific private and public universities. Since 1924, the Endowment has awarded more than $1.8 billion in grants.

Economic development has not been one of the primary targets for Duke Endowment efforts. However, trustees recognized the linkage between the lack of economic opportunity in rural areas and its effects on the health, education, and well being of families served by partner agencies. They decided to move forward with a new form of grantmaking to support non-traditional economic development strategies and to build community capacity.

The Endowment partnered with MDC, Inc., a Chapel Hill, North Carolina based non-profit that focuses on economic, workforce, and community development, to provide research and assistance in creating the new grant program. MDC co-manages the program with the Duke Endowment in addition to providing coaching and technical assistance.

PHILANTHROPIC "VENTURE CAPITAL" FOR RURAL ECONOMIC DEVELOPMENT

Rural areas across the US have suffered greatly in recent years with the speed of economic changes. In an innovative approach, the Duke Endowment initiated the Program for the Rural Carolinas to assist distressed communities to revitalize their economies and to create models for economic development that other communities can adopt. A pioneering model for philanthropic venture capital, the Duke Endowment provides funding, coaching and technical assistance to communities across the Carolinas. This article outlines one community's story in an effort to inform and share best practices and mistakes so other communities can benefit.

PROGRAM FOR THE RURAL CAROLINAS – A FRAMEWORK FOR RENEWAL

The program has two major goals:

- To increase employment, income, and wealth of people who have been left behind by the changing economy; and
- To build the leadership, assets, and structures that support long-term economic renewal for the community.

The Randolph Program for the Rural Carolinas is a five-year effort to provide assistance to selected communities and designed to emphasize building partnerships among local agencies. The vision of MDC and the Endowment was for local communities to develop their own plans and programs based on community specific needs, resources, and preferences. Unlike some other grant programs, the Program for the Rural Carolinas was deliberately crafted to enable the leadership, capabilities, and knowledge of the individual communities.

Grant eligible community partners across the two Carolinas were notified and encouraged to apply for the grant in 2001. A total of 93 communities submitted applications for the grant and 23 sites were selected. Seven sites were selected as Option One communities capable of large-scale comprehensive economic development projects. Fifteen were selected for a more focused project grant as Option Two sites.

Grant benefits include:

- **Funding** - With Option One sites receiving $150,000 a year for three years, and Option Two sites receiving $75,000 a year for three years.
- **Coaching and mentoring –** Provided by the Senior Associates of MDC. Each community is assigned a coach for the duration of the project.
- **Technical Assistance –** Access to a pool of professional service providers including consultants, research associates, and workforce development specialists.
- **Learning Activities** - Designed to share information and best practices. Learning activities include an annual gathering of all site teams, regional issue specific seminars and workshops, newsletters, a website, and regularly scheduled topical telephone conference calls.

The Duke Endowment has allocated $10 million for the Program for the Rural Carolinas over the five-year program.

CYCLE OF DEVELOPMENT

A key project component for each site is the creation of a team that is representative of the community. Teams are asked to take a leadership role throughout the life of the grant. Team members were tasked with creation of a vision for their community within the context of a healthy cycle of development.

The concept of the cycle of development shows the interconnectedness of a healthy growing community. In many rural communities in the South, the cycle is broken. According to MDC, guiding principles of the Program for the Rural Carolinas are:

1. **Rural areas matter.** We cannot afford as a nation or region to write off a significant part of our larger community.
2. **This generation of workers matters.** Workers with low educational attainment, many of whose skill sets do not match the knowledge-based jobs of today, require and deserve action and attention.
3. **Effective community development involves the entire community**. A wide range of community interests and human resources must be involved to create sustainable progress.
4. **Solutions must be locally determined, and they must be informed.** People within the community know it best and they can bring about good change as they move toward common goals.
5. **Healthy communities focus on their assets.** Every community has a unique set of assets that provide the building blocks for its future success.
6. **Change is difficult and takes a long time.** Change is the only constant and the speed of change is accelerating. Healthy communities find ways to benefit from change through a sustained commitment to overcome challenges.

ACTION PLAN AND SUSTAINABILITY

Site teams spent the first six months in a vision process, culminating in the initial request for grant funding. After review and approval, grant funds were released and teams encouraged and sometimes

The Cycle of Development

pushed to move forward with action plans. MDC coaches assisted and monitored progress on behalf of the Endowment. Action plans and implementation varied widely among the various communities. Examples of the diversity of efforts include helping farmers and local craftspeople market their goods over the Internet, support for rural entrepreneurship, promoting eco and cultural tourism, targeted workforce development in health care, focused small business development, and increasing home ownership.

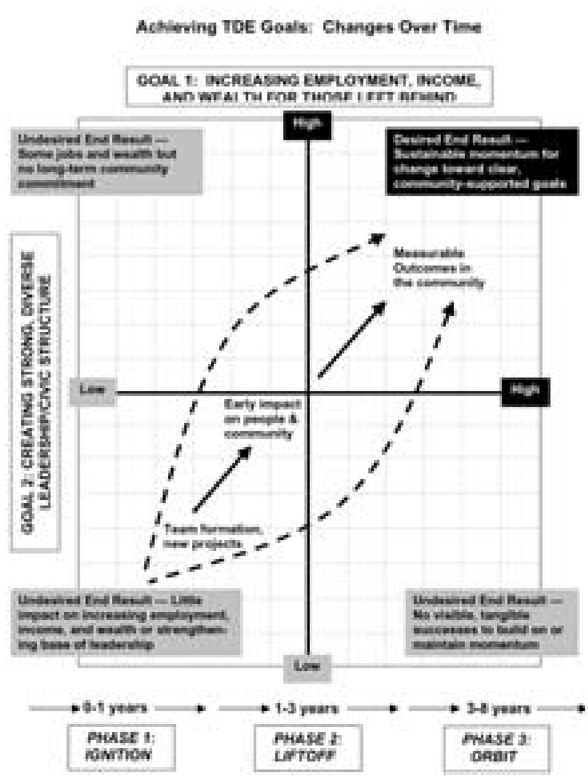
All action plans were constantly evaluated against the two primary goals of the program: to help those left behind in a changing economy and to develop capacity for future growth. Outcomes are reported regularly and progress measured for accountability.

A key measurement of success is the sustainability of community programs beyond the life of the grant. All teams are expected to develop the capacity and infrastructure needed to sustain programs, processes, and leadership for the future.

CHAPIN HALL – INSTITUTIONAL LEARNING

For the Duke Endowment, an important program metric will be sharing best practices and creating a formula for change that can be duplicated and modified by other communities across the nation. A third partner, Chapin Hall, is working to identify and document findings about the Program for the Rural Carolinas approach to community change and economic development. Chapin Hall is a policy and research center of the University of Chicago, focused on the economic well being of children and families.

Chapin Hall in collaboration with the Endowment and MDC is developing a series of research and policy papers to showcase this new approach to community development strategies. Representatives of Chapin Hall participate in local program efforts as well as the aggregate learning clusters and activities.



RANDOLPH COUNTY'S EXPERIENCE

Randolph County, population 135,000, is located in the center of North Carolina in the Piedmont Triad region. The county and region have long been a manufacturing based economy, relying on traditional industry sectors that include textiles and furniture. In the last six years, the county experienced a significant decline in manufacturing employment through the closure of 30 manufacturing companies and operations with a reported loss of 4,146 jobs. Despite these losses, manufacturing remains the county's largest source of employment with 40 percent of all jobs.

Regionally, the area has lost 12.9 percent of its manufacturing jobs from 2001-2003 in a population of 1,400,000. The largest city in the region is Greensboro and the largest city in Randolph County is Asheboro.

The county has multiple unique assets that provide a foundation for future opportunity. The county is home to the North Carolina Zoological Park, the nation's largest natural habitat zoo. A growing cottage industry of handmade pottery is based in southern Randolph County in the Town of Seagrove. The region has the second largest interstate highway system in the nation, a competitive advantage for many distribution and manufacturing companies. Population growth exceeds the state and nation, in part due to an influx of Latino immigrants over the last 14 years.

Randolph County is the largest and the least economically distressed of all of the Option One sites. In the grant application, the community is described as one with below average incomes, low educational attainment, and a manufacturing economy in a nation that increasingly imports its manufactured goods. Within the scope of the grant sites, Randolph County fits the role of a community beginning to decline but with sufficient assets and resources to arrest the downward movement through a new approach.

One of the key assets in the community is Randolph Hospital. The hospital leadership (much like the Duke Endowment) recognized that its mission to provide quality healthcare and promote health and wellness could be more easily achieved in a healthy economy. As an eligible grant recipient, Randolph Hospital provides fiscal oversight for the grant. It has provided leadership, space, office equipment, and vision for the Randolph Program.

- *Key lesson learned: Seek non-traditional partners in economic and community development. They bring a wealth of expertise, leadership, vision, relationships, and commitment to community and economic development.*

Team development was among the most challenging requirements of the grant. One of the expected outcomes of the grant program was development of a collaborative team with an inclusive approach to community development. The goal…a team, representative of the community with a commitment to change and to sustain the program.

The Randolph County team found that the initial Board of Directors approach did not work. It limited effective progress, narrowed the perspective, and delegated the work to only a few. After some initial stumbles, the Randolph team evolved into issue-based workgroups and reached out to include a broader and more representative group that looked like the community.

- *Key lesson learned: Involve diverse groups as stakeholders in economic development and they will bring energy, wisdom, and commitment resulting in a more effective and productive program.*

From the beginning, the Randolph team echoed the Endowment's objective of building partnerships among local organizations. A decision was made at the onset not to set up new programs but instead to strengthen the capacity of existing programs. Three reasons were behind this decision. First, the community has a number of significant community organizations with a track record of cooperation. Second, partnering with existing organizations leverages the grant funds for a bigger bang for the buck. Third, the decision enhanced the likelihood of sustainability after the end of the grant.

- *Key lesson learned: Strengthening partnerships among committed, effective organizations increases sustainability and leverages resources for maximum impact.*

RANDOLPH INITIATIVES

Within the context of the goals of the Program for the Rural Carolina, the Randolph team developed a program to deliver short-term results and build long-term capacity. As the third and final year of funding begins, the strategies and projects have evolved around the following issues:

- Job creation,
- Small business development,

Machining Technology Training – Randolph Community College.

The first strategy was a comprehensive assessment of those termed left behind. A survey for the unemployed, underemployed and at risk population was developed by a collaborative group of workforce service providers. More than 1200 individuals completed the survey of demographic, education, work experience, skill sets, and barriers to employment information.

- Grassroots leadership development, and
- Cultural and heritage tourism.

There are a variety of program activities associated with each objective. The following is a brief description of each:

Job Creation is at the heart of the program. Targeting those left behind in the changing economy for increased income, employment opportunities, and wealth meets the number one goal of the grant program. A variety of strategies have been used to advance job creation goals.

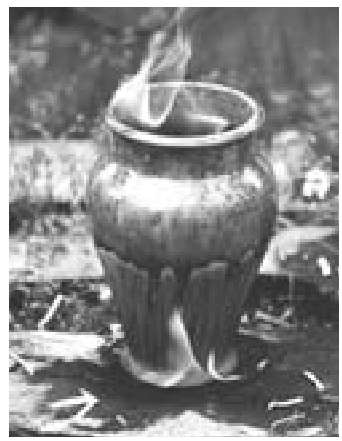
The first strategy was a comprehensive assessment of those termed left behind. A survey for the unemployed, underemployed and at risk population was developed by a collaborative group of workforce service providers. More than 1200 individuals completed the survey of demographic, education, work experience, skill sets, and barriers to employment information.

Results of the survey were the basis for a Labor Skills Analysis and Report developed by a consultant available through the Technical Assistance program. The report was presented to a group of community stakeholders that included superintendents of public education, community college representatives, workforce development providers, elected officials, economic developers and most importantly, employers from the business community.

The report and workshops received local media coverage and copies of the Executive Summary were mailed to every business employing over 25 workers, every elected official, and every classroom teacher in the county. Subcommittees have been formed from those who attended the workshops and are working to address many of the issues identified in the report.

One new initiative that grew out of the report and workshop is a partnership between the economic development corporation and two public school systems. Eighty-four vocational education teachers from the five county high schools and 26 middle school vocational teachers are participating in a series of business tours throughout the current school year. In Business Education Reality 101, teachers are required to tour five businesses from 14 tour opportunities across the county. Businesses are using the program to educate teachers about the skills and characteristics required to succeed in today's workplace. Early reviews from all parties are very positive.

Grant funds were used to support a first ever Target Industry Study for the county in partnership with the economic development corporation. Specific industry sectors were identified in a comprehensive report that matched county competitive advantages and preferences to target business sectors. The study also made specific recommendations for improvements to prepare for successful location program. The study was completed in February 2004.



Hand made pottery is a growing cottage industry and tourism attraction

The local community college has already created two new specialized training programs in biotechnology and global logistics, identified as target sectors to support training and a skilled workforce. Target sector recommendations are fueling increased emphasis on product development by local governments and the economic development agency.

Grant funds were used to purchase computer equipment and software to increase the capacity of the WorkKeys program administered by the community college. A workshop featuring keynote speakers and showcasing the WorkKeys skill development program was held in November 2004 and attended by over 90 employers and workforce development providers.

Grant funds were used to expand the On The Job (OJT) Training Program administered by the local workforce development board. Funding was put in place to support 10 additional positions on an annual basis. OJT provides 50 percent of the trainee wages for up to six months. New hires benefit from a guaranteed job at the end of the training, a quality wage, and health care benefits. Employers benefit from the subsidy during a training period when employees are typically less productive.

Finally, grant funds supported a nine-month computer training class held in the county's largest African American church. A second class is underway and two individuals in the first class have found jobs due to enhanced skills. Additional classes are planned in two other churches located in small rural areas in the county. In a true public private partnership, local utilities are providing Internet access and the local community college is providing a mobile computer lab and instructors. Grants funds offset 50 percent of the cost for the program.

A cooperative employer survey to determine short to mid term hiring plans, training needs, and skill deficits is planned for Spring 2005 using grant funds. Plans are to survey more than 950 employers.

Small Business Development is often cited as one of the most important strategies for long-term economic renewal and vitality. The Randolph team dedicated the majority of grant funding to this purpose.

The existing Small Business Center, a state program with constrained resources, was the partner. Grant funds were used to hire an additional business development specialist, doubling the capacity of the program. The newly hired specialist and other instructors participated in a train the trainer program for the REAL (Rural Entrepreneurial Action Learning) Program so that classes could be offered in multiple locations across the county. A REAL program has been developed in Spanish to serve the county's growing Latino population.

