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The IEDC Economic Development Journal

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INTERNATIONAL
ECONOMIC DEVELOPMENT
COUNCIL

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The International Economic Development Council (IEDC) is the premier international association dedicated to leadership and excellence in economic development. IEDC can equip you with the tools and resources that are helping to shape economic development throughout the country and around the world. Our services include:

- *ED Now*, a twice-monthly newsletter
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- Improved access to resources and information
- Enhanced educational choices
- Stronger advocacy and access at the Federal level
- Expanded networks and alliances
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Economic Development Journal

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Chair: Jay C. Moon, CEcD, FM
President & CEO: Jeffrey A. Finkle, CEcD
Editor: Jenny Murphy

Jay C. Moon, CEcD, FM
IEDC Chair

dear colleague

I have been privileged to represent the IEDC membership over the past year as chairman of the Board of Directors. This has been a dynamic year for IEDC as the organization continues its mission of providing leadership and excellence in economic development for our communities, members, and partners. I had three priorities in 2012: create a framework to support the manufacturing sector, support and expand our international partnerships throughout North America and around the globe, and provide IEDC members with cutting edge economic development strategies and best practices.

In regards to my first priority, IEDC has worked hard throughout the past year to help its members understand what it takes to identify local needs and assets to grow the manufacturing sector in their communities. Overall, in 2012, the organization devoted over ten of its conference and web seminar topics directly to the subject of manufacturing, in addition to keeping manufacturing at the forefront of our member communications.

IEDC's report on "Jobs in the Making: Economic Development Strategies to Grow Manufacturing," produced by the Economic Development Research Partners (EDRP) program, detailed the evolution of the manufacturing sector and what communities can do to foster its growth and sustainability. In addition, the efforts to strengthen our partnerships with elected officials and government agencies around the area of manufacturing culminated in the first ever IEDC White House Summit with Obama administration officials. In addition to meeting with current federal leaders, economic developers from across the country had the opportunity to move the discussion forward on several subjects critical to our profession.

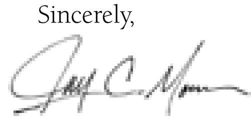
This past year, the organization continued to grow its international partnerships and deepen ties outside the U.S., both within North America and overseas. To this end, IEDC entered into a partnership with its fourth Canadian provincial organization, signing a Memorandum of Understanding with the Saskatchewan Economic Development Authority. In addition, the organization entered into a MOU with the Center for Local Economic Development, an 11-university consortium in South Africa, building on a growing partnership and ensuring that for the first time, IEDC's certified economic developer curriculum will be offered overseas. IEDC has also maintained its links with the Investment Promotion Agency of the Chinese Ministry of Commerce, along with the World Association of Investment Promotion Agencies (WAIPA) and the European Association of Development Agencies (EURADA).

To address my final priority, IEDC has continued to provide cutting-edge best practices and strategies to economic developers, cementing our reputation as the go-to resource for the latest information and trends. Relative to this effort, the EDRP program is producing a series of reports, "Adapting and Thriving: New Realities for Economic Development Organizations," especially focusing on the internal business practices of EDOs and how they are adapting to broad shifts in the economy. In addition, IEDC released a paper on executive and professional competency models for economic developers, designed to help individuals and organizations understand the core competencies necessary for success in economic development. Our conferences, professional development courses, journal, newsletters, clearinghouse services, and many other offerings all provide the tools and knowledge necessary to establish your community as a leading competitor in the global economy.

I could not have achieved all these goals alone. None of these are individual achievements. The entire Board, Jeff Finkle, and all the staff have been outstanding in supporting me throughout the year. I especially want to thank the Governance Committee for its commitment and support: Denny Coleman, CEcD, FM; Paul Krutko, FM; JoAnn Crary, CEcD; Lynn Martin Haskin, Ph.D.; Barry Matherly, CEcD; and William C. Sproull, FM.

It has been a great pleasure to serve the organization this past year. I look forward to seeing many of you at future IEDC events.

Sincerely,



Jay C. Moon, CEcD, FM
IEDC Chair

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global logistics trends

By Curtis D. Spencer

There are countless links between global trade, global logistics and local economic development. However, identifying and capturing the opportunities these connections present remains a daunting challenge for local and regional economic developers. Defining "the path of progress" as it relates to economic growth and jobs creation requires a solid grasp and understanding of the many elements of global trade and logistics. A strong knowledge of these elements and insight into the factors which impact the movement of goods, both in terms of imports and exports, is essential and often times requires access to trade intelligence, transportation and logistical data.

Port container yard where goods are stored before and after transit.

SUPPLY CHAINS FOR GOODS MOVEMENT

Supply chains are moving conveyor belts on which multiple custodians participate in moving goods from their global origins to final destinations. Production of goods which require higher labor content often seek the global source where low cost labor is readily available, and the supply chain adjusts to accommodate the new production center wherever it may be located in the world. Recent trends have seen that the production of goods with high material content and value are returning to production locations "near-shore," closer or back in the United States. The logistics professional must manage the moving conveyor belt of goods from new origins to local destination in such a manner to not erase the benefits of lower cost production with poor supply chain execution.

There are many factors that go into a strategy for moving goods globally. The key ingredient and deliverable of this article is to focus on how to translate complex goods movements into economic development in terms of corporate growth and the corresponding job creation. Through increasing knowledge of how goods move and how goods movements are managed, economic development efforts can be more effective and the measurement of jobs created and retained more easily measured.

A typical supply chain, moving goods from a foreign factory to a distribution center in the United States, will have as many as nine and often times a dozen or more custodians who actually move cargo from one place within the supply chain to the next. These custodians are managed by the seller or the buyer of the goods. In some cases, the seller or buyer uses a third-party logistics service provider to manage the physical movements of goods by the custodians.

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NEW ECONOMIC DEVELOPMENT OPPORTUNITIES BASED ON TODAY'S SHIFTING GLOBAL SUPPLY CHAINS AND INCREASING E-COMMERCE SEGMENT OF THE RETAIL INDUSTRY

Where is the next distribution center going to be located? Why is one market capturing businesses, while another one is not? How do logistics and transportation factor into the site selectors search criteria? Getting in front of the path of progress begins with properly positioning a region as a destination for goods distribution or manufacturing. It is essential that economic development groups provide market information in a manner that reflects the strengths being sought by site selectors during their evaluation. Therefore, understanding how logistics, transportation, and shifting supply chains impact the key decision elements of both retail distribution and manufacturing operations is imperative for all economic development professionals.

Definitions

Logistics professionals – Professional logisticians are often certified by professional associations. One can either work in a pure logistics company such as a shipping line, airport or freight forwarder or within the logistics department of a company. However, logistics is a very broad field encompassing procurement, production, distribution, and disposal activities. Hence, the career perspectives are very broad. New trends in the industry are the 4PL or Fourth-party logistics – consulting companies offering logistics services.

Custodian – A person responsible for protecting or taking care of something or keeping something in good condition.

Mode "of transportation"– A term used to distinguish substantially different ways to perform transport. The most dominant modes of transport are aviation; land transport, which includes rail, road, and off-road transport; and ship transport. Other modes also exist, including pipelines, cable transport, and space transport. Each mode of transport has a fundamentally different technological solution, and some require a separate environment. Each mode has its own infrastructure, vehicles, operations, and often has unique regulations. Transport using more than one mode is described as intermodal.

Price elements – Detailed cost structure including all auxiliary fees, taxes, and monetary costs associated with each of the service options being researched.

Capture rate – Percentage of goods that remain within a market and do not simply pass through on their way to another market.

Stock parts – Those parts or components that are common to a manufacturing process and are essential to produce the final goods made at a facility. These parts must be kept on hand in order for operations to function properly.

The custodians, the management of the custodians, and the flow of information and financial data required to pay for movement of goods must be coordinated so that the time between shipment and the receipt of goods is predictable. Predictability is more critical for higher value manufacturing goods and less critical for lower value freight that is routed at the discretion of the buyer or seller to achieve the lowest costs between origins and destinations. These two categories of freight, **time sensitive** and **discretionary cargo**, are important as the routings, port selection, mode selection, and price elements vary widely between the two categories of goods moved on the global conveyor belt.

Discretionary cargo moves at a different pace and price points than time sensitive cargo. Discretionary cargo often is made up of consumer goods which can have a longer supply chain in order to accommodate the lowest total transit price between origin factory and distribution centers. For example, a retailer who orders seasonal Christmas merchandise in January or February to access the lowest cost production is not in any hurry to receive the goods, thus this freight is routed at the lowest price and delivery schedules are not rigid. However, this procurement strategy only works when the production cost savings are not erased by the storage requirements or higher transportation costs.

Time sensitive freight is most often used in the manufacturing or production of goods. Therefore, it requires a more stable delivery schedule and seeks a rate structure that provides a high level of this predictability as part of the overall delivery process.

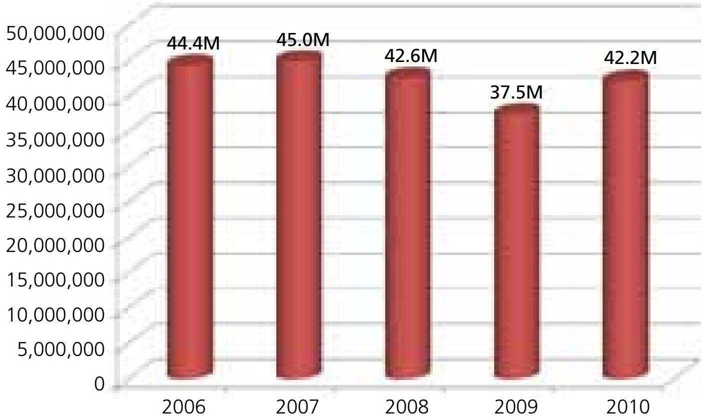
NEW DEVELOPMENTS IN GOODS MOVEMENT

One important development in the past several years is the capability and lift (number of containers that the ship can hold or capacity) of the new generation of container ships that are moving loaded ocean containers between global origin and destination points. Cargo loaded in containers is moved in-tact and managed by the ocean carrier in a door-to-door, port-to-port, or port-to-door movement. The choices on routing and destination are only magnified by the new ships' capacity and the challenges associated in dealing with the new, larger vessels.

However, a significant milestone accomplishment will occur in 2015 when the Panama Canal lock expansion is completed and ships up to 12,500 TEU (twenty-foot equivalent units or containers) will for the first time be able to transit through the Canal. This remarkable engineering achievement will manifest itself in an array of changes in the ocean carrier's strategies for port rotations and calls resulting in implications for all ocean ports on the Atlantic, Pacific, and Gulf Coasts of Mexico, Canada, and the U.S. Not only will larger ships call on ports, but the accompanying larger discharge of container at these ports will require larger cranes (up to 24 TEUs wide across the width of the ship) and port wharves and require a process to support moving the larger amounts

The Panama Canal today has the capacity to handle vessels carrying up to 4,500 20-foot units. Once the expansion is completed in 2015, 12,500 20-foot unit vessels will be able to transit through the Canal.

Total TEUs Processed at U.S. Ports
2006 - 2010



of cargo off the port terminal to inland ports or market destinations.