Fifteen laptop computers were purchased along with business development and business plan software to create a resource center for small business owners and entrepreneurs. The computers can be used offsite, effectively creating a mobile lab.

The Small Business Specialists have met and exceeded their goals of small business assistance, job creation, training and start-ups due to the grant assistance. Results for the two-year period ending November 2004 are:

- 30 existing businesses assisted,
- 18 new businesses started, and
- 48 new jobs created.

A feasibility study is underway to determine the need for a business incubator in the community. Grant funds are being used to support the study in partnership with the university system and state technology council. Depending on the study findings, establishment of an incubator would provide a permanent resource to support small business creation and to increase the success rate for entrepreneurs.

Grassroots Leadership Development is another vital program effort. Building leadership capacity is the focus of the second goal of the Program for the Rural Carolinas. Long-term economic vitality is contingent on leaders committed to the community's future. In many rural communities ***older*** leaders are aging or resistant to change needed for economic renewal.

A key strategy of the program is raising up a new cadre of leaders representative of the community with a commitment to collaboration. The Randolph team took the first steps in this direction with the expansion of the original grant team. That expansion brought new perspectives and ideas to the group and the grant projects.

The Randolph team is partnering with two existing leadership programs operated by county Chambers of Commerce. In a change from the traditional leadership programs, the leadership committee shortened and refocused the program format. They recruited leadership program participants from non-traditional sources including churches and non-profit agencies. The committee made a special outreach to African American and Latino population groups. One class has graduated and another is underway. A third is beginning in a rural area of the county.

Graduates of the program are supported financially with scholarships. They are encouraged to participate in the traditional leadership programs so that they can continue to advance in skills, connections, and service.

Cultural tourism is a recent addition to the grant program of work. Grant funds will be used to partner with an existing regional initiative to train entrepreneurs in cultural tourism opportunities.

Plans are to provide scholarships for 15 county citizens in cultural tourism through the 1000/100 Project. This is a statewide initiative directed at creating an empowered network of informed leaders and advocates for cultural tourism throughout the state. Additional plans include the development of comprehensive business plans for three cultural tourism enterprises. In partnership with the Small Business Center, the three entrepreneurs would complete the REAL program.

CONCLUSION

The Randolph Team has developed an ambitious program that is already yielding success in job creation, increased income, and wealth for citizens of the community. Additional grant projects are increasing capacity to continue the work and sustain the projects in the future. For grant year two, the Duke Endowment grant investment of $150,000 has generated $967,000 as return on investment in additional income and in-kind contributions.

Small business development seeds future business opportunities. Enhanced worker training and skill development empowers workers and increases their job prospects and earning potential. At the same time, businesses gain a more productive and capable workforce. Increasing the communication and connections between business and education results in students better prepared to succeed in the future workplace. Grassroots leadership development enriches, strengthens, and improves the future economic and community development of the community. Cultural tourism diversifies the local economy and builds on existing assets. Targeted business recruitment provides immediate investment and job creation and supports future growth.

The Randolph Team has developed an ambitious program that is already yielding success in job creation, increased income, and wealth for citizens of the community. Additional grant projects are increasing capacity to continue the work and sustain the projects in the future. For grant year two, the Duke Endowment grant investment of $150,000 has generated $967,000 as return on investment in additional income and in-kind contributions.

Key lessons learned include the importance of partnerships and collaboration to economic and community development. The Cycle of Development highlights the linkages and connections between various economic and civic components. Randolph County has embraced an integrated approach to the variety of grant projects. We've learned that no single strategy is sufficient, that good ideas abound if we listen. The grant resources have been deployed to meet current needs and to build for the future.

All of these initiatives have been enabled by the innovative grantmaking of the Duke Endowment. Existing organizations have increased capacity and assets. Partnerships are strengthened and new allies and partners have been developed. Each of the program initiatives is integrated and aligned to derive the maximum benefit.

As charged in the guidelines for the Program for the Rural Carolinas, Randolph County is pleased to share information and lessons learned from this program. It is our hope that our experience will benefit other communities and inspire other philanthropic organizations to consider similar innovative economic development programs.

INTERNATIONAL
ECONOMIC DEVELOPMENT
COUNCIL

IEDC'S CERTIFIED ECONOMIC DEVELOPER PROGRAM

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In most professions, **CERTIFICATION DESIGNATES A COMMITMENT AND DEDICATION TO A CHOSEN CAREER**. As accountants, lawyers, and engineers have national certifications and continuing education requirements, so do economic developers. The CEcD designation has signified the standard of excellence for over 34 years in the profession and the program represents a commitment to the field of economic development.

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"When we were looking for our executive director; our #1 requirement was that the person has the professional certification of CEcD. We wanted the director to have this designation to show how serious we were about getting the best."

Judith Rochelle, President
Pasco Economic Development Council
Land O' Lakes, FL

MAKE CERTIFICATION YOUR #1 REQUIREMENT! Learn more about the process of professional development and certification to encourage your staff and your peers to become certified. The CEcD test is intended to unite the field and establish a foundation to be considered the core body of knowledge for economic developers. Economic development professionals can begin pursuit of the CEcD designation through knowledge, commitment, and experience in economic development. Practitioners are also required to complete six professional development courses to be eligible to sit for the CEcD exam.

Amongst the eight competency areas that make up the exam are Business Retention and Expansion, Real Estate Development and Reuse and Strategic Planning. Mastering this body of knowledge helps the practitioner become well versed in all facets of economic development and serves as a powerful asset for your community.

Step up to the **"STANDARD OF EXCELLENCE"** and find out how to get your staff prepared for an upcoming exam. CEcD exam information and applications can be downloaded from the IEDC website at ***www.iedconline.org*** or ***email Kobi Enwemnwa at kenwemnwa@iedconline.org***.

Upcoming CEcD Exam Dates

IEDC and Wisconsin Economic Developers Association, Professional Developers of Iowa, Economic Development Association of Minnesota, and Illinois Development Council
May 20-21, 2005
Madison, WI

IEDC Exam in conjunction with IEDC 2005 Annual Conference
September 24-25, 2005
Chicago, IL

building a
HIGH-IMPACT BOARD-CEO PARTNERSHIP

By Doug Eadie

OFT-TOLD TALE OF WOE

The following story is drawn from real-life experience, but the names have been changed to "protect the innocent." Unfortunately, over the years I've heard basically this same tale of woe countless times.

As Eleanor Davenport walked out of the quarterly Downtown Now! board meeting late in the afternoon of December 16, she felt a now-familiar mix of futility and irritation. In theory, this was the Downtown Now! board's second most important meeting this year, when the annual operational plan and budget for the year beginning January 1 were presented and adopted. The most important board session – theoretically, anyway – took place back in March, when the Downtown Now! five-year goals were updated, kicking off the operational planning and budget preparation process. Both of these critical Downtown Now! board sessions had been well orchestrated and had gone smoothly and uneventfully – "too smoothly and uneventfully," she thought.

"In fact," Eleanor reflected, "nothing very important happened at either of these so-called milestone meetings – par for the course; we board members could disappear overnight and things would run just as well." In truth, there hadn't been much for the board to do, except to ask relatively minor questions, and you didn't want to go very far in that direction or you'd be picking good staff work to pieces. Downtown Now!'s president & CEO, Howard Pierce, and his five program heads had, as was their wont, prepared meticulously for both meetings; the five-year goals not only made sense, they were eloquently stated, and the operational plan and budget really did fit together well. "No surprise there," Eleanor thought, "they're superb at what they do, and we're really good at playing our intended role: an admiring audience of well-behaved little girls and boys."

Board members who feel like owners of their governing work will be far more satisfied and committed than board members who feel like they are basically an audience for finished staff work.

Eleanor could barely recall the excitement she had felt when Howard Pierce had called her about 18 months ago to ask if she would be interested in serving a three-year term on the Downtown Now! board, with a possible second term in the offing. Downtown Now!, a nonprofit corporation with strong backing from local government, area chambers of commerce, higher education, and the business community, was a heavy hitter in the nonprofit community, and its board – with several business and nonprofit CEOs – was widely considered a plum appointment

The founder and president of Doug Eadie & Company, a Palm Harbor, Florida, company specializing in board-CEO partnership building, Doug Eadie has worked with almost 500 clients over the past 20 years and is the author of 16 books, including " High-Impact Governing In a Nutshell." (ASAE 2004). You can contact Doug at Doug@DougEadie.com.

LEADERSHIP FOR CHANGING, CHALLENGING TIMES

This article draws on the rapidly changing field of nonprofit governance and on the author's extensive experience in providing the reader with practical, thoroughly tested guidance in building the kind of board-CEO partnership that will provide the leadership that these challenging times demand. Going well beyond the simplistic notion of governing as merely "policy making," author Doug Eadie describes three keys to building close, positive, and productive board-CEO partnerships: (1) a really "board-savvy" CEO who knows the field of governance inside-out; (2) board concentration on doing governing work that makes a real difference in the affairs of the organization; and (3) the use of standing committees to do the board's in-depth governing work.

Very talented, smart as a whip, and ambitious as all get-out, Eleanor had committed a lot of weekends and evenings to mastering progressively more responsible jobs at Midstate Bank Corporation, where she had been Senior Vice President-Strategic Business Development for the last three years. Not long after she had been promoted to a senior vice presidency, Downtown Now!'s board had decided to expand its membership, and by the time Howard had given her a call, she had already decided that the time had come to begin giving back to the community.

The Downtown Now! opportunity struck Eleanor as ideal. She now had years of high-level experience under her belt, and she felt ready to contribute at a strategic level. And Downtown Now! was the ideal venue; it was doing cutting-edge work in a critical field – economic and community development – that Eleanor looked forward to learning more about. Now, though, after 18 months on the Downtown Now! board, she was thoroughly disillusioned and quite worn down. The gap between the tremendous governing potential that she and her board colleagues brought to the board room and the basically passive-reactive role they had been playing was dramatic and insulting.

Eleanor had thought about resigning from the board, but giving up was not in her nature, so she quickly dismissed the idea. But things couldn't continue like they had for her almost two years on the Downtown Now! Board. It had become clear that Howard Pierce, no matter how capable he was at executive management or what an expert he was in economic and community development, would not take the lead in helping the board find a more meaningful role in Downtown Now!. Several board members had approached Howard over the past few months to share their frustration and dissatisfaction, but he responded by getting defensive and asking what he and the staff were doing wrong. "He just doesn't seem to get it," Eleanor thought, "and much as I hate to think about it, we just may need to send Howard on his way and find ourselves a CEO we can work with."

GETTING ON THE HIGH-IMPACT TRACK

Even though I have seen variations on the sad scenario you have just read many times in nonprofits of all shapes and sizes, including economic development organizations, this tale of woe is by no means inevitable. We have learned a tremendous amount in recent years about building the kind of high-impact board-CEO partnership that makes a significant difference in organizational affairs, provides deep satisfaction to board members, and is capable of withstanding considerable stress and strain. If there is the will to develop a truly high-impact board-CEO partnership in your economic development organization, the way now exists, as this article will show.

There are compelling reasons for your organization's board and CEO to embark on the partnership building road. Above all else, these tumultuous times – always changing and challenging – demand the kind of high-impact governing judgments and decisions that depend on a truly solid board-CEO partnership. Without such a partnership, you will be far less able to capitalize on the wealth of knowledge, experience, expertise, and diverse perspectives that board members bring to the boardroom. A strong, enduring, and productive partnership also breeds organizational stability, laying an essential foundation for your organization's future growth. As you have no doubt learned, a contentious board-CEO relationship can quickly erode internal morale and seriously impede progress. And, from the CEO's perspective, a solid board-CEO partnership provides indispensable backing for tough CEO decisions and ambitious CEO initiatives, not to speak of its impact on CEO professional longevity.

Boards without solid board-CEO partnerships are far less able to capitalize on the knowledge, experience, expertise, and diverse perspectives that board members bring to the boardroom.

There are three primary keys to building a successful board-CEO partnership:

1. A board-savvy CEO who brings a positive attitude to partnership building and is a real expert in the governing "business,"
2. Proactive board involvement in doing high-impact governing work, with the strong support of the CEO and executive management team, and
3. The use of well-designed board standing committees in accomplishing the detailed governing work of the board.

THE BOARD-SAVVY CEO

Truly board-savvy CEOs share four primary characteristics in my experience:

1. They bring a constructive attitude to their work with the board.
2. They make their board and its governing work a top CEO priority.
3. They play the leading role in developing their board's governing capacity.
4. They take advantage of every opportunity to turn their board members into owners of their governing work, rather than just an audience for executive work.

Non-board-savvy CEOs can expect a rocky ride with their boards, and more than a few are likely to be sent packing early in their tenure. Indeed, there is good reason to believe that dissatisfied boards are the preeminent factor in premature CEO mortality (professionally speaking, of course, although the extreme emotional stress that a failed relationship can cause might also be a health threat). The good news is that any CEO can learn to be a savvier partner with the board, even if he or she lacks practical experience. And even if a CEO is the kind of "control freak" to whom partnering with the board does not come naturally, experience has taught that new behaviors can be learned and practiced, even when they feel counter-intuitive.

BRINGING A CONSTRUCTIVE ATTITUDE

If a CEO brings a defensive attitude to the partnership building game, it is basically lost before it has begun. Board-savvy CEOs really do want their board to be both a strong leader, making truly high-impact governing judgments and decisions, and a real partner. When board-savvy CEOs look at their board, they see a tremendous resource – knowledge, experience, political clout, community connections – and they embrace with real gusto the challenge of helping their board translate its tremendous leadership potential into practice in making governing decisions.

Board-savvy CEOs are not preoccupied with rules and boundaries in the governance realm. Rather than spend time worrying about protecting themselves and their executives from the specter of possible board incursions into the administrative realm, board-savvy CEOs make capitalizing on their board as a precious resource a top priority. This is not to say that they do not pay some attention to a sensible division of leadership labor between their board and themselves and their executives, but their starting point - and preoccupation - is building a cohesive team that marries the resources of the board, CEO, and executive team in providing the strong organizational leadership required to succeed in challenging times.

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MAKING THE BOARD A TOP PRIORITY

Board-savvy CEOs devote considerable "quality" time to board matters, spending at least 20 percent of their time on the average to supporting the board and managing the board-CEO partnership. Early in my consulting career, the CEO of a county economic development commission shared a practical approach that I have seen work for many other CEOs over the years. "I think of myself," she said, "as wearing two preeminent 'hats' in my CEO role. Of course, as the commission's executive director, I'm accountable for all internal operations, and I share the external relations bailiwick with my board chair."