The Panama Canal has limited capacity and ships carrying up to 4,500 20-foot units can transit the Canal, while larger ships cannot transit the Canal. In order to utilize the economies of scale presented by the larger ships, ocean carriers are now deploying ships that can carry 6,000, 9,200, 12,500, and soon 18,000 20-foot container units. These larger ships require deep water, higher air clearance and require that ports' facilities are able to manage a larger discharge and load-out of cargo in competitive timeframes. Today, these larger ships can transit the Suez Canal, which has resulted in some of the ocean carriers already routing the larger ships to ports that previously were only served by the Panama Canal class of ships.

As the ocean carriers continue to introduce more of the large vessels into their rotations between countries, economies of scale will demand more sailing time on the water and less port time. One yet undetermined outcome of the carrier's decision process will be which ports it will select to be in the rotation of the larger ships. This decision, when made, will have a dramatic impact on the ports, both those selected for the larger ships' service calls and those not selected. The three keys to a port's success due to their critical impact on the ocean carriers are: sufficient water depth, sufficient and competitive wharf/dock/terminal capacity and capability, and a strong capability to manage cargo to inland destinations either by truck or rail service outside the port's fence line. It is this inland capability that will drive port growth in the future. Therefore, ports with mature rail services, balanced capacity for imports and exports, and adequate water depth will be the ports where the ocean carriers will send their larger ships for service.

All ports differ vastly in terms of the amount of the cargo which remains within the local market known as the "capture rate" and how much moves inland to other markets. This equation of captured local cargo or inland cargo is important as it will ultimately define where industrial and economic development occurs.

The U.S. ports have seen wide variations of growth over the past years as reflected in the graph. Not only are these numbers significant, it is important to note that within these volumes the ports include imports, exports, and empties reloaded to ship back to countries where new production will be loaded into the empties.

Many U.S. ports are currently moving an equal or greater amount of goods through their export programs. These exports are equally important to the future of the port facilities and strategic position. Ports that can establish a "balance" between import and export volumes offer a benefit to the ocean carrier which selects that port as part of its routing schedule.

For export loads, often the port's "reach" inland is much more important than it is for imports. In fact, one significant challenge at today's inland ports is how to better match up the import's recently emptied container and the demand for an empty container to be loaded with an export. This matching effort, once successfully managed by economic development teams and industrial developers, will add a new layer of success to the creation of a vibrant economy resulting in the creation and retention of local jobs in regions where imports and exports are closely managed and matched.

A portion of the imported containers move inland within a sealed container moving by truck or rail to large inland terminals and from these terminals to distribution or manufacturing centers. Other containers are unloaded at the ports and goods are reloaded into new and often larger containers for domestic transit inland by either truck or rail to a distribution or manufacturing center where they are unloaded. The process known as transloading occurs when the ocean carrier only moves the goods between ports and

Cranes unloading containers from an ocean carrier.

A gantry crane loads a container onto a railcar for movement inland.

wants an immediate recovery of the carrier's container or when an importer seeks an economy of scale by shifting goods from an ocean carrier (20- or 40-foot units) into domestic containers which are 53 feet in length. This means that for the inland move, the importer who transloads can shift four ocean containers of goods into three domestic containers for the inland portion of the journey.

At the port, import containers that are received will either move inland intact, are transloaded at or near the port, or are moved to a local or regional distribution center. All ports differ vastly in terms of the amount of the cargo which remains within the local market known as the "capture rate" and how much moves inland to other markets. This equation of captured local cargo or inland cargo is important as it will ultimately define where industrial and economic development occurs. However, due to the differences in each port's capture rate and the practice by cargo owners of routing discretionary freight through different ports based on rates, time of year, demand levels, and economic trends, capturing opportunities can be challenging for economic developers. This difficulty is further compounded by the regular shifts in routing and local capture rates occurring within port markets and inland destinations.

IMPACT ON ECONOMIC DEVELOPMENT

Economic developers who want to be successful in capturing jobs as a result of the demand for industrial buildings in their communities must understand the complexities occurring in the global supply chain. They must also be willing to invest in data that provides them with clear insight into which containers arrive in their local market and where these containers' contents are consumed. Most containers arrive full of retail and consumer goods which are then moved from distribution centers to retail stores. Another "set" of containers will hold parts used in manufacturing or assembly. They are timed very specifically in the global supply chain, so that they show up "Just-In-Time" (JIT) for delivery so that they can be used instantly in the manufacturing process. Manufacturers in the U.S. keep only two to four days of "stock" parts, making the accuracy, predictability, and consistency of any supply chain the most important element.

If an economic developer can determine what is flowing into his/her region, then the "list" of target companies becomes much clearer for making the case for relocation. The closer a supplier is to its customer, the better for both parties. This phenomenon is known as clustering and it has been used by economic developers for years as a targeting method. The key is getting good reliable data to support that process.

The second part of the supply chain, the movement outbound from distribution or manufacturing center to stores or consumers, is equally critical and important for economic development and jobs capturing efforts. This second movement of goods is a function of several important factors, all of which have direct impacts on economic and industrial development. Distribution centers are located at sites that match up the total inbound (from factory to distribution center) and the total outbound (from distribution center to stores or consumers) sectors of the supply chains.

Some retail distribution centers are located to support replenishment of stores on a daily basis; other distribution centers support weekly store support, while other distribution centers support direct delivery to consumers who purchase through e-commerce platforms. Store expansion is an important element in site selection and retailers will position new distribution facilities in locations where organic store growth is occurring or is planned. Locations which support predictable flow into the distribution center from ports and match the flow outbound to stores or consumers are the most sought after and have the highest percentage of jobs created.

Trailers are brought to distribution centers where inventory is sorted and disbursed to stores, other distribution centers or directly to customers.

E-COMMERCE IMPACTING GOODS MOVEMENT

Free shipping is a critical element in successful e-commerce. By having the selected store-distribution centers located in markets with robust overnight ground transportation services, the retailer can meet these demands without the added cost of a new locally constructed purpose built distribution facility.

Today, seven percent of all retail transactions are conducted through electronic or mobile commerce platforms and occur outside the traditional retail storefront. Within five years, almost 25 percent of the total commerce will be conducted outside the traditional retail storefront. This new type of commerce will create demand for new locations for distribution locations supporting this commerce, new configurations of facilities which are vastly different from traditional distribution centers, and higher-level labor requirements at these new commerce facilities.

E-commerce fulfillment continues to increase, reshaping the retail global supply chain and requiring non-traditional distribution methods.

Consumer goods will arrive in the same configuration to these e-commerce distribution centers; however, the flow of goods out of these e-commerce distribution centers is vastly different than what occurs at the traditional retail fulfillment center. For e-commerce distribution centers, proximity to ground transportation terminals (UPS or FedEx) is essential, as most cargo moves outbound as a single item ordered for delivery by an individual.

These two retail supply chains, retail storefront support and e-commerce order fulfillment, are managed differently by retailers. Some retailers will use one warehouse for support of both channels of demand, while others will build a separate new facility to support the new e-commerce demands. Other retailers will use a third-party fulfillment company to support their new e-commerce storage, order fulfillment, and shipping demands while maintaining their current storefront fulfillment processes.

A recent announcement has been made that some stores in key population centers are being reconfigured so that part of the floor plan is now devoted to a small e-commerce pick and pack operation. This is an important development and new strategic initiative which will allow this retailer immediate access to local transportation networks near the stores to support timely order processing, fulfillment, and delivery to consumers. By converting some store space to distribution resources, this retailer has resolved the problem of distribution networks in close proximity to consumers by making the store a dual-purpose facility.

Free shipping is a critical element in successful e-commerce. By having the selected store-distribution centers located in markets with robust overnight ground transportation services, the retailer can meet these demands without the added cost of a new locally constructed purpose built distribution facility.

Periodical and Resource Information

The Journal of Commerce delivers high-quality intelligence and expertise on trade, logistics, and transportation including updates on maritime, ports, rail & intermodal, trucking, air cargo, logistics, regulations & policy, economy, and global trade. (www.joc.com)

American Shipper magazine was first published under that name in May 1974 and is designed to serve the information needs of shippers, carriers, and third parties involved in international transportation and for executives managing international logistics and supply chains. (www.americanshipper.com)

PIERS is the most comprehensive database of U.S. waterborne trade activity in the world, providing information services to thousands of subscribers globally. They offer business intelligence tools and solutions based on PIERS unique infrastructure and proprietary technology that allows PIERS to not only publish import data but also complete coverage of U.S. export transactional data. Complementing the U.S. trade intelligence, their international trade data spans the globe, covering every major world economy with an emphasis on significant trading partners and emerging source regions in Asia and South America, such as China, India, and Brazil. (http://www.piers.com)

The Wall Street Journal provides insight into economic and industry trends impacting the world and the U.S. This publication often provides significant articles regarding transportation, global trade, port and rail infrastructure, corporate announcements, and a multitude of other information that can be utilized when analyzing a market or investment opportunity. (http://online.wsj.com/home-page)

ECONOMIC DEVELOPMENT OPPORTUNITIES

Getting in front of the path of progress and positioning a region as a destination for goods distribution or manufacturing is what every economic development agency in the country wants to do. Providing information so that regional strengths are evident to site selectors who locate distribution or manufacturing centers for evaluation is also what every economic development agency in the country wants to do. Why are there so many efforts and so few successes? The answer is that many marketers who work as economic developers do not utilize trade and logistics data to formulate decisions, messaging, and strategies.

Data anchors the marketing program. Information about supply chain execution, order fulfillment, distribution, and logistics is available, actionable, and affordable. The key is to find a source for the data that builds knowledge of trends in logistics which can be matched to a region's strengths, and based on the findings used to capture jobs in logistics, transportation, and distribution at the local level. Trade data will show these trends and define how goods flow in both retail and e-commerce systems. "Getting it right" means accessing and using data to focus the economic development efforts to increase success.

This author recommends a few key journals, subscriptions, news magazines, and data providers to assist in this process. They are: The Journal of Commerce, American Shipper, Pacific Shipper, PIERS, The Wall Street Journal, and Commerce/Census trade data.

Data anchors the marketing program. Information about supply chain execution, order fulfillment, distribution, and logistics is available, actionable, and affordable. The key is to find a source for the data that builds knowledge of trends in logistics which can be matched to a region's strengths, and based on the findings used to capture jobs in logistics, transportation, and distribution at the local level.

In closing, the world of logistics and the global supply chain used to be much simpler and made much more sense to practitioners here in the U.S. Not so anymore. The global conveyer belt that brings goods from China, India, and Brazil to U.S. doorsteps is much more complicated, however it provides many more economic development opportunities. Understanding the supply chain and logistics process will reap benefits to any economic development agency and will result in accelerated business development and jobs growth.

eighteen years later

By Rick Loessberg

In 1995, *Economic Development Commentary* (National Council for Urban Economic Development) published an article, "In-Town Housing," that discussed the conditions that must exist in order for such housing to be successful. In addition, the article also contained a brief description of the new in-town housing program that the city of Dallas had recently created, and it noted that although the program had only been in existence for less than two years, its early results had been "promising."

It has now been almost 18 years since this program was first mentioned in *Economic Development Commentary*. Given the amount of resources that cities often commit to such efforts and given that Dallas, which is the nation's ninth largest city, did not previously have much (if any) of an in-town housing tradition, re-visiting this program to see whether it has been successful could be very beneficial to other cities interested in creating similar housing.

Built in 1914 as the first Ford Motor Company factory west of the Mississippi River, this building became a factory for Adam Hats in 1955. Located just east of downtown Dallas, it was converted into housing in 1997.

DALLAS AND ITS DOWNTOWN

In many respects, Dallas is the prototypical post-World War II Sun Belt city. Automobile-dominated, it has been characterized by rapid outward growth and low-density, suburban-style-tract homes. In 1940, even though Dallas was the second-largest city in Texas, it was only the 31st largest city in the United States with a population of 294,734. However, by 1990, the city's population had more than tripled to 1,006,877 and in 2010, its population had reached 1,197,816.

At the same time the city was adding thousands of new residents, it was also adding hundreds of new square miles to its city limits. Whereas the city consisted of only 40 square miles in 1940, it now contains about 340 square miles which makes it geographically larger than Baltimore, Boston, Buffalo, Pittsburgh, San Francisco, and St. Louis *combined*.

Downtown Dallas is completely encircled by freeways and contains about 1.3 square miles, making it about the same size as many other downtowns, including those of Cleveland, Denver, Indianapolis, and Seattle. Not unlike the central business districts of many other cities, Dallas' downtown saw many of its department stores, retailers, white-linen table-cloth restaurants, and movie theaters begin to leave in the late 1960s. However, for much of the next two decades, downtown continued to remain a center of major economic activity employing about 100,000 people, containing a disproportionate amount of the city's tax base, and being the site of substantial real estate construction (during 1972-1985, 21 high-rise office buildings/hotels, each containing at least 25 stories, were built).

Rick Loessberg is the director of planning & development for Dallas County, Texas. He participated in the original development of the Dallas in-town housing program and serves as the county's board representative on seven of the TIF districts that principally serve the in-town area. (Rick.Loessberg@dallascounty.org)

CATCHING UP WITH THE DALLAS IN-TOWN HOUSING PROGRAM

Like many American cities, Dallas has sought to encourage the creation of in-town housing as a means for improving its downtown area. However, prior to this effort, the city did not have much of an in-town housing tradition or a history of directly participating in urban development activities. This article examines the origin of the Dallas in-town housing program, discusses the various incentives that the program has used, describes the housing that has been built, and assesses whether the program has been successful. It also offers some observations that might be helpful to other cities with in-town housing aspirations.

Originally built as a railroad freight warehouse/terminal for the Santa Fe railroad in 1925, this downtown structure was converted into 190 housing units in 1998.

However, although large numbers of people continued to work in downtown, virtually no one lived there. According to the 1990 census, there were only 235 housing units in downtown, and all of these were located in one development that had been built in 1965.

A number of factors had been responsible for this lack of downtown housing. The phenomenal outward growth that the city was experiencing and the ability to buy new and large homes at relatively reasonable prices in these rapidly developing neighborhoods lessened much of the demand for housing in the center of the city. In fact, at the same time that the city's population was growing by over 19 percent during 1970-1990, the population of the one-mile-area surrounding downtown was declining by 38 percent.

Another factor contributing to the lack of downtown housing in Dallas was the city's political philosophy. Although the city had had a long history of corporate involvement in civic affairs, its political philosophy precluded it from intervening in the market or attempting to directly assist a particular type of development. In fact, Dallas was the largest city in the country to have not participated in the federal urban renewal program of the 1950s and 1960s, and as late as 1985, it chose not to create a tax increment finance (TIF) district for a Rouse Company festival marketplace because of concerns about aiding a private developer.

Ironically, downtown's ability to attract substantial office investment also worked against the creation of housing in the area as the new office towers that were being constructed seemingly offered investors a fool-proof method for making money, discouraged lenders and developers from considering other types of downtown projects, and bid-up the price of land to such a level that only office projects could produce the rates of return that investors were now expecting. It also inadvertently created a perception that while other downtowns might have a problem, downtown Dallas did not – city council members referred to their downtown as "Emerald City." With this perception, there was no reason for city hall to change its philosophy and provide the type of assistance that might be needed to either counteract the high costs of building housing in downtown or to prove that a market for in-town housing might actually exist.

THE NEED FOR AN IN-TOWN HOUSING PROGRAM EMERGES

However, by the early 1990s, this situation had changed dramatically as the nation's savings and loan crisis collided with what was now an over-abundant supply of downtown office space. Downtown's office vacancy rate jumped from 23 percent to 35 percent – thus making it higher than Detroit's – and its property values fell by two-thirds to levels not seen since the 1930s.

Landmark structures like the Republic Bank Building and the Mercantile Building, which had at one time been among the city's tallest buildings and which had symbolized the city's emergence as a national financial center, were now completely empty. Others, like the Cokesbury Book Store, were being torn down, not to be replaced with new structures, but with surface parking lots because such uses were financially more advantageous. Major employers began discussing leaving downtown for either the new local suburban campuses that had recently been built or for entirely different metropolitan areas, and there was a concern that even the venerable downtown Neiman Marcus store might also close.

Many neighborhoods that were adjacent to downtown were in even worse condition. The 100-acre State-Thomas area, located slightly northeast of downtown, had once been a working class African-American neighborhood. It, however, had undergone intense land speculation during the 1970s and 1980s with hundreds of homes being demolished (and only a few dozen remaining) in anticipation of the high-rise buildings that never came.

Similarly, the 250-acre Cityplace area, which was located just north of the State-Thomas area, had been acquired by the Southland Corporation during the same period. Southland had intended to build a 42-story of-

The State-Thomas area now contains about 2,300 housing units that did not exist when the city began its in-town housing area.

fice tower as part of a planned mixed-use development on the site and had succeeded in clearing over 70 percent of the site before the company fell into bankruptcy. Like State-Thomas, the Cityplace area also resembled a community that had been swept clean by a tornado.

So seemingly sudden and massive was this change to the downtown area that the Dallas City Council began considering options that previously would have been regarded as heresy. In 1988, the city created its first TIF district so that something constructive might emerge from the remnants of the State-Thomas area. Four years later, the city similarly created a TIF district for the Cityplace area, for the Cedars area to the south of downtown, and for the Gateway area to the west. Yet, downtown-area building vacancies continued to increase, and property values continued to decline.

In late 1992, when it was announced that the Cotton Exchange Building, which once had been the equivalent of the New York Stock Exchange for cotton trading, was going to be demolished for yet another parking lot, Dallas city hall and the downtown business community, at the request of Mayor Steve Bartlett, began exploring what other options could be pursued. What emerged several months later was a proposal for an in-town housing program that the mayor called "one of the most exciting and far-reaching changes we [will] make in the city."

DALLAS' NEW IN-TOWN HOUSING PROGRAM

The Dallas in-town housing program was designed to take advantage of the large inventory of vacant (and often historic) office buildings that existed in downtown and convert them into housing. It was thought that by renovating and converting these older buildings, the city would be able to simultaneously reduce the amount of vacant office space that was depressing the office market, help preserve some of downtown's more historic structures, improve the area's tax base, revitalize retail, create after-hours street life, make downtown more aesthetically pleasing, and attract new residents who typically lived in the suburbs.

The program was designed after city hall and the downtown business community had first examined what other cities like Boston and Chicago had done to encour-

This former downtown furniture factory was converted into housing in 1994.

> Recognizing that the city had to "become a development partner with the private sector" and that it had to "be willing to risk its own resources and to use inventive and sometimes costly incentives," in May 1993, the city council unanimously approved an in-town housing program for downtown and the one-mile radius surrounding it.

age downtown-area housing; consulted with the developers of such housing in St. Louis, Charlotte, and Denver; and reviewed the results of a specially-commissioned study that determined that there was sufficient demand in Dallas for 24,000 units of downtown-area housing.

Recognizing that the city had to "become a development partner with the private sector" and that it had to "be willing to risk its own resources and to use inventive and sometimes costly incentives," in May 1993, the city council unanimously approved an in-town housing program for downtown and the one-mile radius surrounding it. The new program authorized the waiving of the city's various development fees, the use of tax abatements, the provision of gap financing ($25 million in CDBG funds for use as Section 108 loans was allocated for this purpose), and city participation in the funding of on-site infrastructure.

The program also contained a requirement that at least 20 percent of the housing that was produced with its assistance had to be affordable to people earning no more than 80 percent of the area's median household income. The program also had a goal of creating 1,350 housing units in downtown within five years and another 4,000 units in the one-mile area surrounding it.

THE RESULTS

There were the inevitable start-up issues associated with the city's new program: operating procedures had to be developed, HUD took longer than expected to approve the city's Section 108 program, and refining cost estimates for projects involving historic buildings often proved to be problematic. However, while the process was sometimes frustrating, most recognized, as did Cliff Booth, who converted a ten-story freight storage building into 205 units of housing, that there was not "anyone to blame . . . or a culprit. It's just there are significant barriers to doing . . . a project like this." Jack McJunkin, who converted a downtown department store into 127 units, also noted that, "everybody [has] . . . had [to] learn a lot in this process – both the developers and the folks at the city. Dallas is new at urban revitalization, and we have [had] a lot of catching up to do."

Given the steep learning curves that were involved, it is not surprising to discover that the program did not quite reach its original five-year goal of 5,350 units. However, a total of 4,413 units – 82 percent of its goal – was built by the end of 1998. Of these 4,413 units, 180 were built in downtown, and 4,233 were built in the one-mile area surrounding it.

By 1998, there were signs that most of the start-up issues had sufficiently been resolved and that invaluable experience had been gained. Indeed, in the years that followed, production increased dramatically, and as a result, by 2012, there was a total of 19,808 units within the city's in-town housing area with 4,180 being located in downtown.

Year	# New Units in Downtown	# New Units Outside of Downtown	# Total Units Produced
1994-1998	180	4,251	4,431
1999-2003	1,558	5,240	6,798
2004-2008	1,979	5,229	7,208
2009-2012	463	908	1,371
Totals	**4,180**	**15,628**	**19,808**

Not surprisingly, about one-half of the housing that has been produced has been in the areas north of downtown where large tracts of already-cleared land were readily available. Downtown, which had the density and the availability of large vacant buildings that could be converted into housing, has accounted for about one-fourth of the new housing that has been created. In comparison, the areas to the south, east, and west of downtown have enjoyed much less activity. This is probably because land ownership in these areas is much more fragmented, land-uses have often been so incompatible, and there have not been as many buildings available for conversion. In addition, there have been substantially more years of disinvestment and adverse public perception to overcome.

The 19,808 units that have been created in the in-town area have come in a variety of unique types and styles. There are newly-constructed high-rises with observation decks and roof-top swimming pools. There are old factories and warehouses that have been turned into loft apartments with high ceilings and concrete floors, and there are high-rise bank buildings from the 1940s and 1950s that have been converted into modern apartments. There are new mid-rise developments with clock towers, elaborate fountains, and center courtyards, and there are new townhouses with walk-up entrances. In all, the housing that has been produced is unique and has helped create neighborhoods that are unlike any others in Dallas.

Initially, the announced projects that often received the most publicity involved renovating and converting historic buildings in downtown. However, as seen in the chart, while transforming downtown's older buildings into housing has accounted for about 60 percent of the housing in the CBD, 79 percent of the total housing that has been built in the in-town area has involved new construction.

MERCANTILE BUILDING

Before there was the Dallas Cowboys, Texas Instruments, or a widely-popular television show from the 1980s, Dallas was probably better known as being the financial center of the southwest. No building better represented Dallas' role in banking than the 31-story Mercantile National Bank Building which was initially constructed in downtown Dallas in 1943. Home to one of the largest financial institutions in the state, it was, at one time, the tallest building west of the Mississippi River, and it was the only major skyscraper constructed in the U.S. during World War II.