She went on to say, "But I wear another hat; I'm executive director of what I call my 'board program.' I'm responsible for making sure that the board functions at a high level as my governing body. One way I handle the board program is setting aside a couple of hours every weekend to focus on the 'board program' exclusively. I ask myself how the board is performing, I think about board development needs, I identify interpersonal issues between me and the board or particular board members, and I brainstorm new board development targets and strategize how to address relationship issues."

Making the board a top CEO priority also means becoming a real expert in the rapidly changing field of public/nonprofit governance. For example, a truly board-savvy CEO I know recognized the need to master the board "business" by building a library of books on boards and subscribing to periodicals with serious articles on governance (for example, the *Harvard Business Review*). He also asked his assistant to keep her eyes open for educational programs on governance being offered at national conferences and by such organizations as BoardSource.

BUILDING BOARD CAPACITY

The board-savviest CEOs that I have worked with over the years have not been content to sit back and let their board struggle to develop as a governing body. Recognizing that as unpaid volunteers with demanding lives off the board, their board members cannot be expected to take the lead in developing the board's capacity, these board-savvy CEOs take on the job of "chief board developer" in addition to their other executive duties. In this capacity, they work closely with the board in developing its governing role and work and its governing structure, drawing on advances in the field of public/nonprofit governance. Of course, playing this role effectively requires that CEOs really do become experts in the field.

Wearing the chief board developer hat more often than not involves the CEO in leading from behind, rather than attempting to take the lead directly in board development. For example, the CEO of a regional business development alliance took the trouble to educate her new board chair on developments in the field of governance, sharing articles and chatting over breakfast and lunch on a number of occasions, and she was able to convince her chair to embrace board development as one of the top priorities of his two-year term. This led to the chair's appointing – at the CEO's urging – a task force of five board members and the CEO that was charged to assess the board's governing processes and structure and to come up with practical recommendations for strengthening board leadership.

The CEO played an active role in supporting the task force, making sure that it carried out its charge in a full and timely fashion. For example, she found a governance consultant with a strong track record in similar efforts to facilitate task force deliberations, made sure that task force members were provided with a thorough orientation on developments in the governance field, and worked very closely with the consultant in crafting recommendations for task force consideration. Leading from behind to the very end of the process, the CEO saw to it that task force members were provided with a PowerPoint slide presentation to employ in making their recommendations to the full board, and even set up a rehearsal session so they could do a trial run before the board meeting.

Board-savvy CEOs know that board members who feel like owners of their governing work will be far more satisfied and committed than board members who feel like they are basically an audience for finished staff work, and being owners will make them better partners. They also know that owning something, for example a mission statement they are being asked to adopt, requires playing a proactive and creative role in shaping it, not merely reviewing it. So these board-savvy CEOs aggressively search out opportunities to involve board members in ways that are likely to make them feel like real owners.

TURNING BOARD MEMBERS INTO OWNERS

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For example, the executive director of a worker re-training center, which was jointly operated by the local community college and chamber of commerce, helped his board's planning and development committee re-design the agency's annual operational planning/budgeting process to foster stronger board ownership in the planning process. Specifically, the committee and executive director came up with the idea of a "pre-budget" work session involving the full board as a vehicle for substantive input into budget development early in the planning process, three months before the complete budget document would normally be submitted to the board for review.

This highly successful event, which has subsequently been institutionalized as a standard part of the annual operational planning process, included the following key elements:

- Discussion of next year's operational performance targets for each major program, based on a slide presentation by each program head,
- The identification and discussion of significant operational issues that deserve special attention in preparing next year's operational plan and budget (for example, a high drop-out rate in one of the training programs; placement problems in a particular sector; the inability to recruit enough students to reach the break-even point in one of the programs), and
- The discussion of possible significant expenditure increases.

This board-savvy executive director made sure that the pre-budget work session discussion was captured in a carefully prepared summary of main points, which the board's planning and development committee polished and issued as guidance in detailed budget preparation. By the time the completed budget was submitted for review, board members clearly felt like owners of the process, not just passive reviewers.

HIGH-IMPACT GOVERNING WORK

Governing is a special category of volunteering – and the primary mission of a board of directors. Boards typically do more than govern. For example, many boards involve their members in non-governing activities such as raising money, representing their organization in external forums (testifying before legislative committees), planning conference educational programs, and more. There is nothing inherently wrong about board members doing non-governing work, just so long as it does not interfere with their primary mission: to govern your organization.

Involving your board creatively and proactively in doing governing work that makes a real difference in your organization's affairs is one of the most important avenues to board member satisfaction, and consequently to a stronger board-CEO partnership. However, many boards read and talk a lot, without doing much in the way of serious governing – not because board members do not want to do a good job, but because they do not have a firm grasp of the what and how of governing work. You should not underestimate how frustrated and irritated board members can become over time when they are not regularly and systematically involved in doing serious governing work. In interviews over the years, hundreds of board members have told me how dissatisfied they feel about their role and how their commitment has suffered as a result.

So what is the work of governing an economic development organization? At the highest level, governing an organization involves answering three fundamental questions by making judgments and decisions over and over again, in partnership with the CEO and executive team:

1. Where should my organization be headed and what should it become over the long run?
2. What is my organization right now and over the coming year?
3. How well is my organization doing – in terms of both programmatic and financial performance?

Now the judgments and decisions that a board makes when it is doing governing work are about concrete documents and governing "products" that tend to flow along three broad governing streams: (1) strategic and operational planning/budget preparation; (2) performance oversight and monitoring; and (3) external relations. For example, in the planning stream of governing, boards make decisions about such products as an updated vision statement, a set of core values, strategic change initiatives, and that familiar old friend, the annual budget. In the performance oversight and monitoring stream, boards make judgments about financial reports and decisions about operating policies. And in the external relations stream, boards deal with such products as a desired image and stakeholder relations strategies.

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High-impact governing boards have a firm grasp of the documents and products that deserve their regular, in-depth attention, and they work closely with the CEO in mapping out processes that will involve them creatively and proactively in shaping the most important products. As a result of this collaborative process design work, board members are able to make a significant difference, consequently feeling deep satisfaction and becoming better partners with the CEO. The following real-life story (disguised) demonstrates the power of board-CEO collaboration in mapping out a creative board role in governing.

Two years earlier, the working relationship between Ina Crawford, executive director, and the board of the Pleasantville Development Corporation was badly frayed and growing worse by the day. The new board chair, William Bennett, and four other members of the 15-person board, having grown increasingly frustrated and irritated, were up in arms about the board's largely passive role in the Corporation's planning process, which, as one board member observed during a heated discussion after a board meeting, "makes us feel like we're an audience, not really leaders. Our job is appar-

ently to thumb through well-crafted planning documents that are basically finished. We can ask questions, but if we try to make major changes, we're made to feel like we're meddling in Ina's business – kind of like barbarians at the gate. So we raise relatively minor questions that patently don't make a real difference in the scheme of things."

Initially thrown off balance by the vehemence of the criticism and feeling more than a little defensive, Ina at first felt like circling the wagons and fending off this attack on her executive prerogatives. She had always believed that one of the 24-carat golden rules for strong CEOs was to produce finished documents for the board that would stand up to the severest scrutiny. After all, wasn't that the sincerest form of respect for the board? "Finished staff work" was the mantra that she had heard repeated countless times as she climbed the ladder to the CEO's office.

Fortunately, Ina, although combative by nature and a jealous guardian of her CEO prerogatives, resisted her instinctive urge to do battle, deciding instead to try to understand where William and the other critics on the board were coming from and to be open to creative solutions. It did not take her long to see their point. Taking a close look at how the organization was handling strategic planning, which – in theory anyway – was supposed to be the vehicle for board direction setting at the highest level, she realized how wide the gap between theory and practice was. The last time the "five-year plan of advancement" was updated, some five months ago, the Corporation had employed a consultant to work with the executive team in updating long-range goals and mapping out broad strategies to achieve them.

Truth be told, the 55-page document that went to the board was, indeed, largely finished, and the changes that were made over the course of three committee-of-the-whole work sessions were essentially cosmetic. Reflecting on the experience, Ina realized that her board hadn't made much of a difference and, if she had been in their place, she would have been pretty dissatisfied herself, and probably eventually angry as well.

Taking the initiative by meeting with William, Ina proposed that he appoint an ad hoc committee of three board members, with whom she and her associate director for planning and development would work in coming up with a more creative and satisfying board role in planning, especially of the strategic ilk. The resulting gameplan involved two key reforms that subsequently turned the situation completely around:

- *First, the board agreed to create a standing committee – "Planning and Development" – that would be responsible for annually reaching agreement with Ina on the planning calendar - focusing on points of intensive board involvement.*
- *Second, the board decided to participate in an annual 1½-day "strategic work session" to kick-off the planning cycle. Involving the CEO and all members of her executive team, the session focused on revisiting the Corporation's vision for the future, on identifying critical issues facing the Corporation, and on brainstorming possible "change initiatives" to deal with the issues. The new planning and development committee is formally responsible for following-up on the annual session, basically by working closely with Ina and her executive team in selecting the strategic issues demanding attention during the coming year and reviewing – and recommending to the full board – the "change initiatives" that staff developed to deal with the selected issues.*

Opening up the planning process to more creative board involvement went against Ina's gut instinct and what she had been taught coming up the ladder, but it paid handsome dividends. Not only had Ina actively and creatively collaborated with the board in re-designing the planning process, she had also taken the trouble to familiarize herself with contemporary thinking in the field of strategic planning, which, she learned, had moved well beyond old-time comprehensive long-range planning. Ina had also prepared herself for her planning work with her board by seeking out real-life examples of creative, substantive, and satisfying board involvement in planning that might provide her and the board with a model of sorts to follow.

THOSE GOVERNING ENGINES

The topic of board standing committees might not grab your imagination or send shivers of excitement up and down your spine, but you would be well advised not to underestimate the powerful contribution that these "governing engines" can make to high-impact governing – or the harm that poorly designed committees can do. Although there is some debate about whether it makes sense for a board to have standing committees, the question is settled in my mind. I have never seen a truly high-impact board that functioned without well-designed standing committees. However, poorly designed committees can bedevil board members and CEOs, making it extremely difficult to govern at a high-level and turning boards and CEOs into unwitting victims of bad structural design.

Well-designed standing committees can strengthen your board's governing performance and the board-CEO partnership in four major ways:

1. Committees promote technically sound governing decisions, primarily by enabling board members to get into governing matters at a level of detail that the regular board meeting does not allow. For example, in following up on the annual strategic planning retreat, your planning committee can pay close attention to refining the values statement that was brainstormed at

the retreat, putting it in final form for recommendation to the full board.

2. Committees build feelings of ownership and accountability among board members through their detailed involvement in addressing governing issues, taking pressure off the CEO to be the only source of action recommendations to the full board.
3. Committees can serve as a very effective vehicle for refining and strengthening the board's governing processes. For example, a few weeks ago I observed the deliberations of a board performance oversight committee, which resulted in a re-formatted quarterly financial report that was much easier for board members to understand and to use.
4. Committees can also help to build a more cohesive board-staff working relationship by facilitating sustained interaction of a less formal nature not possible at regular board meetings. They can in addition strengthen the board-CEO partnership by enabling the CEO to develop strong working relationships with committee chairs.

COMMITTEE DESIGN

The primary job of a board standing committee is to prepare for full board meetings, ensuring that informational briefings and action recommendations are ready for full board review and decision-making. If a standing committee is to play this important role in a full and timely fashion:

- It must be organized along governing – not programmatic or administrative – lines, corresponding to the flow of governing decisions and "products"; and
- Its purview must be organization-wide, cutting across all programs, functions, and organizational units, thereby enabling the board to exercise what I call "horizontal discipline" in its governing work.

Two broadly constituted committees that meet these two criteria have proved to be indispensable "governing engines": planning (often called planning and development, or planning and program/business development) and performance monitoring (often called performance oversight or management oversight). Your board's planning committee would be responsible for assisting the board in dealing with a wide variety of planning decisions and "products" – everything from updating your association's values and vision statement to adopting the annual operational plan and budget. Your board's performance monitoring committee would be responsible for assisting the board in assessing on an ongoing basis how well your organization is performing financially, programmatically, and administratively. You can easily see that these two committees satisfy the horizontal discipline criterion: planning covers all planning that your organization does; performance monitoring monitors all activities going on in your organization.

Virtually all boards have an executive committee, consisting of board officers and/or the chairs of the other standing committees. The problem with the traditional executive committee is that it is often treated as a mini-board, which basically screens all information going to the full board, thereby more often than not alienating other board members, who feel less important and out-of-the-loop. Many boards in recent years have turned their executive committee (frequently called the "governance" committee these days) into a committee on board operations, rather than a mini-board, whose primary responsibility is to make sure that the board is functioning smoothly as a governing body.

AVOID THE SILOS

Violating the key design principle that standing committees should correspond to the board's governing work, rather than to the programmatic and administrative work of your economic development organization, is a sure-fire way to reduce your board's governing performance, and consequently to damage the board-CEO partnership. Two types of dysfunctional committees stand out as enemies of high-impact governing: (1) "tip of the administrative iceberg" committees that correspond to narrow administrative functions – for example, finance and personnel; and (2) "program silo" committees that correspond to major programs or services that your organization provides – for example, education and training; the revolving loan program; the downtown beautification program; the business retention program, and the like.

Rather than enabling your board to exercise horizontal discipline in carrying out its governing work, these poorly designed committees narrow

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your board members' perspectives, chopping their governing work into little pieces that do not add up – not unlike the proverbial blind person who sees an elephant as only an ear, a trunk, a tail, or a foot – but missing the whole elephant. This poorly designed structure will inevitably turn your board into a collection of technical advisory committees, in the process actually inviting board meddling in administrative and programmatic detail.

SOME TRIED AND TRUE GUIDELINES

The following guidelines – thoroughly tested in practice – have helped standing committees function at a high level in supporting and facilitating high-impact governing in economic development organizations and other nonprofits:

1. Every board member should serve on one and only one standing committee – with the exception that when one is serving as a committee chair he or she will also serve on the executive or governance committee. If any board members are allowed to avoid committee service, not only will you create a caste system (those who must participate and those who are too important to have to), but where smaller boards are concerned one or more committees might drop below a "critical mass" of members.
2. Only board members should serve on board standing committees. Although non-board volunteers can make a valuable contribution by serving on non-governing committees and task forces, adding them to board standing committees is a sure way to dilute board accountability and erode board credibility. Nothing prevents a standing committee from making use of non-board volunteers by establishing special sub-committees and task forces that report to the board standing committee. For example, the planning committee of an economic development corporation board created a vision and values task force consisting of non-board volunteers who carried out their planning work under the aegis of the planning committee.
3. The standing committees must be the only path to the full board agenda. This is a massive calcium injection, ensuring that committee work is taken seriously and that committees don't degenerate into mere discussion groups.
4. All reports at full board meetings must be made by committee chairs and other committee members, with the sole exception of the CEO's regular report. This simple requirement not only fosters committee members' ownership of reports and recommendations to the board, but also ensures that committee members do their homework (not wanting, of course, to be embarrassed in public). There is the added benefit of the ego satisfaction that comes from committee members' visible leadership at board meetings.
5. The CEO should assign a senior executive to serve as chief staff to each committee, in this capacity ensuring that the committee is provided with the staff support required to carry out its governing work in the full and timely fashion .