Subsequently expanded on five different occasions, by 1972, the Mercantile complex contained almost one-million-square feet and occupied an entire city block. Unfortunately, the collapse of the real estate market in the mid-1980s led to the demise of both the bank and its downtown complex. The bank was dissolved in 1989, and the complex became completely vacant in 1993. Ironically, the complex's massive size, which had once been a symbol of Dallas' banking influence and power, now prevented it from being renovated, and it only acted to further discourage any new investment in the area.

It was not until 2005 that Dallas Mayor Laura Miller, negotiating with Forest City Enterprise and using a complicated and unique set of incentives, completed an agreement that would finally bring productive life once again to the property. Under the negotiated agreement, Forest City would spend at least $110 million as the property's original tower would be converted into 213 housing units, and the site's other three buildings would be demolished and replaced with a new adjoining 15-story structure with 153 units.

To facilitate this activity, the city agreed to provide $58 million of TIF assistance for demolition, environmental remediation, façade renovation, parking construction, and utilities. This $58 million of TIF assistance was not only eight times larger than any amount previously provided to any other housing project, but the city also agreed to provide this assistance through the issuance of TIF bonds *at the beginning of the project* (which it had never done before). In addition, the city also agreed to abate taxes on the site for a period of 10-15 years, it conveyed several other downtown properties to Forest City, and it agreed to provide another $10 million of TIF assistance so that these conveyed properties could be converted into housing.

Photo courtesy of the City of Dallas.

Dallas' venerable Mercantile Tower along with its new addition, The Element. Collectively, these two structures contain 360 housing units.

Construction began on the Mercantile project in 2006, and it was completed in 2008. Now called "Dallas' icon address for downtown living," its rents (at about $1.41 per square foot) are among the highest in downtown, it has an occupancy rate of 93 percent, and its assessed valuation has increased from about $3.7 million to $36 million.

Moreover, the redevelopment of this property has eliminated the dark shadow that it previously cast on its surrounding buildings. A total of $200 million is now being invested in the renovation or expansion of a number of other buildings located within one block of "the Merc," most of which have been closed and vacant for 10-30 years.

Type of Housing	# Units	% of Total Units	% Located in CBD	% Located Outside of CBD
New Construction/ Mid-rise	12,102	61.1%	33.9%	66.1%
New Construction/ High-rise	2,813	14.2%	2.2%	97.8%
New Construction/ Town House	694	3.5%	6.5%	93.5%
Warehouse/Industrial Conversion	1,406	7.1%	18.0%	82.0%
High-rise Conversion	2,278	11.5%	88.5%	11.5%
Other Conversion	515	2.6%	79.6%	20.4%
Totals	**19,808**	**100%**		

The overwhelming majority of the 19,808 units are rentals; only about 12 percent are for-purchase townhouses or condominium units. There have been no single-family detached structures built.

According to real estate consulting firm CBRE, the average monthly rent in the first quarter of 2012 for housing in downtown was $1.27 per square foot and $1.42 for housing in the area north of downtown; both figures are significantly higher than the average 94¢ per square foot rent for the entire DFW market. Occupancy in downtown was 92.7 percent and 93.3 percent for the area north of it; again, both figures are higher than the 91.8 percent rate for the total DFW market.

Clearly, by many different measures, the in-town area appears to be in much better condition than it was in 1993. However, downtown retail is one area, though, where the results may not be as impressive as perhaps one might have originally anticipated given the number of housing units that now exist.

The value of the 19,808 units that have been built is approximately $2.8 billion and has helped increase the assessed valuation of downtown from about $2.2 billion in 1993 to about $3.7 billion in 2011, that of State-Thomas from $48 million to $485 million and that of the Cityplace area from $45 million to $478 million. It has also helped reduce the downtown office vacancy rate to 28.5 percent.

There is no longer a concern that Neiman Marcus will close its flagship store and leave downtown, and several Fortune 500 companies like AT&T and Comerica have actually moved their corporate headquarters to downtown in the last few years. Street life in the State-Thomas and Cityplace areas now also rivals that of many northeastern cities.

There is also evidence that the downtown area is being successful at attracting and retaining people who might otherwise live in the suburbs. Besides the higher rents that are being paid (which indicates that downtown-area residents have incomes that are much larger than what most Dallas residents possess), a 1996 study of the characteristics of the tenants of about the first 1000 units built in the downtown area determined that the previous address for over one-half of the residents had been in a city other than Dallas. Similarly, information from the 2010 census has disclosed that while only about 7.8 percent of Dallas' population had lived in another city in the previous year, 15 percent of the population in the in-town area had.

Clearly, by many different measures, the in-town area appears to be in much better condition than it was in 1993. However, downtown retail is one area, though, where the results may not be as impressive as perhaps one might have originally anticipated given the number of housing units that now exist. When the city started its in-town housing program, many hoped that this would lead to national retailers like Banana Republic, Gap, and Borders occupying space on Main Street and that downtown would be able to support a grocery store and the other types of stores and services that people use in every-day life. For many, the opening of a downtown grocery store was especially essential, with one developer saying that he would know that downtown housing "had arrived" when it was possible for someone to go downstairs from their apartment and buy ice cream or a carton of milk from a corner store.

While there are certainly a number of noticeable improvements in downtown's retail situation – a Jos. A. Bank has opened as have four 7-Eleven stores, and there is now a much better selection of restaurants and fewer beauty supply stores and wig shops – the grocery store that opened in 2005 struggled and had to be heavily subsidized by the city before it finally closed in 2012, and the other improvements in retail have not been substantial enough to enable people who either work or live in the area to do most of their personal shopping in downtown.

Photo courtesy of Hamilton Properties.

A view of the swimming pool deck for the Dallas Power & Light Building which now consists of 154 housing units in downtown Dallas.

Possible explanations of why more significant retail and street life activity have not occurred include the possibility that downtown's housing projects are not located close enough to one another for a downtown the geographic size of Dallas. Whereas the State-Thomas area, for instance, has all of its many housing developments clustered immediately next to one another (and has much more street life and restaurant activity than downtown), the downtown developments are much more disbursed. At best, there is usually no more than one development immediately adjacent to or across the street from another development. In addition, it has also been suggested that the estimated number of households that was needed to create the type of downtown retail resurgence that was envisioned may have been too low and that the opening of two grocery stores that are located at the first light rail station just north of downtown may have diminished the need to have such stores within the CBD.

ANALYSIS OF PROVIDED ASSISTANCE

Since 1993, the city's in-town housing program has provided 61 housing projects with a total of $252.7 million in direct TIF assistance, tax abatements, and Section 108 funding.

TIF Assistance Provided	Tax Abatement Assistance Provided	Section 108 Assistance Provided	Total Assistance Provided (all types)
$134.5 million	$99.2 million	$19 million	$252.7 million

This assistance has led to the creation of 10,840 housing units (equivalent to 54.7 percent of the total amount of in-town housing units that have been built) with a value of about $960 million. This assistance has been especially valuable to adaptive re-use projects (93 percent of the housing produced through the conversion of an older building has received assistance), projects located in downtown (81 percent of the housing produced in downtown was done with program assistance), and the larger projects that have been undertaken.

PROJECT TYPE	AVERAGE # UNITS
Assisted Projects + Non-Assisted Projects	114
Non-Assisted Projects	86
Assisted Projects	161
• New Construction	187
• Adaptive Re-use	140

Such projects have used this assistance to overcome the additional costs associated with converting older buildings, building in downtown, and providing higher-quality amenities and public improvements that have helped distinguish the in-town area and its housing from other Dallas sub-markets.

Ted Hamilton, who has been involved with producing about 700 of the downtown units, has said that this assistance was "absolutely critical" to his projects because even with the higher-than-average rents that can be charged for in-town housing, the higher costs of producing such housing were still not offset. Robert Shaw, who developed some of the initial housing that was built in State-Thomas, has similarly noted the importance of having such assistance since, as he put it, banks typically don't like to lend money for public improvements since they can't put a lien on a street.

This assistance was also invaluable given that the Dallas in-town housing market was unproven and that local lenders were still recovering from the savings and loan crisis. As a result, it was initially very difficult to obtain traditional financing for in-town housing; in fact, the financing for the first project in State-Thomas came from Japan. The assistance from the in-town program thus helped fill a void and lessened a perceived risk.

Of the three types of financial assistance that the program has provided, tax increment financing has proven to be the most important, accounting for most of the total program assistance that has been provided and facilitating the production of two-thirds of the aforementioned 10,840 units.

Types of Assistance Provided	# Projects	# Units Produced	Total Assistance Provided	Average Amount of Total Assistance per Project
Abatement only	15	3419	$70.1 million	$4.7 million
TIF only	34	5093	$48.1 million	$1.4 million
Abatement + TIF	6	1510	$103.9 million	$6.2 million*
Abatement + TIF + Sec 108	1	156	$9.5 million	$9.5 million
Abatement + Sec 108	5	662	$21.1 million	$4.2 million
Totals/Average	**61**	**10,840**	**$252.7 million**	**$4.2 million**

*(*This figure is actually the statistical median and is being used because the amount of TIF assistance that was provided for one project – $58 million – is almost nine times larger than the next-largest award and significantly distorts the mean figure.)*

This is somewhat interesting given that tax increment financing was not prominently emphasized when the city's in-town housing program was created in 1993. At that time, there were no TIF districts in downtown, and the handful of districts in the area immediately surrounding the CBD had just begun. However, as the State-Thomas and Cityplace districts became operational and the city became more familiar with the needs of in-town housing developers, it became quickly apparent that waiving fees and taxes were not going to be enough and that these would not directly lead to the infrastructure improvements that were needed. It also became apparent that Section 108 financing involved too many rules and took too long.

What emerged as the solution to this dilemma was tax increment financing which offered the city a flexible method of funding the on-site infrastructure that the in-town housing program promised. It allowed the city to

DALLAS IN-TOWN HOUSING TAX INCENTIVES

In Texas, the property tax is the primary funding source for local governments whether they be school districts, counties, cities, or other special purpose districts. Fortunately, the Dallas in-town housing effort has been greatly aided by a decision of most of the area's major taxing entities to provide tax incentives for in-town housing. Typically, these incentives have involved abating at least 90 percent of any increase in value for a period of 10-to-15 years.

Dallas County, which is also responsible for levying taxes for the local hospital district, was the first entity to join the city in its in-town housing effort when, in October 1993, it revised its abatement policy. Shortly thereafter, the Dallas Independent School District began providing abatements for selected in-town housing projects. Collectively, the participation of the city, the two county entities, and the school district represented 95 percent of the total local property tax bill for in-town area property-owners. While the school district was forced to discontinue this practice after several years because of a change in the state school finance law, it did provide incentives during the critical early years of the in-town housing effort and was involved with the creation of almost 2500 housing units.

Although it is usually very difficult to demonstrate how the provision of a property tax incentive influences a Fortune 500 firm's decision of where to locate a new facility, the situation for a housing development is much different. For example, the new Fortune 500 facility is part of a massive industrial empire with many different subsidiaries, cost centers, and revenue streams which affect the corporation's bottom line and make it difficult to show how the annual abatement of $500,000 in taxes for a firm with annual revenues of over $60 billion is important. In contrast, the housing development, for tax and investment purposes, is usually structured as a "stand-alone" limited partnership. As a result, the financial viability and profitability of the housing development is solely dependent upon the property's ability to minimize its expenses and maximize its revenues.