IN CLOSING

There are compelling reasons to devote serious time and attention to building a high-impact board-CEO partnership in your economic development organization. Not only does your organization need the high-impact governing decisions that such a partnership generates, effective CEO leadership depends on the partnership. This article has discussed three critical keys to building such partnerships: (1) a CEO who is really "board-savvy," bringing the right attitude and knowledge to working as an active partner with the board; (2) meaningful board involvement in doing high-impact governing work that makes a serious difference; and (3) use of a board standing committee structure that reflects the actual governing work that the board is doing, rather than corresponding to narrow programmatic or administrative silos.

premises and
PERFORMANCE OF HEADQUARTERS HOTELS

By Heywood T. Sanders

Houston's George R. Brown Convention Center

The number of major convention venues across the country has grown from 226 in 1987 to 254 by 1996, and ultimately 301 by 2003. And in parallel, the supply of convention center exhibit space has grown – from 40.4 million square feet in 1990 to 63.6 million in 2004.

The result of the boom in new and expanded convention center space is an increasingly competitive environment, one in which cities from Boston to Seattle have sought to gain convention business and the new visitors and visitor dollars that business ostensibly brings. These major cities have been joined more recently by communities such as St. Charles, Missouri; Lombard, Illinois; and Omaha, Nebraska, all of which seek the presumed economic benefits of a share of the national convention market.

As the convention competition has intensified, a great many communities have been advised by industry consultants that a large, new convention center is not enough to successfully compete—a local convention center must be served by a large, adjacent headquarters hotel of 500, 800, or 1,000 rooms or more. Absent such a headquarters hotel, the argument goes, a convention center will be unable to reach its full potential as a economic generator for the community.

The *private* development of such a major headquarters hotel has become quite problematic. Houston sought the development of a major hotel adjacent to its George R. Brown Convention Center even before the center's opening in 1987. Yet even

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CONSULTANT MIS-ESTIMATES AND MARKET REALITIES

A large and growing number of cities have implemented economic development efforts featuring a new or expanded convention center. As the competition for conventions and tradeshow events has become increasingly severe, many cities have been advised that success in the market demands a major, adjacent "headquarters" hotel. In the absence of private investment, the public sector has assumed a new role in directly financing and owning these hotels. The performance of public hotels in such places as St. Louis, MO; Houston, TX; and Myrtle Beach, SC raises significant questions about both the reliability of consultant forecasts and the capacity of local officials to fully assess market risk.

with a variety of local subsidies and new state legislation providing for a rebate of hotel-generated taxes, the city found no private developer who could make a new hotel happen. Largely dependent on the local convention center and obliged to compete with other, lower development cost hotels often in suburban locations, a major full service downtown hotel represented a serious credit risk. Houston's failure to secure a privately-financed (albeit subsidized) headquarters hotel has been repeated around the country. So the city of Houston went into the hotel business.

Houston created a non-profit entity to build its new 1,200-room Hilton Americas hotel, and financed it with city-issued tax-exempt bonds in 2001. Houston thus joined Chicago, Sacramento, Myrtle Beach, Austin, and St. Louis in a growing roster of cities that have gone into the business of hotel ownership. More recently, that list has expanded to include Denver; Omaha; Branson, Missouri; and Schaumburg, Illinois. Phoenix plans to use city bond financing for a 1,000-room hotel adjacent to its expanding Civic Plaza convention center. Washington, DC, Baltimore, Raleigh, Portland, San Antonio, and Dallas are all contemplating publicly-financed and owned headquarters hotels.

The central logic of the need for an adjacent headquarters hotel has been laid out in a score of consultant studies and presentations for cities around the country. Faced with a highly competitive convention center market, the argument goes, meeting planners are in a position to demand a large number of reasonably priced hotel rooms in a single "headquarters" hotel convenient to the center. They are unlikely to be satisfied with spreading their attendees over a multitude of properties, in a situation that requires the use of shuttle buses to move attendees between the center and multiple hotels.

At the same time that these cities and others are going into the hotel business, the recent performance record of publicly-financed headquarters hotels should raise serious concerns for economic development professionals and local officials. Myrtle Beach was recently obliged to refinance its debt for the Myrtle Beach Radisson hotel, paying bondholders a premium and backing new bonds with a commitment of citywide hotel taxes. The refinancing was necessary because the hotel had consistently underperformed forecasts in its first year of operation, generating a $1.75 million operating deficit before paying debt service, rather than the projected $6.1 million profit. In St. Louis, the 1,081- room Marriott Renaissance has seen its $98 million bond issue downgraded by Moody's in December 2003 and again on August 30, 2004, as the hotel failed to make an operating profit *before debt service* during the two years it has been open. And in Overland Park, Kansas, the 412-room publicly-owned Sheraton that was forecast to generate $8.4 million in net income in 2004 realized only $4.4 million. The city has thus been obliged to subsidize the $6.8 million annual debt service on the Sheraton's bonds with citywide hotel tax revenues, for a total of $3.2 million for 2003 and 2004.

Some public hotels, including the Sacramento Grand Sheraton, have succeeded to date in repaying their debt obligations and operating profitably. But they have simultaneously failed to boost local convention center business. The relative success of the hotel has come because the larger local hotel market generated sufficient demand, not because meeting planners flocked to the combination of headquarters hotel and convention center.

For cities like St. Louis and Myrtle Beach, the failure of a new headquarters hotel to boost the city's convention center can have a number of broader implications. First, the publicly-financed hotel itself is likely to face revenue problems, including problems sufficiently severe as to make it impossible to repay the project's bonds. That may require use of broader city credit enhancements or revenue streams, including citywide hotel taxes. Even where the hotel can repay its debt, a failure to boost convention business means that the headquarters hotel is filling its rooms with other local demand—demand that is probably coming at the expense of other area hotels. Thus an underperforming public hotel runs the potential risk of dragging down rates and occupancy at a host of other hotels, potentially impacting overall city hotel tax revenues and the profitability of privately-owned hotels. Indeed, faced with the need to both fill rooms in a publicly-owned hotel and attract conventions, one city's convention marketers were pressed to support the hotel, selling it rather than the convention center, at an obvious cost in local convention business. The hotel can thus become not a boon to a convention center, but a kind of civic albatross.

LOGIC OF THE HOTEL-CONVENTION CENTER LINK

The central logic of the need for an adjacent headquarters hotel has been laid out in a score of consultant studies and presentations for cities around the country. Faced with a highly competitive convention center market, the argument goes, meeting planners are in a position to demand a large number of reasonably priced hotel rooms in a single "headquarters" hotel convenient to the center. They are unlikely to be satisfied with spreading their attendees over a multitude of properties, in a situation that requires the use of shuttle buses to move attendees between the center and multiple hotels. Without such a headquarters hotel, the public investment in even a major new center is unlikely to reach its full potential. With such a hotel, the city is ostensibly in a position to compete with other prime destinations for the economic impact of expanded convention business. In the words of one consultant,

> *For a community to be competitive in the industry, a convention center alone will not suffice. Clearly, the destination package must include a solid-quality convention hotel.*

Another consulting firm has presented evidence from a survey of national meeting planners that indicated that with only a 400-room adjacent hotel, Boston's new Convention and Exhibition Center would be able to interest only 26 percent of the 100 top planners. But with an adjacent 1,200-room hotel, the proportion of positive responses from meeting planners grew to 85 percent. That *expressed* preference on the part of a group of meeting planners does not necessarily translate into an actual *choice* by planners for one destination over another. Yet the logic of the headquarters hotel has been remarkably persuasive in cities across the nation.

A number of major convention destinations, including Anaheim, Orlando, Atlanta, and New Orleans either saw privately-financed headquarters hotels develop in an earlier period, or were able to take advantage of federal, state, or local government subsidies to assist private development. Thus a city like New Orleans, with a 1,641- room Hilton hotel adjacent to its Morial Convention Center would appear to offer a prime convention package. Boston was able to add both a Westin hotel and a Marriott hotel connected to its Hynes Convention Center with federal Urban Development Action Grant (UDAG) aid during the 1980s. UDAG funds as well as city financing subsidized the development of Baltimore's Hyatt Regency, connected to the Baltimore Convention Center. The UDAG program also aided new hotels linked to convention centers in LaCrosse, Wisconsin; Oakland, California; Fort Worth, Texas; and Minneapolis, Minnesota. These cities have presumably been able to profit from the "catalytic" combination of hotel and convention center.

But new convention center hotel development became increasingly difficult after the mid-1980s. The hotel market was overbuilt in a number of communities, and the inevitable downturn in occupancy and room rates that coincided with the economic downturn in 1991 made evident the risks in a large hotel with high development costs effectively dependent on the business and convention market. Private developers and particularly lenders grew unwilling to support such projects without public subsidies. But even with the promise of subsidy, a number of private hotel plans failed.

Overland Park Sheraton Hotel

In San Antonio, a proposed 1,500-room Sheraton hotel was offered some $16 million in tax abatement assistance under an agreement in 1997. But Starwood Hotels and the Related Companies spent some five years seeking long term financing, eventually failing. The city has since put out another request for hotel development proposals, this time for a 1,000-room hotel, to be supported with some $130 million in federal empowerment zone debt and the possibility of broader public assistance. The stories have been quite similar in Austin, Denver, Baltimore, Washington, and Fort Worth—a lengthy search for a privately-developed hotel that ultimately failed, largely due to the perceived development risks.

Without the possibility of private development financing, local officials have turned to public financing through tax-exempt bonds, often issued by a nonprofit entity created by city government. These bonds are most commonly backed by the revenues from the hotel itself, often supplemented by a broader local guarantee or revenue source. In one of the earliest such cases, the Metropolitan Pier and Exposition Authority, owner of Chicago's McCormick Place Convention Center, sold $127.4 million in revenue bonds in February 1996 to build an 800-room hotel adjacent to the center and to be operated as a Hyatt hotel. The authority refunded the bonds in 1999, folding the hotel debt into its broader pool of debt issues, to be repaid by all of the authority's revenues. For Houston's new Hilton Americas hotel, the debt for the new hotel was combined with the funding for an expansion of the convention center, and both public projects were financed with the revenues from the hotel and its taxes, citywide hotel occupancy taxes, and the city's parking revenues.

The logic of the headquarters hotel has thus propelled a growing number of cities into the hotel business, with all the risks, uncertainty, and exposure to both local market forces and broader economic factors that affect hotels. Yet there has been remarkably little empirical evidence assessing the performance of both a headquarters hotel and its adjacent convention center that sustains the notion of a hotel's role as "catalyst." Take the case of Chicago's Hyatt McCormick Place.

THE CASE OF THE HYATT MCCORMICK PLACE

The Hyatt McCormick Place, an 800-room hotel built and owned by the Metropolitan Pier and Expositions, has been regularly employed as an example of a publicly-financed headquarters hotel that has succeeded both in terms of hotel operations and support for a convention center. In the words of a 2002 article,

> The results have been successful for hotel performance and McCormick Place. The hotel has covered its bond obligations and the city has retained the vast majority of its largest shows, which continue to expand. Others have been attracted to the market.

Another consulting firm has described the hotel as achieving an occupancy rate of 45 to 50 percent in the last half of 1998 following its June opening, and an occupancy rate of 60 to 65 percent for 1999.

The December 1995 market and feasibility analysis that supported the bonds for the new Hyatt clearly embraced the logic of the headquarters hotel, arguing that the 800-room facility would "strategically complement the expanded MPCC complex, strengthening its position as one of the leading tradeshow exhibition and convention facilities in the U.S. and the world." The study went on to conclude that the new hotel would boost the count of major (*Tradeshow Week* 200) events at McCormick from a base of 23 to 26 by 2003, while adding another nine new smaller conventions or tradeshows. That would add some 180,000 new hotel room nights to the activity generated by the convention center as a result of increased attendance.

Those new room nights were in turn the market base for the new hotel. The study assessed that the new hotel would manage some 210,000 room nights annually, yielding an occupancy rate of about 72 percent at daily room rates of about $150.00. These forecast figures are somewhat larger than those reported by consultants. Unfortunately, the Metropolitan Pier and Exposition Authority does not publicly report on the performance of the hotel. It is possible, however, to see if the Hyatt yielded the promised boost to McCormick Place's annual volume of *Tradeshow Week* 200 events and attendees, as well as its overall activity.

McCormick Place actually hosted 24 of these "200" events in 1995 and 1996, even before the hotel opened. With the hotel open in mid-1998, the "200" event total hit 21 for 1998 and 22 for 1999. The count then fell to 21 in 2000, 20 the next year, and 19 in 2002. For 2003, the center managed 25 "200" events. Attendance for the pool of "200" events fell as well. From a peak of 1.14 million in 1996 (prior to the hotel), attendance dropped to 831,163 for 1999, 639,567 in 2001, and recently 767,207 for 2003.

A parallel pattern is evident in data on McCormick Place's overall attendance, including conventions, tradeshows, and public or consumer events. From a total of 3.2 million in 1995, attendance fluctuated around the 3 million mark until 2001. In 2002, it dropped to 2.67 million, followed by 2.5 million in 2003.

The new Hyatt hotel was not, in and of itself, capable of providing the boost in *Tradeshow Week* 200 events and attendance, or overall attendance, implied by the logic of the headquarters hotel or its own feasibility study. In a highly competitive convention market, the hotel may have been a "plus" particularly for medium sized events. But it has not had the anticipated, or oft-described, impact of boosting the city's convention and tradeshow business. At the same time, the Hyatt itself may well be performing reasonably, supported by the overall hotel demand at McCormick Place, and by other business and leisure travelers.

FROM CHICAGO TO ST. LOUIS AND BEYOND

The choice by local governments and elected officials to go into the hotel business, with the prospect of substantial rewards in terms of new convention business and the risk of serious financial exposure and project failure, is commonly supported by one or more feasibility or market study. These studies, most commonly performed by outside consultants, tie the broad logic and arguments for the power of the headquarters hotel to the specific conditions and circumstances of an individual community and its market. They generally include a review of the performance of the local convention center and its prospects, an assessment of the size and character of the local hotel market, and some specific estimates of the likely performance of a new hotel, both in terms of the hotel's own revenues, spending, and debt coverage, and the performance of the convention center. It is these market studies that provide the underpinning for the viability of the hotel's debt (and its appeal to potential investors), as well as the justification for public hotel investment. The public hotel is typically described in terms of its limited risk, the certainty of its performance, and (as in the case of the Chicago Hyatt) the community-wide benefits of increased convention activity: greater visitor spending, more jobs, increased tax revenues.

These market studies play a crucial role in the development of new public headquarters hotels. They provide the only real local application of the logic of headquarters hotel development, and thus a critical test, both for public decisionmakers and for the bond market, of the potential merit and reasonableness of investments of hundreds of millions of dollars. Where private hotel developments or public-private partnerships have failed to gain the needed investment capital, the feasibility study becomes a necessary bulwark against local booster enthusiasm or a misreading by public officials of market realities.

A market and feasibility study completed in September 1989 concluded that the expanded convention center would "substantially increase convention business available to the proposed convention headquarters hotel," boosting overall hotel demand downtown from 1.22 million room nights in 1988 to 1.76 million room nights (with the hotel and expansion) by 1997. Based on that projected increase in business, the market study recommended an 1,100-room headquarters hotel. It concluded that the hotel would achieve 62 percent occupancy its first year (then assumed to be 1993) growing to 72 percent, with current dollar room rate after a few years of $147.00.

The apparent specificity and certitude of these market studies convey a sense of predictability and limited risk. For example, an analysis for the city of Denver concluded that a new 1,100-room hotel combined with a center expansion would boost annual convention events from 41 to 57, adding almost 300,000 new hotel room nights, thus enabling the hotel to reach 75 percent occupancy and a room rate of $179.58 by 2009. But if the studies rely upon inappropriate or inaccurate data, employ flawed assumptions, or apply untested methodologies, their value in predicting hotel performance and their relevance to the decisionmaking process is sharply reduced, if not rendered fully useless.

ANATOMY OF ERROR I: ST. LOUIS

St. Louis's new convention center headquarters hotel, the Renaissance, was fully opened in early 2003. Built at a cost of $265 million and financed by $98 million in federal empowerment zone bonds, about $80 million in city bonds, state historic preservation tax credits, and supported by a state-financed garage, the hotel's rocky development process had spanned almost 15 years. The city had long embraced the logic that a major hotel adjacent to its America's Center convention complex (including the Edward Jones dome) was vital to its success. In the words of former Board of Aldermen President (now mayor) Francis Slay:

> You can't look at the hotel by itself. We've got a tremendous investment in the convention center. The hotel will help us get a better return on that investment and help it reach its potential.

The city's search for a major new hotel actually began in the late 1980s, as local officials promoted an expansion of the existing Cervantes Convention Center and anticipated a new domed stadium designed to lure an NFL team back to St. Louis. Those major new public investments were seen as a major boost to the city's convention and tourism market, to be complemented and supported by a large new hotel.

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Despite that positive consultant forecast, St. Louis encountered continuing problems in getting a private developer who in turn could secure long term financing for the hotel. As development plans faltered, the cost of the hotel rose, from about $125 million to more than $250 million, and the scale of public subsidies rose as well. But the commitment of local convention and visitors bureau officials, downtown leaders, and a succession of mayors to the hotel scheme never wavered. The St. Louis Convention and Visitors Commission argued that the proposed hotel would boost the count of major conventions in the city from 33 (in 1998) to more than 50. And the convention group's analysis estimated that convention-related hotel business would grow from 413,676 room nights in 1998 to 800,000 for 2004.

The penultimate market study for the new headquarters hotel was completed in September 2000 and included in the material provided to potential bond purchasers. That study fully embraced the notion that the proposed hotel would boost the city's convention business, repeating the contention of the Convention and Visitors Commission that the city could anticipate doubling its convention-related hotel activity, to 800,000 room nights a year. Indeed, the study concluded that the combination of natural market growth and the new hotel would boost the downtown meeting and group market by 401,911 room nights annually by 2005. That would provide the new hotel with an occupancy rate of 62 percent its first year at an average daily rate of $130.50, increasing to 69 percent and $136.00 for 2004. With those estimates, the consultant study went on to project first year net income of $11.4 million and regular income growth in subsequent years—more than enough to repay the $7.1 million annual payment on the $98 million empowerment zone bonds.


Houston Hilton Americas Hotel

The problem was that the September 2000 study had used the wrong numbers for the city's convention business, grossly overestimating its current scale and likely growth. And the central assumption that had served as the foundation of both the 1989 and 2000 analyses, that new convention facilities and downtown investment would propel convention and visitor growth, had neatly been proven wrong by history.

Both the firm that wrote the September 2000 study and the St. Louis Convention and Visitors Commission had begun with a "base" of some 414,000 convention room nights for America's Center. That total was incorrect. It reflected, instead, all of the group meeting activity booked by the CVC in the St. Louis area, a total clearly far larger than the business at the convention center. For 1998, convention and tradeshow events at just America's Center totaled 142,724 room nights, following a total of 147,400 for 1997.

Actual room night generation by America's Center was thus less than half the total portrayed in the September 2000 analysis. It appears totally implausible that the addition of the headquarters hotel in the absence of new convention center space or facilities could possibly add or induce 275,000 new room nights into the market. That volume of new demand would have amounted to a 192 percent increase in activity. Indeed, even a *doubling* of the room night generation at America's Center would have yielded less than 150,000 new room nights – a relatively modest addition in demand in the face of a supply increase just from the new headquarters hotel of 395,000 annual room nights.

When the 1989 market study was done, the total downtown room night demand was 1.22 million. Parallel data from the September 2000 study showed downtown room demand at 1.16 million room nights in 1991. Yet even with completion of the center expansion in 1993 and the new domed stadium in 1995, there was barely any growth in downtown hotel demand. The occupied room night total came to 1.18 million in 1997 and 1.16 the following year. Despite the optimism shown in the 1989 market analysis, the overall downtown hotel demand in St. Louis was essentially flat for over a decade. But the September 2000 market analysis that neatly included those demand numbers simply failed to analyze them or connect them to the longstanding assumption that a hotel could spark new business.

For over a decade and through at least two public market studies, St. Louis officials remained committed to the notion that a large new hotel would yield a significant increase in the city's convention business. The period since the opening of the Renaissance hotel provides an opportunity to assess both its performance and that of the city's convention activity.

First, the conventions haven't come. Rather than almost 800,000 citywide convention room nights, the total for 2003 came to 398,620. The total for 2004 is just 410,028. And the estimated sum for definite and tentative events for 2005 is only 398,000. Compared to the promised 50 major annual events, the 2003 sum was 25, followed by 23 for 2004, with only 18 actually using the convention center (for a total of 182,148 room nights). The reality has fallen well short of both official predictions and the market studies.

Without more convention business, the hotel has been forced to depend on in-house meeting activity and the overall downtown market. For 2003, the hotel averaged occupancy of 48.5 percent and a daily room rate of $110 compared to the predicted 62 percent occupancy at a $131 per night. For 2004, occupancy came to 52 percent at a rate of $114. Where the hotel's revenues were supposed to support its debt service, it actually lost $1.66 million *before debt service* in 2003. In its most recent downgrading of the $98 million bond issue, Moody's estimated the 2004 loss at $2.4 million. It appears quite unlikely that the hotel will ever generate hundreds of thousands of new convention attendees for the city. It is also not clear that the hotel's revenues will ever cover its debt obligation, or the city bond issues backed by hotel occupancy and sales taxes directly tied to occupancy.

ANATOMY OF ERROR II: HOUSTON HILTON AMERICAS

The city of Houston's entry in the headquarters hotel competition is the 1,200-room Hilton Americas adjacent to the recently-expanded George R. Brown Convention Center. Much as in St. Louis, Houston began its quest for a major new headquarters hotel in the late 1980s, even as the Brown Center was opening in 1987. And like St. Louis and a number of other cities, a series of efforts to aid private developers with a variety of forms of city and state subsidy regularly failed. The Hilton was ultimately financed and developed by the city itself, through a bond issue backed by citywide hotel occupancy and parking revenues that covered both the hotel and the center expansion.

Just as the city of Houston packaged the new Hilton's cost and the convention center expansion together in a single $626.5 million bond issue, the market analyses for the hotel and center expansion were linked, and done by the same firm. The new Hilton was projected to take advantage of some 420,000 new group and convention room nights in the city for 2004, providing the hotel with a 66 percent occupancy rate and a daily room rate of $153. Those figures would grow by 2006, adding another 80,000 annual convention room nights and giving the new hotel 72 percent occupancy at $166.00 per night.

All of those hundreds of thousands of new convention attendees and their hotel room use were to be expected as a result of the combination of doubling the convention center's exhibit space and building the new hotel. But where did those 500,000 added room nights come from?

The March 2000 feasibility study for the convention center neatly described Houston's historically dismal convention center performance: in 1999, the George R. Brown center had attracted a total of 262,000 convention and tradeshow attendees, who used some 121,913 hotel room nights. That 1999 total was in turn down from 141,950 room nights in 1998 and 156,348 in 1997. The study then compared that 1999 performance to the 1,313,488 room nights generated by New Orleans' Morial Convention Center. But rather than concluding that Houston had largely failed as a competitive convention destination or suffered from a broader set of competitive problems, the analysis argued that new restaurants and entertainment in downtown Houston would add the "sizzle" that would make the city fully competitive with such destinations as San Antonio, Atlanta, and New Orleans.

With the combination of sizzle, a bigger center, and a headquarters hotel, the feasibility study then projected the annual attendance and room night activity for the center based on the relative "penetration" (room nights relative to total area hotel rooms) of these competitive cities in 1999. By looking at just one year, rather than the performance of San Antonio, Atlanta, and New Orleans over time, the analysis was "static," failing to reflect any change in these cities or the larger market. Indeed, the study's own figures on Houston showed a clear decrease in convention center activity. If the competitive cities had also been affected by larger industry trends, it was not evident in the analysis.

Even more troubling, the comparative analysis of the other centers contained at least one major error. The 2000 study had credited San Antonio's Henry B. Gonzalez Convention Center with 926,680 room nights in 1999. That would have been a stellar performance. In fact, it was wrong.

The city of San Antonio's own figure for *total citywide* convention bookings for 1999 was 678,014 room nights, a sum that included events wholly within individual hotels. The actual room night number for only the convention center came to just 355,582 – about 38 percent of the figure in the Houston study. By using a highly inflated figure for San Antonio's convention business, the authors of the Houston study created an unreachable forecast for the impact of the new hotel. But the analytical errors went beyond the focus on a single year or incorrect data.

The estimate of new hotel room nights in Houston was based on a calculation of convention center room nights relative to total market hotel rooms, not available downtown rooms. Employing a convention center percentage based on downtown rooms would yield Houston, after the addition of the Hilton and other new hotels, about 346,000 annual convention center room nights – a sizable increase from the city's 121,913 for 1999. Yet that 346,000 annual figure is well short of the 613,000 estimated in the Houston study, a total that would be shared by the new Hilton and other hotels. If Houston succeeded in doubling the business at the Brown center, gaining about 122,000 new room nights, that would only provide the new hotel with only 28 percent occupancy. The rest of its business would have to come from existing demand.

The Houston Hilton Americas opened in late December 2003. In its first quarter, boosted by the SuperBowl, for which it served as the headquarters hotel, the occupancy rate was about 58 percent. In the more normal second quarter, the hotel's occupancy rate was approximately 47 percent at an estimated room rate of $125. The revenue per room thus totaled $85 in the first quarter and $59 for the second, compared to the $101 per room projected by the feasibility study. The third quarter, historically a high demand period, came in at about 54 percent occupancy and $70.53 per available room. The Hilton is thus performing well below consultant forecasts with little evidence that it can substantially increase its volume of business. It remains highly unlikely that Houston can see an increase in the George R. Brown center's business of some five times their 1999 level. And in the most recent installment of the downtown hotel market story, the 980-room Hyatt Hotel, the former major convention hotel, went into foreclosure in mid-February 2005.

ANATOMY OF ERROR III: AUSTIN HILTON

Much like Houston, Austin coupled the expansion of its downtown convention center with the development of a new publicly-owned headquarters hotel. The 800-room Austin Hilton opened in January 2004 with the promise that it would greatly boost the city's convention business, particularly in terms of major national events.

The final March 2001 market study that supported the hotel's $109.7 million bond offering projected that the new Hilton would manage 69 percent occupancy in its first year, with an average daily rate of $142.27, yielding revenue per room of $98. The actual results have fallen somewhat short. For the first half of 2004, the occupancy rate came to approximately 65 percent, with revenues per room at $78. A recent analysis by Moody's Investor Services estimates a 67 percent occupancy rate for the year, with revenue per room totaling $81. And where the feasibility study estimated the new hotel would have net income of $15.5 million, the 2004 total came to just $9.3 million. While below the market study projections, the Hilton will be able to repay its debt obligations this year. The real performance issue lies with the Austin Convention Center and a series of gross overestimates of its potential business.

The Austin Convention Center opened in 1992 with some 126,000 square feet of exhibit space. A study of possible center expansion completed in November 1995 concluded that an expansion doubling the center's exhibit space would in turn more than double the attendance at the center – boosting the convention attendee count from about 137,565 in 1995 to a projected 314,000 by 2005. It went on to note that "Additional hotel supply and greater cooperation from the existing hotel community are essential if the city is to realize its potential."

Austin Hilton Hotel

A subsequent July 1997 "strategic plan for Austin's convention center industry" by the same consultant argued that the city "has the potential to rival San Antonio and other major Texas and U.S. cities for state and national meeting business." The study went on to conclude that an 800-room headquarters hotel was necessary to "enable Austin to compete in the national meeting market." With the combination of an expanded center and adjacent hotel, Austin could boost its convention center business from 150,500 hotel room nights a year to 332,600 annually, more than doubling the economic impact and job creation of the convention center.

The March 2001 consultant study that provided the detailed operating forecasts for the hotel neatly reiterated essentially the same findings about the future of the city's convention business: "The expanded Center, with the support of the headquarters hotel, is estimated to induce approximately158,000 new room nights in the market as a whole."