A review of the pro formas that were submitted to the county as part of its incentive application process has shown that operating cost reductions of 10-20 percent were quite common for both new construction projects and adaptive re-use projects when such incentives were provided. Such reductions, in turn, thus increased net operating income and a project's rate of return. These reductions also made the projects more economically viable and were especially important to those projects that did not require or have access to other forms of assistance for infrastructure, gap financing, or environmental remediation.

John Miller, who was involved with several of the first adaptive re-use projects in the area outside of downtown, has noted the importance of these incentives, saying that "there was no way" any of the projects he was involved with could have occurred without them. "The numbers just didn't work enough to get investors interested."

provide assistance for a wide variety of activities and improvements (parking garages, water lines, environmental remediation, landscaping, lighting, historic façade acquisition, etc.) depending upon what was needed, and it allowed the city to do so without having to issue bonds or allocate money from its general fund budget. In fact, in most instances, the city did not actually provide a developer with cash as increment had not yet been generated. Instead, the city entered into a formal agreement with the developer and promised to reimburse the developer for the desired activity when – and only if – increment was generated later in the future; in the event sufficient increment was not generated, then the developer would not be fully repaid.

The Meridian was the first new housing built in the State-Thomas neighborhood in over 50 years and became the model for mid-rise apartment construction in the Dallas in-town area.

Recognizing the opportunities that tax increment financing offered, city staff and the downtown business community began working on the creation of a TIF district in downtown's Main Street core in 1995. This district subsequently came into existence in 1996. Three additional districts were created in 1998 and 2005 to encourage development around the city's new sports arena immediately northwest of downtown, to facilitate the building of 1000 residential units in downtown's southeastern corner, and to better connect downtown's historic core with the "Uptown" area to the north. Dallas County chose to participate in three of these four downtown-area districts which helped increase the funding authority for the districts by about 20 percent.

Although the average TIF project award for all of the in-town area districts has been $3.2 million, the size and the use of the award have actually varied significantly depending upon whether the TIF district is located in downtown or in a largely-cleared, outlying site like State-Thomas. For example, the average State-Thomas TIF award was $1.4 million, and 100 percent of the funding that was provided by this district was for streetscaping, the burial of overhead utilities, drainage, and new infrastructure. In comparison, the average award for the downtown City Center TIF district has been $4.7 million. Reflecting the different conditions and needs associated with downtown and the conversion of older buildings into housing, only 15 percent of the City Center funding has been used for activities similar to those done by State-Thomas. Instead, the vast majority – 70 percent – of the City Center funding has been used for demolition/environmental remediation and the acquisition and improvement of historic facades.

Tax abatements have accounted for about $99 million of the assistance that has been provided and is associated with 4715 units that have been produced. The average ten-year tax abatement has had a value of about $3.8 million. While most of the assisted projects involved the conversion of an historic building, abatements were used in six new construction projects to produce 1841 units.

A total of $19 million in Section 108 funding was provided for six projects (one for new construction, and five for the conversion of older structures) and has helped produce about 800 units. This assistance was primarily used during the in-town program's infancy before TIF assistance was available in downtown. The average Section 108 loan was about $4 million, and Section 108 funding was usually equivalent to about 20-40 percent of a project's total cost. With the subsequent creation of three TIF districts in downtown and the alternative funding source that these districts have provided, the city has since sparingly used its CDBG funding for this purpose.

OBSERVATIONS

For those seeking to encourage in-town housing in their own communities, it is important to understand that what has occurred in Dallas did not happen overnight and that it did not even happen within five years. It has taken almost 20 years, and the effort is still continuing. Cities looking to replicate similar results must be patient and persistent. They cannot be quick to either declare victory and cease their efforts at the first signs of success or quit if initial results are not what they want them to be.

Cities must also be willing to learn and to make adjustments. The staff report that accompanied the recommendation to create the Dallas in-town housing program said that "the public development incentives that are established must continually be refined and modified to respond to ever-changing physical and fiscal considerations." Dallas followed its own advice and shortened review processes, created additional TIF districts, expanded TIF budgets, and created new line-item categories within these budgets to help facilitate the often difficult conversion of older high-rise buildings into housing.

Karl Stundins, who has overseen the city's TIF operations since 1996, says that the city has refined what it does almost every year and is always adapting and trying other things. He also adds that just because a method or a project worked one time, that doesn't mean that it will work the next.

It is also recognized that the method by which Dallas provided its TIF assistance may not be available to other communities. While the Dallas in-town housing market was largely un-proven, Dallas itself was still economically healthy, and there were enough developers who were willing to proceed and who had sufficient resources to wait for the increment to actually be generated.

CONCLUSION

Susan Mead, a Dallas attorney who was instrumental in the development of the city's in-town housing program, says that the downtown-area housing that has been built and the street life that it has created has "finally made Dallas a city instead of a town." That the Dallas in-town housing program has been able to create almost 20,000 units of unique, high-quality housing; stop the disinvestment that was occurring in downtown; and show that even Sun Belt cities with no tradition of in-town housing can support such housing is remarkable. When one considers that much of this housing is now over ten years old and that the value, the popularity, and the occupancy of this housing remains high and is not just the result of being something that is new, it is even more so.

supporting rural
ENTREPRENEURSHIP

By Leslie A. Scott

INTRODUCTION

Entrepreneurship was not a word most rural North Carolinians were using in 2003. In 2012, it would be hard to find a leader in any town in the state who does not believe that small businesses and entrepreneurs create jobs that often stay local. In 2003, the only career strategy the state's workforce system promoted was getting a job (and relevant training). In 2012, there are dozens of new rural businesses owned by former dislocated workers who have created a few hundred jobs.

The N.C. Rural Economic Development Center, Inc. is one of few organizations in the United States operating a statewide rural entrepreneurship program. The Institute for Rural Entrepreneurship was launched in October 2003 as part of the center's Homegrown Jobs Initiative. While various partner agencies assist rural startups and small businesses statewide, the institute identified two major niches for its work after researching entrepreneurs' needs in rural North Carolina:

1. Support self-employment as an important source of jobs and income for rural North Carolina workers.
2. Develop leadership and support systems in rural communities for entrepreneurship as economic development.

The article describes the program activities the institute has launched over time and their impact. It concludes with lessons for the economic development practitioner wanting to develop an effective rural entrepreneurship program.

Entrepreneurship was not a word most rural North Carolinians were using in 2003. In 2012, it would be hard to find a leader in any town in the state who does not believe that small businesses and entrepreneurs create jobs that often stay local.

WHY CREATE A STATEWIDE INSTITUTE FOR RURAL ENTREPRENEURSHIP?

In 2003, the rural recovery in North Carolina from the 2001 recession was still very slow. North Carolina lost a nation-leading number of manufacturing jobs, most of those in rural communities. Displaced manufacturing workers weren't finding new jobs in rural places. The few major industrial prospects were looking at metropolitan areas. Many existing rural businesses were struggling. Rural leaders turned to the N.C. Rural Center for new ideas to develop their local economies.

The Rural Center has always taken a data-driven approach to new initiatives. In 2003, the center developed its Homegrown Jobs Initiative for North Carolina based on information from three activities:

- Analysis of secondary data on North Carolina businesses of various sizes and how they were changing over time;
- Twenty-two focus groups with rural entrepreneurs across North Carolina; and
- A half-day convening of state and national thought leaders in entrepreneurship.

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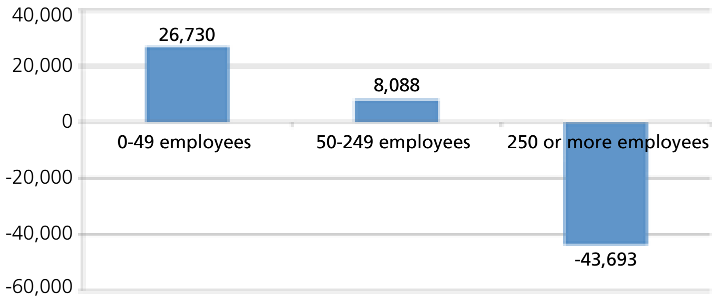
MODELS FROM NORTH CAROLINA

In North Carolina, the N.C. Rural Economic Development Center has accumulated nine years of experience in demonstrating rural entrepreneurship ideas through its statewide Institute for Rural Entrepreneurship. In the last three years, the institute and community college partners have created an average of 50 new rural businesses and 130 jobs per year through individualized case management for startup entrepreneurs whose first goal is to become self-employed. The sustainability of those new firms is unknown in tough economic times, but those that thrive will likely be in rural regions where local business agencies and educational institutions are collaborating on behalf of their local entrepreneurs at every stage.

CHANGE IN RURAL NORTH CAROLINA'S EMPLOYMENT BY ESTABLISHMENT SIZE, 1998-2002



Data source: N.C. Employment Security Commission, 2002.

The analysis of data, from the N.C. Employment Security Commission, revealed that over 95 percent of all rural North Carolina business establishments had fewer than 50 employees. As importantly, time trends showed small businesses growing while larger employers downsized. Self-employment was on a steady rise statewide.

The Rural Center engaged a contractor to conduct 22 focus groups with business owners in a diverse set of rural communities across the state in 2003. Small business agencies in those communities helped to recruit participants. The findings showed some variance by demographic and geographic factors; however, the common themes were strong:

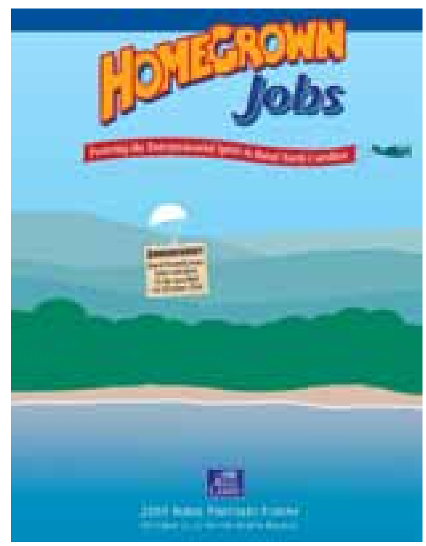
1. If there is a system for entrepreneurs and small businesses in North Carolina, it needs to become clearer to navigate. The typical person does not know where to go for what help and is confused by the alphabet soup of agency names. In some cases the publicly funded services are not responsive. Even current business owners have misinformation about what exists.
2. Business capital is difficult to access, and awareness is limited on how the available financing sources and products fit various business or owner situations.
3. Entrepreneurship education courses are available at community colleges but most rural adults never received any business or financial literacy education in K-12 public schools. North Carolina has had a Small Business Entrepreneurship curriculum available to public high schools for many years; in many rural schools, it's an elective if offered at all.
4. Doing business in a rural community can be isolating and lonely. There are very few vibrant networks of entrepreneurs or startups in rural places.
5. Community and economic development leaders are focused on recruitment and on larger employers. Rarely do small business owners receive publicity or purchasing opportunities from their local leaders.

For more information, see the contractors' report: Deborah Markley and Erik Pages, *Understanding the Environment for Entrepreneurship in Rural North Carolina*, 2004.