The expanded Austin Convention Center opened in May 2002. Figures from the Austin Convention and Visitors Bureau indicate that the center generated 142,895 room nights in 2001, and 151,439 for 2002. The 2003 room night total, with the expansion but before the operation of the new Hilton, came to 147,868. A year later, the Austin CVB reported 160,405 hotel room nights generated by the center for fiscal year 2002-03 (again, prior to the Hilton). For fiscal year 2003-04, the total rose to 194,358, presumably boosted by the new headquarters hotel. But definite and tentative bookings for 2004-05 come to only 121,285 room nights. And the following year, fiscal 2005-06, the total bookings amount to 141,816 with more than half still in the tentative category.

Austin may well succeed in reasonably filling the new Hilton. But it is manifestly not filling it with new convention center attendees. Apart from what appears to be a one-time boost in fiscal 2004, the center is simply doing about the same level of business it did in the 1990s. It has certainly not doubled its activity. Thus in reassessing the Austin hotel bonds in late August 2004, Moody's noted that "In future years, management expects to reposition the hotel so that the group [convention center-related] segment drops to a more moderate share of total room night demand and the individual segment increases." In short, rather than serving as a "catalyst" for the center, the hotel will now have to fill its beds on its own.

ANATOMY OF ERROR IV: SAN ANTONIO

San Antonio has yet to build a new headquarters hotel, although it has sought one for about almost a decade. In seeking development proposals, it has commissioned two separate market studies, both of which illustrate the ease with which convention center performance and market potential can be misunderstood.

A September 2002 market study completed by the same firm that conducted the Houston studies concluded that a 1,500-room headquarters hotel in San Antonio would operate at 76 percent occupancy its first year (2007) and achieve an average rate of $179. It based that forecast on the assumption that the recently expanded Henry B. Gonzalez Convention Center would boost the center business from about 939,000 room nights in 1999 and 903,000 for 2001 to more than 1.45 million room nights by 2008 – an increase of about 555,000 annual room nights. While not all those new room nights would be "used" by the downtown hotels, the new headquarters hotel would itself add another 150,000 room nights, with the result that the study "estimated that over 700,000 room nights will be introduced into the San Antonio market as a result of the expansion of the convention center, new hotels, and the subject [headquarters hotel] property."

Following the failure of its selected developer to secure financing for a 1,500-room hotel, a task force appointed by the mayor and city council recommended the development of a 1,000-room hotel, and the city commissioned another market study from a new consultant. That new study was completed in May 2004, and again recommended the investment in a headquarters hotel. Its conclusion about the smaller hotel's projected performance was a bit more modest – 62 percent occupancy in its first year, at a rate of $159.78. This time, however, the estimate of the existing business at the Henry B. Gonzalez center was different, and rather smaller. Instead of the 903,000 room nights cited in the earlier analysis, the new 2004 study claimed that the center produced 712,189 room nights in 2001. And with the addition of the hotel, the center would gain an additional 150,000 room nights. But both consultants' 2001 baseline numbers – the 712,000 figure and the 903,000 figure – were wrong.

> The relative failure of new headquarters hotels to deliver on promises of grand new convention business, or even to manage to operate in the black, should not surprise the student of local economic development history.

When a San Antonio city council member requested that the city's convention and visitors bureau provide data for only those conventions which actually used the Gonzalez convention center (rather than a local hotel or other venue), the 2001 total shrank to just 465,913 room nights. The addition of 555,000, or 700,000, or even 150,000 annual room nights would appear to be a massive increase relative to this more modest performance. But even more importantly, the center now had some real data for its performance following the expansion which doubled exhibit space opened in mid-2001. The 2002 room night total for the center came to 522,932, with 417,541 room nights the following year. The estimated room night total for 2004, including all definite and tentative bookings, is 378,835. Again, that compares to a pre-expansion total of 380,869 for 2000. Much like Austin, a major expansion of the center does not appear to have produced any substantial or persistent increase in its business.

Just as in the case of the St. Louis Renaissance hotel, the use of erroneous data on convention center performance can easily lead to implausibly large projections of hotel performance. It will be some years before a headquarters hotel is built in San

Antonio, and its performance can be assessed. But built on a market analysis of inaccurate data, its performance will most likely fall short.

CORRECTING ANALYSES

The performance problems of the St. Louis Renaissance, the Houston Hilton, and new public hotels in Myrtle Beach and Overland Park have been clear to date. Broad changes in the convention industry and travel activity after September 11, 2001 have certainly had some impact on hotel and center performance. But such larger forces do not really account for the performance of these hotels. The real problem for these cities and others had been a reliance on studies that are error-prone and flawed.

The St. Louis, Houston, and Austin cases raise questions about the real role a large hotel can play in boosting local convention business. They also suggest that a persistent desire on the part of local officials to "do the deal" or "make the project happen" may lead a community down a potentially costly path.

St. Louis Renaissance Hotel

THE LESSONS OF HISTORY

The relative failure of new headquarters hotels to deliver on promises of grand new convention business, or even to manage to operate in the black, should not surprise the student of local economic development history. From the late 1970s well into the 1980s, the federal government's Urban Development Action Grant (UDAG) program provided financial assistance to a score of urban hotel projects. Those projects were intended to spur private investment, revitalize distressed cities, and create new jobs for low and moderate-income people. In some cases, like New York City's Marriott Marquis and Baltimore's Hyatt Regency, the hotel investments worked in the marketplace. But in a host of other cases, despite the best intentions of city officials and private investors, the hotels could not succeed in the marketplace, failing to pay back UDAG loans or private mortgages and often closing.

The 250-room Radisson hotel that was a centerpiece of St. Paul's Town Square mixed use project closed, reopened as a Holiday Inn, shuttered again, and finally went back into business as a Radisson under the ownership of the St. Paul Port Authority. St. Petersburg, Florida's, downtown Hilton went into bankruptcy in March 1994. The Monarch Place office and hotel development in downtown Springfield, Massachusetts, was eventually taken over by its lenders. Cincinnati's 485-room Hyatt Regency struggled for years running in the red, with both its lender and the city finally obliged to write off much of its outstanding loans. Albany's 406-room Hilton Hotel failed to repay its UDAG loan of $3 million and was described by the *Times-Union* newspaper in July 1990 as "a deal gone sour."

Other examples include San Diego's 283-room U.S. Grant Hotel, aided with $4.8 million in UDAG funds, fell into bankruptcy in 1988. The Long Beach Hyatt Regency, assisted by $3 million in UDAG funding, defaulted on its loan in 1994 and ultimately cost the city some $25 million in foregone loan proceeds. The 517-room Hyatt Regency Fort Worth, recipient of a $6 million UDAG in 1980 intended to make it that city's convention center hotel, was foreclosed on in 1990 and ultimately resold in 1994 for a mere $8 million. The Emily Morgan Hotel in San Antonio was foreclosed on in 1989. The UDAG-aided Ramada Plaza in Wilkes-Barre, Pennsylvania, consistently failed to repay its loan. The 333-room St. Petersburg Hilton, recipient of a $3.4 million UDAG in 1986, found itself in financial difficulties in 1992 and ultimately in bankruptcy in 1994.

Perhaps the saddest chapter in subsidized hotel development was Flint, Michigan's, efforts to revive its economy and downtown core with the Riverfront Center development of a new Hyatt hotel, parking garage, and convention facility. The

$31 million, 370-room hotel opened in 1981, with a $4.3 million UDAG, another $6 million from the Mott Foundation, a city tax abatement, and the promise that it would create hundreds of jobs, boost local tax revenues, and spur a new level of convention and visitor activity in Flint. In 1986, mortgage holder Northwestern Mutual foreclosed, after the owners failed to pay both taxes and construction debt. Northwestern Mutual kept the hotel on the market for three years, finally closing it in 1990. A week later, it was purchased and reopened as the Riverfront Plaza, eventually affiliating with Radisson. In 1996, it was sold again, for less than $10 million, and subsequently lost the Radisson name. The owners put it on the market in February 1998 for a reported price of $7 million. When the hotel failed to sell, it was then affiliated with Ramada, and finally sold for $6.5 million in June 2000 to the nonprofit Institute of Basic Life Principles for use as a conference and training center named the "Riverfront Character Inn."

For Flint's former Hyatt, as for many of the other UDAG-aided hotels, failure in the market was followed by bankruptcy or foreclosure. These hotels regularly "filtered down," commanding a lower and lower price and value until they found an owner who could operate them, pay the bills, and make a profit. Despite consultant market studies, local and federal subsidies, and review by a host of public officials, the hotels proved remarkably problematic investments.

IMPLICATIONS

It has been possible for cities like Austin and St. Louis, Denver and Omaha to manage the difficult process of developing and securing the financing for new headquarters hotels. It is not clear what will happen in those cities and others if the hotels fail to perform. For some places, with a public hotel obliged to lower its rates to fill rooms, a part of the cost will be paid by other local hotels facing downward pressure on their own rates and revenues. For others, the abject failure of the hotel may well force the city to face a set of unpleasant options: a sale of the hotel at a fraction of its construction cost with an obvious loss of city dollars, continued operation with a need to subsidize expenses on an ongoing basis, or another effort to boost convention business, perhaps with an expanded convention center or a new form of downtown revitalization.

The reluctance of private investors to develop new convention center hotels is understandable: these projects are quite simply risky, and the argument that an adjacent hotel will "boost" a convention center seems unsupported by the experience in a number of communities. Yet the commitment to new hotel development appears unabated in cities around the country. How should local officials respond to the pressures for public hotel investment?

They need to recognize the inherent risk of any hotel project, and the particular risks of a hotel directly tied to a convention center and the fluctuations of local convention demand. With convention attendance down nationally, and a host of cities offering incentives and literally giving away convention center space rent free, the competitive fortunes of any city's center are at best uncertain.

The hypothesis that an adjacent headquarters hotel will spur a visible increase in local convention business has now been put to the test in a number of cities. It has been proven wrong. These new hotels simply do not act as a catalyst for greater convention activity. Thus, if a new hotel is to succeed in the market and generate sufficient revenues to repay its construction debt, it must rely on the *other* pillars of hotel demand: business or commercial travel, leisure travel, and in-house meeting activity. A new hotel in a strong demand market can thus succeed financially on non-convention business, albeit at the cost of luring business from competing, privately-owned properties. But such a hotel must be positioned to effectively compete for that business.

There is no "magic number" in terms of the size of a new hotel, other than a size the existing market demand can support. The contention that meeting planners demand a large hotel of 800, 1,000, or even 1,200 rooms can readily lead – as it did in Houston and St. Louis – to massive overbuilding. A more modestly-sized hotel carries with it far less downside risk, and the capacity to survive on non-convention demand.

Even for a reasonably sized facility, location is a critical issue in its capacity to compete. Where a convention center is located in a distant location from the commercial heart of a city, or in an undesirable "fringe" location, building a hotel next door may well cripple its competitive position from the outset. In vacation or resort destinations, leisure travelers or meeting planners are likely to prefer to be near the beach or local attractions, not in a downtown core. A new hotel in a "9 to 5" downtown that lacks restaurants, retail, and visitor amenities is unlikely to spur those facilities and developments by itself.

Finally, the history of consultant forecasts for occupancy and room rates shows a real potential for error and mis-estimate. A proposed hotel that is forecast to charge room rates at the top of the local market will probably be forced to charge more modest, market rates. And the obligation that a city will meet the debt payment shortfall of a hotel is likely to be a promise that has to be met, at a commitment to millions of dollars a year in public support.

identifying economic
DEVELOPMENT LEADERSHIP AND PROGRAM REQUIREMENTS

By Joe Gero, CEcD, EDFP

Results: This 250,000-square-foot Toppenish, WA, Del Monte distribution center was attracted after elected community officials and business stakeholders underwent an economic development "how-to" orientation that prepared them to effectively seek this project. That orientation was based, in part, on this model and concept.

Joe Gero, CEcD, EDFP, has over three decades of community and economic development experience. The past ten years he has been researching the economic development process to develop a strategic planning and continuous improvement model. The goal is to identify potential economic development process improvements. He is in the process of writing an economic development book focused on the perspective of the customer, the client company.

Most counties, often including towns and cities, and certain cities independently, have an economic development program (EDP) to promote jobs and investment growth. Some economic development programs have a feeling of success, but others are defined by frustration and lack of satisfactory results. And there are those in between. In an area with less success, community leaders may not have developed a written statement defining expected program outcomes. Some programs may suffer a lack of understanding and definition of what the program is, how it works, who is involved, and what required capacities are. Few may recognize the components necessary to have a successful economic development program. Lacking knowledge of the needed components, leaders may be unaware of the necessary linkages required to operate a successful EDP.

There are two options when something you have and need does not work. The first is to discard it and get another. The other option is to determine what is wrong and fix it. Sometimes we need to obtain professional assistance to have the problem evaluated and to have a good fix identified. Whether it is getting the car fixed by a qualified auto mechanic or our body healed through a physician's treatment, we often lack the expertise to solve the problem.

For communities dissatisfied with their EDP, maybe the problem is that they are only focusing on the professional staff and not looking at all of the components of an economic development program. What many communities need is a full economic development "physical exam." What will the exam identify about each component and how the components interact? If a water pump is replaced on a car, but the vehicle's fuel pump is also working poorly, the car will not operate well.

This article is about the components of the economic development process, viewing them in an illustrated schematic. This is not a "one model fits all" explanation: each entity can make minor adaptations to meet local needs or desires. Of community controlled factors, the potential for success is generally a causal relationship based on community effort and how well the community meets the key elements needed to have a successful economic development program. To have a program with positive results requires that all components be effective, efficient, and in harmony.

Periodically an inquirer may ask what the EDP entity does, and/or what has been achieved. The typical EDP entity focuses on recruitment, reten-

CONNECTING ECONOMIC EXPECTATIONS AND OUTCOMES

For some communities there is a lack of understanding and a full appreciation of the complexity of the economic development process. This article identifies in summary form 11 key elements, in addition to community leadership and involvement, necessary in most communities to have the potential for a positive economic development program. Certainly, there are a few communities with the synergy to have a successful program. For others, there are no guarantees for success, however it is likely that such a community will not succeed unless it has incorporated these 11 elements into its economic development program.

tion, and expansion efforts. Each program may have a particular focus or mission. Most will include basic industry and business components. The idea is to export products and services from the area, bringing in new dollars. This expands the local and area economy.

Often public dollars help finance one or more components of the EDP or specific projects. EDP sponsors may be private or public, or a combination thereof, and often require accountability. Because the accountability issue may include whether there is infrastructure and resources to conduct the program successfully and other factors, it is often broader than may be recognized. Program proponents desiring to gain community support and often program funding must be prepared to accurately report the EDP's story to community and funding sources. This includes defining what the EDP is, how the program works, providing EDP entity information, and being prepared for questions.