The "entrepreneurship brain trust" the Rural Center convened in 2003 included the directors of the major small business counseling and training programs, commercial lenders, and economic and workforce development leaders. They agreed with the entrepreneurs that North Carolina's economic and workforce development approaches emphasized large employers. They also recognized that the state's small business infrastructure was fragmented and that there was no dependable clearinghouse of information to help a startup business owner find a class or a loan application.

Informed by these three important perspectives, the Rural Center developed and announced the Homegrown Jobs Initiative at its Rural Partners Forum in October 2003 to include several elements:

1. The Institute for Rural Entrepreneurship was announced, and a first edition of a N.C. Business Resource Directory was released. In its first year, the institute convened many of the agencies in the directory to form a statewide Business Resource Alliance, a network of the dozens of agencies that assist startups and small businesses in North Carolina. The "alliance" still meets quarterly to stay connected to a variety of resources that help entrepreneur clients.
2. In its first two months, the institute offered a Homegrown Jobs seminar for rural leaders and sponsored a grant competition that funded ten rural entrepreneurship demonstrations at a local level; the average amount was $50,000 for a 15-month project.
3. The institute offered a demonstration program for dislocated workers interested in self-employment called New Opportunity for Workers (NOW). The state's division of workforce development provided a grant from the state's Workforce Investment Act funds for NOW.



Launch of Homegrown Jobs Initiative, 2003.

Since its launch nearly nine years ago, the institute has been entrepreneurial itself, leveraging many partners' resources and regrouping when outcomes falter. Our own list of attempted rural entrepreneurship ventures is as follows:

1. A statewide service provider network called the Business Resource Alliance, which has broadened and strengthened over time;
2. A statewide entrepreneurship summit, which held its sixth event in September 2012;

3. Ten community-based entrepreneurship demonstrations, of which only two had strong enough local leadership to sustain and grow their work after the public funding ran out;
4. Fourteen rural business incubator projects, of which only half developed fully while others had weak business models for attracting tenants and other revenue;
5. Three statewide self-employment programs, of which two are operating well to generate businesses and jobs;
6. Two large regional support systems grants, of which one has sustaining local leadership;
7. Five mini-grants for short-term regional entrepreneurship projects; and
8. Numerous seminars with rural leaders from across the state in using entrepreneurship as an economic development strategy.

From these many demonstrations we have learned a lot about our two goals: serving rural workers who want to be entrepreneurs and building place-based support systems for them. Next, we consider each approach in more depth, recognizing that one reinforces the other.

PROMOTING SELF-EMPLOYMENT AS A WORKFORCE DEVELOPMENT STRATEGY

Purpose. The purpose of the institute's self-employment programs is to assist rural economic recovery a few willing individuals at a time. Only one in ten or 20 people who are dislocated decide to pursue self-employment. Owning a microenterprise may be one of the only ways to stay local; with larger businesses closing, there are very few local jobs available. However, most displaced workers encounter a steep learning curve about the entrepreneurship process and resources.

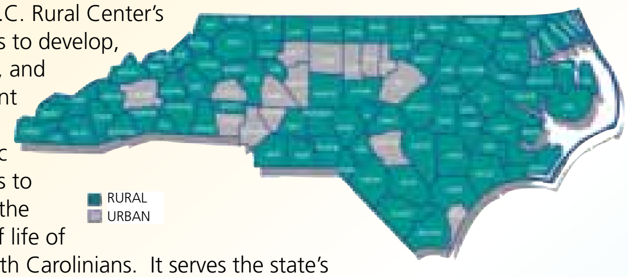
Programs. In 2004, the Rural Center introduced the *New Opportunities for Workers (NOW)* program as part of its launch of the institute. The program provided scholarships for laid-off individuals to attend community college courses in entrepreneurship and business plan development. Several hundred people from high-layoff regions participated in NOW over a few years, but only a small number went on to start the business they visualized in their business plan.

Just as North Carolina's leadership was assessing the results from NOW, in the summer of 2008, the U.S. Department of Labor's Employment and Training Administration released a Request for Proposals for the *Growing America through Entrepreneurship (GATE)* program to serve dislocated workers who wanted to start a small business. In addition to training scholarships as offered under the NOW program, GATE includes case management and stronger partnerships with the statewide workforce system. The North Carolina team received a $1.6 million GATE grant for a three-year project. Alabama, Minnesota, and Virginia received GATE grants at that time too.

Workers eligible for Workforce Investment Act benefits can apply to GATE and receive free assessment, one-on-one business counseling, and scholarships for business-related training. The institute oversees the program, which also involves the N.C. Department of Commerce Division of Workforce Solutions, the N.C. Community Colleges' Small Business Center (SBC) Network, N.C. REAL Enterprises, one-stop career centers, and employment security offices. GATE reimburses the client's related course fees at community colleges or private vendor programs. GATE counselors keep confidential records in the client management system used by the SBC Network and serve clients jointly with the local SBC, which gets credit for any GATE client's business activity.

GATE clients' average age is 45 and very few of the participants in GATE are under age 30. Once staff realized this, we started to discuss what program changes might appeal to a younger market. In summer 2011, Rural Center management invited entrepreneurship staff to help design a multi-disciplinary initiative for reducing the rural brain drain of young talent. The three-year New Generation Initiative, underwritten by $3.6 million in state dollars and corporate donations, was announced in November 2011. Its entrepreneurship program, New Generation Ventures, is a spinoff of the GATE program to serve young adults. The other initiative programs emphasize workforce and leadership development for young adults.

N.C. RURAL ECONOMIC DEVELOPMENT CENTER



The N.C. Rural Center's mission is to develop, promote, and implement sound economic strategies to improve the quality of life of rural North Carolinians. It serves the state's 85 rural counties (see map), focusing especially on individuals with low to moderate incomes and communities with limited resources.

Founded in 1987, the Rural Center is a private, nonprofit organization funded by both public and private sources and led by a 50-member board of directors. The center now has 55 staff including seven in the Institute for Rural Entrepreneurship. Five business finance professionals oversee the longstanding Microenterprise Loan Program and the more recent State Small Business Credit Initiative. The center's Homegrown Jobs Initiative began in 2003 with the launch of the Institute for Rural Entrepreneurship and continued in 2004 with the creation of the center's Economic Infrastructure and Building Reuse and Restoration programs, which provide matching grant funds for local governments to partner with rural businesses that create jobs. The center has longstanding programs in leadership, workforce and community development as well.

North Carolina has 100 counties. The Rural Center works in the 85 counties that had a population density of no more than 250 people per square mile at the time of the 2000 U.S. Census. This definition of rural is incorporated in legislation adopted by the N.C. General Assembly.

NORTH CAROLINA EXAMPLES OF CLIENTS IN THE GROWING AMERICA THROUGH ENTREPRENEURSHIP (GATE) PROGRAM

- A landscaping business in central North Carolina benefitted from several state programs in addition to GATE. The client, a physically disabled man, decided to launch the business after being laid off from a poultry processing plant. He took two community college courses on turf grass management and received customized assistance and modified equipment from the State Dept. of Vocational Rehabilitation Services.

GATE client with landscaping business.

- An off-the-grid LED lighting provider in western North Carolina took nearly three years to develop his product and close his first sale with a local government to install his parking lot lights. In addition to training and counseling, the Rural Center also provided $7,500 in financing after the client was turned down from several banks and non-traditional funding sources. The business would not exist without this infusion of character-based capital.
- After losing his job, a construction contractor entered the GATE program and took a business planning course. He and his business partner secured $6 million in construction contracts with the Department of Defense and the Environmental Protection Agency to rehabilitate military barracks shortly thereafter.
- There is a new barber in eastern North Carolina, in part because of the financial support GATE provided for him to take a business planning course at the community college and his barber training and licensure course. GATE also helped him access free legal advice from a pro bono arm of the state bar association that serves low-income people.
- An Irish pub that now employs 30 people in a north central county would not exist if not for the unfortunate layoff of a marketing professional from an area Fortune 500 financial services company who now owns the pub. She built upon her strong skills in marketing and online social media. She received over 40 hours of one-on-one counseling and took a business plan course at her local community college.

GATE client's Irish pub.

In each of these examples, local and other state resources are critical. The GATE counselor guides the client to what is relevant and available and keeps the process focused on business execution.

New Generation Ventures helps young adults 18-30 start rural businesses by providing training scholarships, case management, networking, and access to capital. Ventures clients take advantage of more online training and social media than GATE clients. Two young adult counselors based in Raleigh serve the entire state via phone, email, and occasional Skype and they lean on a strong partnership with N.C. Community Colleges' Small Business Center Network for counseling and training that is local to each client. Ventures dollars pay for the classes needed for a solid business start. After a business plan is complete, yet the young entrepreneur is unable to secure traditional financing, he or she can apply to a $500,000 loan pool for Ventures clients that the Rural Center set aside from its business finance programs. Many young clients have limited credit histories and collateral and do not qualify for traditional financing.

Outcomes. GATE is a strong demonstration in North Carolina, with more than 1,300 scholarships awarded in 79 counties. GATE clients – all of whom were unemployed recently – have started 172 businesses and created 462 jobs since the program launched in April 2009. Several examples of GATE startups are included in the sidebar. In FY13, the GATE program is supported by state funds for job-generating programs and by the N.C. Division of Workforce Solutions.

Since its launch in February 2012, New Generation Ventures has enrolled 116 young adult clients from 40 North Carolina counties. Seven clients have started a business since entering the program. The Ventures program expects to serve over 500 clients, helping them start 100 businesses and create 150 jobs in rural counties by December 2014.

Lessons Learned. After over six years of program experience, the Institute for Rural Entrepreneurship has learned several lessons about rural workers pursuing self-employment.

1. Rural entrepreneurs range from high school drop-out to the graduate schooled, from young separating military to semi-retired. Most people of all diploma levels need a several-week business plan course, in person or online, to get to a clear enough projection for their business to make an informed decision about the viability of that business. Very few rural workers balk anymore at having to learn to use a computer for email, marketing or bookkeeping. Workforce professionals are telling them computing is a basic requirement for nearly any career now.
2. Individually tailored case management is slow but essential for getting most rural workers to a strong business start. Routine interaction with small assignments between appointments is important for clients to feel accountable to the counselor and to the training and business startup plan they make together. Face-to-face conversation is not critical to

build trust. In fact, talking about personal or financial matters can be easier by phone than in person.

3. A strong and collaborative local service infrastructure is critical to North Carolina's GATE and New Generation Ventures programs. In North Carolina, that key partner is the Small Business Center Network of the 58-campus North Carolina Community College System. A local class instructor and a local counselor add two more resources to a client's network. When GATE or Ventures clients are successful, the local Small Business Center gets credit for those businesses and those jobs.
4. After becoming more informed about entrepreneurship, individuals self-select into or out of the entrepreneurial path. The counselor encourages that active learning process. Among our cohort of dislocated worker clients, of seven who start the assessment and training process, on average only one continues through all the steps to start the business. We are exploring ways to increase that proportion. Some clients find part-time jobs and slowly bootstrap their businesses.
5. Success must be measured by more than new business starts. Some rural entrepreneurs are trading poverty due to unemployment for another form of poverty as a marginally successful small business. Can they survive the business cycles? Can we even ensure they are operating in the "first-world" economy and not living in a world of cash transactions and unpaid taxes? Case management has to continue at some level for many months if not years after startup.