THREE LINKED RELATIONSHIPS

In this article, three linked relationships are defined: 1.) leadership, 2.) economic development program (EDP) components, and 3.) economic development expectations/ consequences and outcomes. The relationships are depicted in the Chart: **Economic Expectations and Economic Development Leadership.**

The chart is depicted as an algebraic formula. The left side out of the brackets represents people involved in the economic development process less the professionals, but particularly the leadership corps including stakeholders. Within the brackets are ten EDP components: six components above the bar and four below. The six above represent the key primary components of any economic development program. The four below depict components that may, and usually do, modify the six above. To the right of the equal sign are the "Outcomes/Consequences" and "Economic Expectations." If EDP adopted expectations and results are matched and evaluated, this is where that process is most apparent.

In any algebraic math formula, the process to solve an equation begins within brackets and above the divisor line. The formula symbolically depicts that the six elements must be present and joined together. To the degree that any elements or sub-elements are minimized or weakened, the potential for success will be reduced given any location factors. A less effective program at best will likely muddle, leaving a sour taste in the mouths of disappointed participants and making future economic development efforts more difficult. A downward spiral is inevitable until these elements are substantially improved.

This article is about the components of the economic development process, viewing them in an illustrated schematic. This is not a "one model fits all" explanation: each entity can make minor adaptations to meet local needs or desires. Of community controlled factors, the potential for success is generally a causal relationship based on community effort and how well the community meets the key elements needed to have a successful economic development program. To have a program with positive results requires that all components be effective, efficient, and in harmony.

KEY PRIMARY COMPONENTS

The three elements: *Resources, Products,* and *Price* are usually not controlled by the staff and often not by the organization's directors in their capacity of EDP directors. A director may work for a company, or be an independent entrepreneur, and offer product/price of certain commodities or services needed by a client company. Various stakeholders do often control part of these three elements. In this context, a stakeholder is an individual or organization with a direct or indirect interest in a particular element, sub-element or group of elements. These elements often define just how competitive a community is.

Resources are the means the EDP staff has to operate the program and from which it develops the budget, and may include products and services. If the EDP entity is under-funded, there are many potential negative consequences. An under-funded entity often lacks marketing dollars, advertising dollars, and dollars needed to invest in community infrastructure, products, or projects. Under-funding impacts staff considerations and work program requirements. Cash is the number one need of any EDP entity. Without adequate cash resources, the program will probably muddle and flounder. Whether an adequate budget is provided is one measure of the community's commitment to the EDP. An under-funded organization is a sign of a lack of commitment to program goals.

Products are all the factors a business client may need and therefore consider when determining the geographic location of a new or expansion facility. Individual items can be listed in one of the product sub-element categories. Data about products and services the community has to offer is what the local economic development office has to offer to its business clients. How competitive a community is can be determined from an evaluation of the total cost (the cumulative *Price* element) if the business were to locate in a particular community (or stay). There are two primary questions that a business must determine in every location decision:

1. At the decision point in time, given any location parameters, which site(s) is projected to be among the most profitable?
2. Looking into the future, of the sites considered which is projected to remain among the most profitable over time (this is the profit/risk management question)?

Once the company pares the list to just a few locations, it can extensively evaluate any other factors it chooses. A community that truly wants to compete must work to have answers that are responsive, responsible, valid, and competitive. The last items for consideration are often the intangible factors and may include quality of life issues.

Process and Services is how the EDP organization goes about doing its work and the services it provides. Although these are not exclusively the staff's

To be a winner, the community must plan to be competitive. Planning, then implementation, is needed to improve local products in order to improve the area's competitive position. Planning is needed to develop and hone marketing and client interaction skills provided by each team member. A planning failure often results in program failure. If a community fails to plan to improve products and services, it will have less competitive products and services over time and will be less competitive and often left behind.

realms, the staff substantially contributes to the success of these program components. Recognize however that owners/agents of products and services may be involved in the process and in negotiating with a particular client. Directors may be involved in providing components, or directing services, or how they will be provided. The staff has no ownership of the products or services. Therefore the staff has no authority unless that power is specifically provided to obligate the organization or any stakeholder. Any delegated power should be provided by a written and signed document delegating the specific terms and conditions of such authority. The staff often plans and oversees a process that may have many involved players. The EDP staff is often the local initial contact with the business client and providers.

The *Professional* is the EDP staff, but may also include a consultant hired for a specific purpose. It is the EDP leadership that hires the economic development professional director. Under-funded organizations may have difficulty attracting desired and experienced staff and may have difficulty in retaining staff, resulting in lack of program continuity. If the staff member is not from the area, and he or she often is not, there is a period to learn about the community and the products and services it has to offer.

The EDP leadership should determine what is needed to have adequate staffing to do the work that is required to have a successful program. There are often differences of opinion of the role of the staff, the Board, and other community leaders. In addition to any paid staff, many programs have substantial volunteer efforts. What is most likely to vary with programs is the degree of volunteer activity and how it is provided. The professional director is ostensibly reviewed to determine if Board Director expectations are being met. Were there any written criteria agreed to in advance?

BELOW THE BAR

Below the bar are four elements: *Reputation, Culture, Planning* and *Guarantees. Reputation* may not accurately depict reality, but if perceived that view is often assumed to be accurate. A negative reputation could imply that one or more factors may result in increased costs of doing business. A negative national or state reputation may preclude a community in the nation and/or state from being considered as a possible location for a company that is unaware of the reality and positive features within that area. We are in a global economy.

Culture reflects the attitudes that are pervasive in an area or state. One area may be viewed as having a strong work ethic and another for being lazy. A community attitude may develop promoting cooperation, responsibility, teamwork, pride, fairness, and integrity etc. These are positive attitudes that reflect a positive culture supportive of business.

To be a winner, the community must plan to be competitive. *Planning,* then implementation, is needed to improve local products in order to improve the area's competitive position. Planning is needed to develop and hone marketing and client interaction skills provided by each team member. A planning failure often results in program failure. If a community fails to plan to improve products and services, it will have less competitive products and services over time and will be less competitive and often left behind.

Companies like predictability and may seek to have local community and state *guarantees* and/or incentives. This raises the debate of when and how

much of a guarantee and/or incentive are needed to gain the deal. The purpose of this comment simply is to recognize it as part of the program element. Each community will determine for itself whether, and in what form, a guarantee and/or incentives will be offered.

LEADERSHIP/PEOPLE

To the left, and outside of the bracket, are local people and the EDP leadership often involved in the economic development process. They often have vested interests and a variety of agendas (economic, political, or social). Some of these stakeholders represent products and/or services the prospective or existing company may need and consider purchasing locally. These stakeholders, in their desire to benefit from the economic expansion, may attempt to influence a decision. This can be appropriate and encouraged when done with appropriate conflict-of-interest safeguards. The stakeholders may also impact the hiring and tenure of the professional staff.

It is the community's leadership that drives the economic development program. These leaders have community power to cause certain community actions to occur or not to occur. The combined actions ultimately are part of the definition of the local "business climate." These leaders provide cash and other resources, and make community decisions that either support or undermine local economic development efforts. These leaders approve the program of work, specific projects, and influence in a micro- to macro-level the day-to-day work of the EDP organization. By their degree of support and the statements they make, the leaders influence the decisions of many others.

OUTCOMES/CONSEQUENCES AND EXPECTATIONS

To the right of the equal sign are two linked categories: *Outcomes/Consequences* and *Economic Expectations*. Program implementation results in outcomes. Sometimes an outcome may result when an interim step is achieved. Economic development is often a patience game. Each outcome has consequences, positive or negative; sometimes, the consequence is unintended.

The leadership and community question is whether outcomes and consequences are meeting local expectations. Further, is there a written definition of what the economic expectations are? Often economic entities lack a written and adopted expectations statement. Individuals may have in their mind what their definition is, but it may not be commonly understood by the organization or community. If not written and adopted, expectations may vary as widely as there are involved persons.

Although it is the EDP and community leadership that has ultimate responsibility for program outcomes, the staff may lack direction. Without written expectations as part of an economic development strategic planning process (if one occurred), there are questionable expectations and potential for undesired or unacceptable consequences. Economic development is a business and it should require the application of business practices, including by those involved in understanding the overall process and to be actively involved with the planning element.

CONCLUSION

In some respects this article is basic economic development. The experienced economic development professional might say, “I know all of this.” Yet it may serve to make a point with others as to the full range of elements needed to have a successful economic development program. Someone may be focused on product and price – pure marketing. But the economic development program requires more consideration than just these two elements. Perhaps this will help create a discussion among community leaders, stakeholders, and economic development professionals. Perhaps it can be used to instruct others as to the economic development process.

There is a next step. Communities that intend to compete need to understand that all ten elements are required and then develop a business driven economic development strategic plan. Each community needs to look at itself as a competitor against other communities, and needs to be aware and evaluate itself against the competition. Each needs a ten-element implementation plan based on an adopted strategic plan.

aviation and development

LIVING TOGETHER

By William H. Hoge

The A-10 Warthog is one of the frequent uses of Poinsett ECR. A major portion of its range activity centers on the 30 MM Tank-killer Gun.

In the 1940s and 1950s, the United States experienced the major introduction of the airplane into everyday life. First came military aviation in World War II and that was followed by the great expansion of the airline industry in the 1950s with the introduction of the jet passenger aircraft and the Boeing 707. To accompany that major expansion in both areas, airfields had to be constructed throughout the country.

Airfield expansion was tremendous in the country during World War II. Training bases were built from the Atlantic to Pacific coasts in the southern tier of states where good weather year round and low-density populations permitted the hundreds of thousands of training sorties needed to support the war. After World War II, many of those airfields were closed for military use and transitioned to civilian use. Finally, the 1950s saw the construction of additional civilian fields to support the growing airline industry. They, like many of the World War II airfields, were constructed away from population centers to allow flying operations and minimum impact on the local residents.

NATIONAL AIRFIELD EXPANSION WITH CHANGING LOCAL GROWTH PATTERNS

Shaw Air Force Base (AFB) in Sumter, South Carolina, is one of those World War II airfields that was built to support training. However, unlike hundreds of others that closed at the end of the war, Shaw AFB (then Shaw Field) remained active and does so even today. Like so many others, it was built 10 miles from the host city of Sumter and away from the small communities of Stateburg and Wedgefield.

But as so many communities know, times are changing and growth and development are moving away from the core cities to the suburbs where families expect large lots and homes and a quiet, peaceful environment. Sumter and Shaw AFB are no dif-

William H. Hoge has been the planning director for the city and county of Sumter, South Carolina, for the past four years. He is a retired USAF Colonel who was stationed at Shaw AFB twice as a fighter pilot and then served as the director of plans and operations for the Ninth Air Force and US Central Command Air Forces.

RETAINING MILITARY ACTIVITY WHILE ENSURING REGIONAL ECONOMIC EXPANSION

The article highlights the steps taken over time by one community to ensure that aviation and development can live and grow together for the benefit of all for many years. It is intended to offer ideas to other communities with aviation and development a method to ensure they can enjoy similar compatibility of land uses and prosperity for many years. This shows a city and county where government has helped the economic growth of the entire community for over 20 years and has procedures in place for continued prosperity.

ferent in that respect, but over the last 25 years the local governments have taken and continue to take steps so that the *base flying operations and community growth complement each other through compatible land uses and almost daily coordination.*

Before explaining how this has been accomplished, a short description of the base and community are needed:

1. Sumter, SC: This community is located in central South Carolina about 45 miles east of the capital of Columbia. The county had an estimated population of just over 106,000 in 2003 and encompasses about 680 square miles. The city of Sumter is located in the center of the county with a population of just over 43,000 in 2003. The overall population has been growing at just less than 1 percent per year for the past 10 years and is projected to continue at that rate for the next 20 years. Other than Sumter, there are only two small incorporated townships in the county with populations less than 1,000.
2. Shaw AFB is an United States Air Force and Air Combat Command base with over 5,000 military personnel, 1,000 civilian employment (government and contract), one Fighter Wing with 72 assigned F-16s, a Numbered Air Force headquarters, and numerous smaller units. The economic impact based on salaries, contracts, and personnel, including retirees, is about $800 million per year. This represents almost one-third of the total sales in the local economy.

Shaw AFB is an Air Combat Command base hosting 72 F-16s and over 6000 military and civilian jobs in the Sumter community.

Shaw AFB is the largest employer in the Sumter community and a key to the long term health of the community.

3. Shaw AFB is located 10 miles from downtown Sumter but was annexed into the city in 1989. While in the city, most of the area immediately surrounding the base is in the unincorporated portion of the county. As such, nearby land is controlled by two local governments.

As many as 25 years ago, local residents and government officials recognized two major facts. First, Shaw AFB is a major part of the entire community, especially its economic stability. Second, steps needed to be taken to protect local flying operations and local citizens. Both of those items remain very true today and into the foreseeable future. Added to those two items is the continued study by the federal government of all military bases for consolidation of operations and it is easy to see that local government has and continues to face major challenges in keeping Shaw AFB as a major part of the local community.

So what actions have Sumter City and County Councils taken to insure that aviation and development can live together?

AIRFIELD SAFETY AND ENCROACHMENT

In the early 1980s, safety was recognized as the major issue – encroachment would come later! Sumter County Council took three steps to address the issues between 1972 and 1986:

1. **Established base/community coordination:** Having a single, joint Planning Commission and staff for the city and county, a Memorandum of Understanding was signed with Shaw AFB to have a base community planner involved in all local actions. This continues today with a full exchange of information.
2. **Established Obstruction Height Limits Around Shaw AFB and Poinsett Range:** In the early 1980s, the County Council with USAF help adopted height regulations within 10 miles of the base that would ensure structures would not be built that would interfere with an instrument approach or local flying operations. This part of the county code continues today.
3. **Added Airfield Landing Zone to the County Zoning Ordinance:** About the same time, based on Air Installation Compatibility Use Zone data and advice from the base planner, the Zoning Ordinance had the first Clear Zone and Accident Potential areas added. These are zones aligned with the base runways, extending out to 15,000 feet and 2,000 feet either side of the center of the runways. There were no noise zones included with this action as its primary intent was safety from aircraft accidents.

COUNTY-WIDE LAND USE ZONING TO PROTECT SHAW AFB

A brief mention must also be made of another significant change that occurred in 1991. Prior to that year, active zoning was only present within the city limits of Sumter and within a three-mile jurisdiction just beyond the city limits. In 1991, Sumter County Council adopted full, county-wide zoning. Sumter was one of the first counties in South

Shaw AFB is home to the 20th Fighter Wing and 72 F-19CJs. Flying operations are five days a week with 25% of the flying at night.