BUILDING SUPPORT SYSTEMS IN RURAL REGIONS

Purpose. The institute took to heart the first major finding from our 22 focus groups: rural entrepreneurs found our support system fragmented and they had encountered wrong or closed doors. The purpose of our support systems work has been focused on addressing real concerns about our system, which relate to *five elements*: training, counseling, capital, networking, and community support. We also knew the sluggish economy in rural North Carolina needed to be reinvented to grow and that vibrant small businesses would lead that growth. In the summer of 2004, the institute and its Business Resource Alliance partners pursued a national grant opportunity funded by the W.K. Kellogg Foundation to build "Rural Entrepreneurship Development Systems" that include the same five elements our rural entrepreneurs identified in the focus groups.

Projects and Outputs. North Carolina's three-year, $2 million "Rural EDS" project operated with a statewide team and footprint from June 2005 to June 2008. Rural regions in five other states also improved their entrepreneur development systems under support from the Kellogg Foundation: Nebraska, New Mexico, Oregon, South Dakota, and West Virginia.

The "Rural EDS2" project was a regional follow-on project that the Rural Center led with state funding support from 2008 to 2011. It involved a) two regional matching grants of $100,000, each supporting an entrepreneurship coordinator for three years; b) five mini-grants of $10,000 each for short-term regional collaborations (2011); and c) training in entrepreneurship support for community leaders.

The Kellogg-funded Rural EDS project team in North Carolina included professionals from 21 organizations that provide support for entrepreneurs in North Carolina along the five lines identified by our rural entrepreneurs: training, counseling, capital, networking, and community support. By opening up communications among them and tackling the priorities of the project to serve the state's rural entrepreneurs better, the project team improved collaboration. Work teams developed user-friendly guides to address the entrepreneurs' key challenges:

- *Navigating Business Resources in North Carolina: Your Where to Go for What Guide*
- *Fueling Your Business in North Carolina: A Guide to Financing for Small Businesses*
- *Hello My Business Name Is… A Guide to Building Entrepreneurial Networks*
- *Beyond the Lemonade Stand: Growing and Supporting Youth Entrepreneurship*

To help build the support system and guide rural leaders in being more supportive of their local entrepreneurs, the Rural Center has offered Homegrown Jobs and Energizing Entrepreneurship (E2) seminars throughout North Carolina since early 2004. Community teams learn who rural entrepreneurs are, how to find them, and what they need to thrive. Participants see data showing that their economic base is small businesses and that many of their expanding companies are owned by entrepreneurs from North Carolina. (Refer to www.youreconomy.org for these data on any U.S. state or region.)

The E2 participants have a moderated discussion over lunch with a panel of local entrepreneurs. They go home with an action plan about what to do next as a community with a team of partners. A few rural counties in North Carolina are still working from and building upon their plans from years ago. Some of them have switched ventures but used E2 as a first spark. More than 400 people from dozens of teams have attended E2 seminars in NC. (See www.energizingentrepreneurs.org for more information about the national program that North Carolina has adapted.)

Outcomes. Multi-year projects with collaborative teams can certainly focus and strengthen the public conversation about small business.

1. After the Rural EDS project, the team resumed its informal collaboration as the Business Resource Alliance. This network of business service providers has met quarterly over lunch in the Triangle since 2003. The alliance started with a rural focus that quickly shifted to statewide because its members

serve all 100 North Carolina counties: state agencies, higher education, non-profits, librarians, lenders, the bar association, and others who rotate hosting the meetings to stay connected and collaborate on behalf of entrepreneur clients. Its mantra is No Wrong Door for any entrepreneur in North Carolina. It started before the Kellogg funding and continues long after. The current time burden to participate is just a quarterly meeting and monitoring a listserv.

2. The alliance now offers the N.C. Entrepreneurship Summit as an annual event. The alliance initially recommended the launch of a high-profile state-level event in its position paper *Building North Carolina's Economic Future through New Enterprise Creation and Small Business Development* (April 2005). The summit has been offered in Chapel Hill (2006), Raleigh (2007), Greensboro (2008), Wilmington (2010), Durham (2011), and Asheville (2012). (See www.ncentresummit.org.) The summit celebrates North Carolina's entrepreneurs in all sectors from around the state and discusses ways to improve the competitive environment of the state and its communities. The summit has involved rural and urban partners since its inception and has a statewide following.
3. The Southeastern Entrepreneurial Alliance, which serves five rural counties in southeastern North Carolina, has established a leadership structure to continue the coordinator and team's work under the support of the University of North Carolina at Pembroke. This was one of the Rural EDS2 projects funded by state dollars from 2008-2011. Its current focus areas are youth entrepreneurship as well as entrepreneurs in local food production or tourism.

Lessons Learned. ***Leadership matters.*** A focused local action team energized from a recent seminar can get the community listening better to its entrepreneurs and cutting its own red tape. A regional coordinator can keep related activities connected to what the entrepreneurs need. A public ribbon-cutting for a variety of rural small businesses recognizes their contributions to the economy. An annual entrepreneurship summit can galvanize the champions, celebrate the success of entrepreneurs, and get everyone collaborating again.

Homegrown Jobs ribbon cutting ceremony 2004.

Do not assume that most rural entrepreneurs know the business resources, requirements or opportunities. Community leaders regularly need to promote what is happening and available. Chatham County EDC arranges a one-stop meeting for startups with all the local agencies with requirements for business. Several communities conduct business plan or startup competitions and give free space or seed capital to the winners. Several large and small newspapers across the state run a regular feature profiling an interesting local entrepreneur and the resource people who helped. Local 4-H clubs, Future Farmers of America chapters, and scout troops put on youth entrepreneurship camps and conduct community projects that engage young people in thinking about entrepreneurial careers.

Creating access to capital for small business takes a spectrum of funding vehicles and approaches. Many rural communities wish to start a new fund to finance local businesses, but they inevitably learn through experience that the true gap in access to capital is not the availability of funding sources. North Carolina, like many states, has a broad range of private and publicly supported small business lending programs eager to fund businesses that fit their investment strategy. The true gap is in the availability of information to small businesses seeking capital about how to access funding that fits their needs. There will always be worthy deals that don't get funded, but the best starting point for any community is to help the fundable deals find their best match by improving access to information, education, and direct technical assistance.

Creating regional support systems for entrepreneurs is slow, and measuring their effectiveness is difficult. Nonetheless, collaboration is the critical ingredient in building a system with "no wrong door" for the entrepreneur. Lists of resource providers are not useful unless the people on the list know each other and work together to provide what various entrepreneurs need at any stage. A quarterly meeting in the Triangle with a rotating host and a dutch-treat lunch is the format that North Carolina's state-level Business Resource Alliance chose to keep itself going. Its agenda has two items other than lunch and networking: 1) a presentation by the host organization; and 2) updates around the table about new initiatives, upcoming state and regional events, grant opportunities, and entrepreneurs' challenges.

CONCLUSIONS AND CURRENT IMPLICATIONS

In North Carolina, the Rural Center started its rural entrepreneurship effort in early 2004 by training rural leaders to orient their communities better toward entrepreneurs and small businesses. Concurrently, the center ramped up a program to assist dislocated workers in exploring entrepreneurship as a career option.

It took the N.C. Rural Center several years and two tries to refine a successful rural self-employment program. GATE is a more comprehensive individualized approach than the first program was, and it's also a stronger partnership with the community college and workforce systems in our state. New Generation Ventures is a careful adaptation of GATE to young adult clients.

It also took several years of building awareness and support for entrepreneurs among community leaders before they started working regionally to strengthen their resources for entrepreneurs, including education, counseling, and capital. Regional systems development is still evolving, but collaboration among the statewide service providers is very strong in North Carolina.

All the entrepreneurs the institute serves are based in one of North Carolina's 85 rural counties. They get directed to local resources in or near that place. In the best case scenario, the new entrepreneurs we serve directly with startup counseling and scholarships locate in communities where the economic and workforce development leadership is proactive about small business development. Then there is a smooth transition between startup and the first few years, a specific rural community supports and patronizes that business, and a client we know becomes part of a community whose leadership we support in other ways. Another way our two goals work in tandem is that after we help a rural region develop a collaborative support system for entrepreneurs, its leaders learn about and refer new clients to our individual-serving programs. Then both the program and the community can support the new enterprise.

However, the best case is rare. North Carolina takes 12 hours to drive across; it has hundreds of small towns, several regions, and potential entrepreneurs springing up in every corner. The state's metropolitan areas are becoming more savvy and strategic about entrepreneurship as an economic driver. The rural regions have to work hard to develop, attract, and retain entrepreneurial talent. The institute assists rural leaders in building systems of five pillars: training, counseling, capital, networking, and community support. In regions where these elements are in place, the probability of success for our clients and many other individual entrepreneurs is enhanced. In regions where that leadership is weak, the vulnerable small businesses will probably fail, and the most determined entrepreneurs may move away to find what their businesses need to grow.

The combination of entrepreneur-focused and place-based strategy has the best hope for strong results in a rural region. For a collaborative system to sustain itself, each organization continuously leverages its partners' resources along with its own in helping clients. Easier said than done, but the economic development impact is greatest when everyone works together to help entrepreneurs achieve a solid start that meets a market need. That collaborative resource network also is critical to sustain and grow the business over time.

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IEDC would like to thank the sponsors of the **2012 Annual Conference** for demonstrating their commitment to the important work of economic developers. It is through their generous support that IEDC has brought leaders of the profession together for this forum of professional development, peer networking, and discussions of the most imperative issues facing economic developers today. We proudly recognize the following sponsors as partners in helping economic developers to build strong, more vibrant communities.

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NEWS FROM IEDC

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In September 2012, IEDC launched the newly redesigned RestoreYourEconomy.org to equip economic development professionals with practical information and tools for retaining local employment, restoring lost jobs, and promoting sustainable, long-term economic recovery after a disaster.

New resources have been added to the site including recordings of the 2012 webinar series, articles, videos of disaster preparedness and recovery programming, as well as new data tools, case studies, publications, and events.

RestoreYourEconomy.org is continually being updated with resources to help the economic development industry. If you have a resource to suggest for the site such as an economic recovery plan, case study, business survey, etc., please submit it to the link on the homepage.

AEDO PROGRAM ADDS 32ND MEMBER

IEDC is proud to announce the accreditation of the Temple Economic Development Corporation (TEDC). Led by President Lee Peterson since 2005, TEDC is located in Temple, TX. In addition, the Accredited Economic Development Organization (AEDO) program reaccredited the Ponca City Development Authority (PCDA), serving Ponca City, OK. Led by Executive Director David Myers, CEcD, PCDA has been an active AEDO member since 2009.

Earning accreditation is a great way for economic development entities to increase their visibility in the community and gain independent feedback on their organizational operations. For more information, please visit the AEDO webpage or contact Tye Libby at tlibby@iedconline.org.

IEDC TO LAUNCH NEW WEBSITE AND REDESIGNED MEMBER NEWSLETTER

Watch for the launch of IEDC's new website and redesigned member newsletter, coming in early 2013. On the site, advanced search features and tagged content will make it easier for members to find the subject matter they're looking for. A streamlined design ensures that graphics don't get in the way, and integrated social media tools also will make finding and sharing easier. In addition, IEDC's member newsletter, Economic Development Now, will have a new look and blog-style home page on the website. You'll get the same great content you expect from IEDC but in a way that's easier to access.