Carolina to take such action, and it was supported by most of the citizens as they recognized this action was directly related to Shaw AFB.

As part of the continuing and evolving process to keep the base and community growing together, additional changes were made in 1993 and 1994 that directly improved compatibility. In 1993, a grant from the Office of Economic Adjustment (OEA) in the Office of the Secretary of Defense was used to hire a contractor to conduct a Joint Land Use Compatibility Study (JLUCS). Based on that study, Sumter city and county modified each zoning ordinance to create an Airfield Compatibility District (ACD). The ACD was based on USAF studies and the Airfield Installation Compatibility Use Zone document for Shaw AFB. Essentially, the ACD formalized the Clear and Accident Potential Zones. For each of those zones, development rules, land uses, and densities were established by the local governments and administered by the Planning Commission for all construction and business licenses. Additionally, the first noise contours were established around the airfield and noise reduction standards were put into place for all new construction and major additions.

Most recently, the two councils have, for the first time, identified compatible land uses directly related to military operations in the comprehensive plan, added a similar Compatibility District around Poinsett Electronic Combat Range (ECR) and refined the ACD rules to ensure more safety and reduce noise issues.

Of those three actions, the comprehensive plan action is the most significant. Until 1999, neither council had adopted a comprehensive plan and map. Based upon the 1994 South Carolina Planning Enabling Act, both councils adopted comprehensive (long range) plans and maps in 1999. But, the plans did not directly identify the base or range for areas to control development and land uses to ensure compatibility.

Based on growth, developer comments, and growing concern of possible encroachment, the Planning Commission developed and forwarded to both councils, a text and map amendment that created a Military Protection District (MPD) around Shaw AFB and Poinsett ECR. The comprehensive plan map now shows those areas for all to see and the text clearly defines the purpose and objective of the Military Protection District. Additionally, future rezoning in those MPDs is limited to uses that are compatible with airfield operations and control use and residential density. Now all understand the community goal of compatible land use!

NEW JOINT LAND USE STUDY

The city and county's collective land use planning process also prompted a new Joint Land Use Study, also funded in part by a grant from the DOD Office of Economic Adjustment, which focused on Poinsett ECR. Based on the new study, a Range Compatibility District (RCD) was established around the range with identical rules to the ACD (noise contours are present but not Clear or Accident Potential Zones). With the Range Compatibility District, the planning staff can take similar steps to implement land use rules and noise attenuation to ensure good neighbors.

NEW AIRFIELD COMPATIBILITY DISTRICT (ACD) APPROACH

Finally, two sections of the ACD were modified. First, until this change, single family dwellings (site built and manufactured homes) were permitted in the Accident Potential Zone II. Both councils changed the Zoning Ordinances to not allow any residential uses in the APZ II, with a minor concession to fully existing developments.

Shaw AFB defending the nation and New York City as part of Operation Noble Eagle.

Second, after consultation with local dealers and the Manufactured Housing Institute of South Carolina, manufactured housing may no longer be placed within the noise contours for Shaw AFB as established in the ACD. This change was made since noise reduction construction standards were put in place at the local level that can be enforced for new site built homes by the Building Official but the same can not be done for manufactured housing since its construction is controlled by HUD.

SUMTER-SHAW PLANNING PROCESS ENSURES THAT AVIATION AND DEVELOPMENT GROW TOGETHER

All of this history brings us to the present and how these plans, maps, and ordinances are used to ensure aviation and development can exist and grow together.

The Sumter Planning Commission (still a joint city-county agency) is responsible for the implementation of the Comprehensive Plan and Map, and enforcement of the two Zoning Ordinances. As a matter of note, while there is a single Planning Commission and Staff, the City and County each have their own Comprehensive Plan and Zoning Ordinance. However, the maps tend to be seamless at the city limits and the Zoning Ordinances are 95 percent the same.

Principle enforcement of the ACD and RCD is through the review of applications and approval of building permits, surveys of property (plats), and business licenses. Each of the above is reviewed for compliance with all aspects of the Zoning Ordinance including noise reduction. Each building permit and plat is stamped with a special notice of the fact that the structure or property is in or near a noise hazard area.

Business licenses serve as an additional check of density of people as uses change for an existing building. If a use does not comply with the current zoning in the area and a rezoning is requested, the first step for the staff in this case is a review of the Comprehensive Plan – If the request does not comply with that plan, then denial of the request must be recommended and the appropriate council shall not change the zoning unless they are first willing to change the Comprehensive Plan; something both councils have been reluctant to do until the required five-year review by state law.

The other area for review is a requested variance to the zoning and development regulations. As with most communities with zoning, Sumter has a Zoning Board of Appeals. For requests inside the ACD or RCD, the request is also forwarded to the installation commander (20th Fighter Wing Commander) at Shaw AFB for comment. That comment and installation personnel then are

As the Sumter-Shaw community enters 2005 and prepares for at least the next 20 years, the local governments have put in place a series of plans, maps, ordinances, and regulations that will guide aviation and development to live and prosper together.

included in all hearings to include a required public hearing at the Zoning Board of Appeals for variances.

Besides normal enforcement actions, the Planning Commission uses the above material in at least two ways for community education. First, staff representatives routinely present briefings to major real estate agent meetings and companies. Real estate agents tend to be the first way that new people are made aware of the ACD and RCD. Second, the city of Sumter web site (www.sumtersc.gov) maintains current copies of the comprehensive plan and map, zoning ordinances, and all local maps (zoning, city limits, ACD, and RCD).

STATE-LOCAL INFRASTRUCTURE IMPROVEMENTS SERVING SHAW AFB AND THE COMMUNITY

Since 1996, the state of South Carolina has been generous in its support to Shaw AFB. It has funded a highway overpass to improve safety and access to the main gate in 2000 at a cost of $2,684,845; constructed Patriot Parkway, linking the base with major residential areas of Sumter in 2000 at a cost of $9,530,155; and closed Frierson Road between the base and the base housing area to improve security in 2002.

CONCLUSION – SUMTER AND SHAW GROWING AND PROSPERING TOGETHER

As the Sumter-Shaw community enters 2005 and prepares for at least the next 20 years, the local governments have put in place a series of plans, maps, ordinances, and regulations that will guide aviation and development to live and prosper together. It has been accomplished through strong cooperation between the base and local governments and highlighted by the two councils enacting the same rules so that annexations change no rules (Since the zoning districts have the same standards, an annexation does not change rules or standards for the property.).

Shaw and Sumter have set an example for counties across the United States to follow for any aviation facility and any development to grow together. The City of Sumter web site (www.sumtersc.gov, departments, planning, then Ordinances and Maps) features the actual documents and maps described in the article.

ACRONYMS

ACD	AIRFIELD COMPATIBILITY DISTRICT – Zoning Ordinance Overlay District
AFB	AIR FORCE BASE
DOD	DEPARTMENT OF DEFENSE
ECR	ELECTRONIC COMBAT RANGE
JLUCS	JOINT LAND USE COMPATIBILITY STUDY
JLUS	JOINT LAND USE STUDY
MPD	MILITARY PROTECTION DISTRICT- Comprehensive Plan Area
OEA	OFFICE OF ECONOMIC ADJUSTMENT
RCD	RANGE COMPATIBILITY DISTRICT – Zoning Ordinance Overlay District
USAF	UNITED STATES AIR FORCE

IEDC Annual Conference September 25-28, 2005, Chicago

The Global Economy Is Here — Now What?

Happening in the dynamic city of Chicago, hosted by Mayor Richard Daley, and providing a robust program of educational sessions, networking opportunities, and standout keynote speakers, the IEDC Annual Conference promises to be the economic development event of 2005. The program, comprehensive and timely, will focus on International Economic Development, Development Best Practices, Neighborhood Development and the Economic Future.

Each topic will have a day dedicated to it, providing attendees with the opportunity to be immersed in the latest ideas and trends impacting the profession. Each social event will enhance the learning experience of the sessions while drawing on Chicago's vibrant cultural and development scene.

Stay up to date with the program by visiting www.iedconline.org. Don't wait to register. The earlier you register, the lower the registration rate. It is expected that the room block at the Hilton Chicago and Towers will fill rapidly, so make your reservation early.

New Report Features Approaches to Redeveloping Contaminated Land

IEDC's new report, *International Brownfields Redevelopment*, describes and compares the approaches to redeveloping contaminated land in Canada, the United Kingdom, the Netherlands, and Germany. Funded by U.S. EPA, the publication reviews each country's regulatory environment, planning processes, redevelopment practices, and funding sources.

The focus extends beyond contaminated property issues to encompass redevelopment more broadly. Case studies help illustrate how different countries' economic and legal frameworks and social goals affect the redevelopment process.

In particular, two mechanisms are noteworthy: large-scale planning for targeted sites and value capture/cost recovery. In the Netherlands and Germany, brownfields are approached as part of an integrated planning and redevelopment framework. By contrast, Canada historically has not had national brownfields program and related public funding.

The full 166-page publication is available through IEDC's Bookstore: $30/members, $40 non-members.

Facing Challenges/Creating Opportunities

NAID/ADC 2005 Annual Conference

Just three weeks after DoD releases its Base Realignment and Closure (BRAC) list, the 2005 NAID/ADC Annual Conference takes place June 4-7 in Denver at the new Colorado Convention Center. This event is expected to draw over 1,000 attendees from communities, the private sector, and the military. The program will include two tracks on redevelopment —basic and advanced— plus tracks focusing on issues that impact communities with active bases. No matter what happens on May 16, NAID/ADC will have a track for you.

Located in a spectacular setting at the foot of the Rocky Mountains, Denver is one of the most exciting cities in America. This is a great opportunity to explore the greater Denver region and experience two of the most successful base conversion projects in the country: Lowry and Fitzsimons. For more information on the conference, including exhibit opportunities, please go to www.defense-communities.org.

Showcase Your Expertise with the CEcD Designation

10-Year Experience Clause Ends Soon

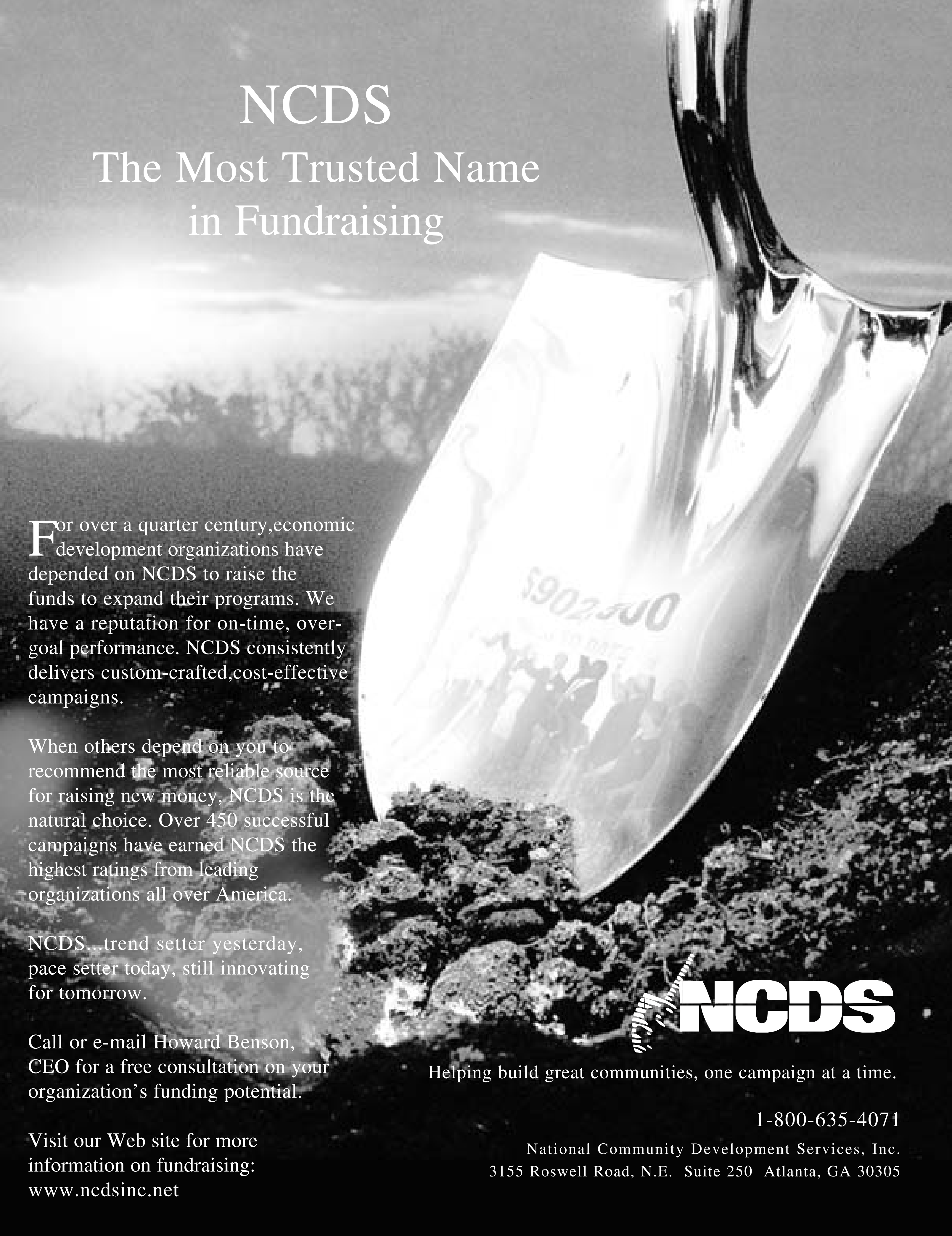
September 30, 2005, marks the end of the 10-year clause permitting economic development professionals with at least 10 years of experience to waive the professional development course requirements and sit for the CEcD exam. This waiver has been in effect since 2001. After the September 30 deadline, all CEcD exam applicants will be required to complete the training course requirements prior to submitting an application. Completing the course requirements entails an average of a one-year commitment to the process.

Take advantage of the 10-year experience clause while it lasts. September 24-25 in Chicago is the final exam date before the 10-year clause expires. The application deadline for this exam is July 25.

IEDC Launches New York Course Series

IEDC, in conjunction with the New York State Economic Development Council, will kick-off a two-year series of economic development training courses. This partnership will increase the diversity of knowledge in economic development in the state of New York, while creating an opportunity for practitioners to fulfill professional development requirements for certification.

Two IEDC courses are scheduled in New York this year: "Economic Development Marketing & Attraction," August 17-18 in Saratoga Springs and "Economic Development Planning," October 25-26 in East Syracuse. Registration is open to all. To register, visit New York State Economic Development Council's website at www.nysedc.org.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