CLEAN TECH SECTORS AND ECONOMIC DEVELOPMENT

What does clean technology mean for economic development? IEDC has applied this question to three clean tech sectors: electric vehicles, net-zero energy homes, and offshore wind. While relatively underdeveloped in the U.S., these sectors can bring jobs, revenue, and industry growth to communities.

Using in-depth research as well as feedback from industry experts and economic developers, IEDC is developing a two-part report on the potential of each sector. Scheduled for release in early 2013, this report will highlight sector-based opportunities and strategies for future market growth and job creation with a state of the market analysis, examination of job creation potential, and discussion of hurdles and solutions to development.

NEW EDRP REPORT FOCUSES ON HIGH-GROWTH ENTREPRENEURSHIP

IEDC's internal think tank, the Economic Development Research Partners (EDRP) Program, launched its latest research report in November – "Accelerating Success: Strategies to Support Growth-Oriented Companies." This report follows up on IEDC's 2011 publication, "Unlocking Entrepreneurship," to explore approaches that economic developers can use to boost the growth potential of job-generating companies. It defines the characteristics of growth-oriented companies and how to identify them, and then profiles nine tools and strategies for accelerating firm expansion.

The report is available to download free for members on IEDC's website and in print for $40 to non-members. Another research report focusing on financing economic development organizations will be released by EDRP in early January, 2013.

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February 28-March 1
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Business Retention and Expansion
June 20-21
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Workforce Development
July 18-19
Madison, WI

Economic Development Credit Analysis
July 31-August 2
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Madison, WI

Business Retention and Expansion
August 29-30
Atlanta, GA

Entrepreneurial and Small Business Development Strategies
September 12-13
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Real Estate Development and Reuse
October 24-25
Atlanta, GA

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December 4-6
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January 26-27
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Alexandria, VA
[Appl. Deadline: February 11]

June 8-9
Ann Arbor, MI
[Appl. Deadline: April 8]

October 5-6
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[Appl. Deadline: August 5]

inclusive clusters

By Johnathan M. Holifield, Esq, Adam Kamins, and Teresa M. Lynch

Twin forces in the national discourse around economic development policy have the potential to shape the trajectory of the country in the coming decades. One force is a focus on community and economic development that lifts up under-served and low-income areas, many of which are home to a substantial minority population. This has grown in importance and will continue to do so as demographic patterns point to an increasingly non-white American population. The country is expected to become "majority minority" in roughly three decades,[1] yet these same groups have not always been afforded full opportunity to gain valuable work experience or start and run successful businesses, undermining their ability to advance as employees and entrepreneurs.

The second, newer trend is a push towards viewing economies in terms of regional "clusters," defined as interconnected companies and institutions in a particular field and location,[2] to organize economic development at the local, state, regional, and federal levels. After decades of lagging behind their European counterparts, regional, state, and federal agencies as well as economic development intermediary organizations are increasingly forming initiatives around clusters.[3]

In 2010, the U.S. Economic Development Administration sponsored a project to develop data and tools to map clusters across the U.S. When complete, the project likely will lead to further investment in cluster-based approaches to spur job creation and growth, thus magnifying the social and economic impacts of cluster organization and practice. Yet these approaches have generally been accompanied by a broad regional focus that increases the likelihood that historically distressed areas and populations will be unable to reap the rewards associated with cluster initiatives.[4]

> It is imperative to shift the conversation around industry cluster-based economic development strategies to one that is focused on equitable inclusion and competitiveness. More importantly, there is an urgent need for specific findings and recommendations on how the selection, organization, performance, and communication of cluster initiatives affect competitiveness, equity, and inclusion.

The merging of these forces, then, represents an opportunity to elevate inclusiveness and build it into the foundations of economic development practice. In our experience, however, economic development leaders within city and county governments have largely ceded cluster initiatives to third parties that often fail to tie cluster development to overall community prosperity and, in the process, leave many low-income communities disconnected from cluster initiatives, especially those that build on technological assets and innovation. This is clear when examining the shortage of city strategies around areas like cluster initiatives, innovation, biosciences, and information technology (IT). The paucity of city leadership in such areas cuts off an important avenue for increased participation of low-income urban residents in regional cluster initiatives.

The threat of non-inclusive regional cluster development is perhaps greatest to low-income neighborhoods in America's cities, their inner cities, which have struggled with net job loss for more than a decade. Over the course of the previous

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EMBEDDING INCLUSIVENESS IN CLUSTER POLICY AND PRACTICE

Proponents of cluster-based economic development and regional equity have historically operated without accounting for their considerable joint interests. Not only can the improved outcomes derived from cluster initiatives help to "lift all boats," but an emphasis on inclusiveness results in enhanced productivity and competitiveness. In this article, the authors examine the ways in which low-income and minority populations can more effectively be connected to regional clusters. The proposed framework includes a focus on cluster selection, cluster process and organization, cluster performance, and cluster communication. Such a framework has the potential to transform the current conversation and lead to more efficient pathways to new economic opportunity.

FIGURE 1: AMERICA21[8] MODEL FOR DIFFUSING INCLUSIVE COMPETITIVENESS

Inclusive Clusters *Enhance Competitiveness of…*	→	Inner City/Regional Clusters *Which Enhance Productivity of…*	→	Inner City/Regional Economies
Inner City/Regional Economies *Enhance Productivity of…*	→	State and National Economies *Which Enhance Productivity of…*	→	Global Economy

decade, employment in the 100 largest U.S. inner cities declined 6 percent while the rest of the country experienced a small gain. This reflects the continued hollowing out of many urban economies, the effects of which have been borne largely by low income and minority households: the U.S. inner city population is 81 percent minority, 24 percent foreign born, and has a median household income of $29,800 (compared to 34 percent, 12 percent, and $51,400, respectively, in the total U.S. population).[5] Left unaddressed, these trends will likely exacerbate income inequality and severely undermine U.S. economic competitiveness in years to come.

These issues underscore the importance of finding new and creative ways to ensure that residents of distressed communities and economically disadvantaged social groups are empowered to overcome the many challenges that they face. This article focuses on the potential of inclusive cluster development to create opportunities for demographic groups who are struggling economically, as well as in neighborhoods that are suffering from high levels of economic distress. In doing so, it presents a high-level framework to increase inclusiveness in cluster outcomes and discusses how policy at all levels can encourage the adoption of inclusive practices.

INCLUSIVE CLUSTER FRAMEWORK

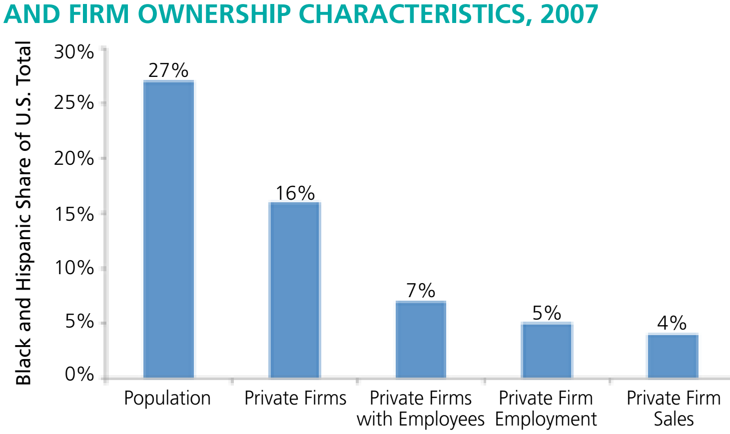
Cluster-based approaches are flexible, adaptable, and broadly applicable. They have the potential to help create more globally competitive cities and regions, as they are the most effective and efficient tool by which to organize collaborative and actionable economic competitiveness leadership.[6] By aligning assets and creating shared strategies for competitiveness and growth, states and regions are able to optimize the utilization of existing assets and strategically invest in programs and infrastructure that will benefit all cluster actors, including workers, firms, and intermediaries. Infusing equity and inclusion into these same clusters will also improve overall performance. In short, inclusive cluster development has the potential to help inner cities become the proverbial hub-of-the-wheel of regional economic development, instead of the hole-in-the-doughnut.

More generally, connecting minorities and low-income citizens to new opportunities will benefit urban, regional, and national economies by tapping new sources of human capital, increasing employment and income, improving educational outcomes, reducing social welfare expenditures, and legitimizing market processes by ensuring that outcomes are more broad-based and fair.[7] In these ways, inclusiveness can be part of broader strategies to link economic equity and economic growth, to the enhancement of both. Figure 1 shows how inclusive cluster policy and practice ultimately make for a healthier national economy by demonstrating how inclusive clusters enhance productivity of local and regional economies.

More inclusive approaches to cluster development represent the foundation upon which improved national competitiveness can be achieved, yet discussions around cluster policy and practice typically overlook this vital consideration. As a result, cities, regions, and states are unable to fulfill their economic potential along two key dimensions. First, equity considerations tend to be overlooked and, as a result, the benefits associated with cluster-based economic development bypass those with the greatest need. And just as significantly, the ability of cluster policy and practices to efficiently unleash growth is hindered, as the unique and untapped advantages associated with distressed urban communities – including transportation nodes, education and cultural assets, and proximity to market-leading economic assets and large numbers of potential customers – are not capitalized upon.

The low levels of participation and lack of diversity among cluster leaders and participants exacerbate the existing imbalance in the national economy, which is reflected in the ownership characteristics of U.S. firms. As shown in Figure 2, the modest share of Black and Hispanic firm activity highlights the urgent need for more inclusive cluster policies to grow the country's minority business enterprises (MBEs).

FIGURE 2: BLACK AND HISPANIC SHARE OF U.S. POPULATION AND FIRM OWNERSHIP CHARACTERISTICS, 2007



Sources: 2007 American Community Survey (population data); 2007 Census Survey of Small Business Owners (private firm data)

Cluster policy and practice create leverage points that can be used to ensure inclusiveness in economic development. Broadly speaking, the ways in which cluster policy should be considered are outlined below. The inclusive cluster framework, which was developed by the authors, contains key mechanisms with which to maximize effectiveness: cluster selection, cluster process and organization, cluster operation, and cluster communication.

Cluster Selection

Without an appropriate emphasis on inclusion in the cluster selection phase, the equity challenges associated with cluster-based strategies can become nearly insurmountable. Therefore, an important first step in any inclusive cluster approach involves choosing clusters that promote widespread growth in different and diverse parts of a region, including its distressed communities. While targeting high-growth clusters is acceptable and necessary, the full set of target clusters cannot be limited to only those that create job opportunities for the most highly educated workers in a city or region. Some ways to avoid such an outcome are to consider one or more of the following criteria (although it is important to avoid a "one size fits all" approach):

- Education and training requirements, in order to ensure that barriers to entry are not prohibitive;
- The distribution of jobs and wages, as the ideal targets would promote opportunities for middle-wage jobs and advancement for populations without college degrees;
- The geography of cluster activities, to ensure that not only regional but inner city and other distressed area strengths are being targeted; and
- The capital requirements and availability of investment mechanisms for new enterprises, with an emphasis on clusters that create opportunities for entrepreneurs without access to high levels of personal or "friends and family" wealth.

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With these yardsticks in mind, potential focus areas will include a range of industrial and locally traded clusters, both of which are often not leveraged to the extent that they could be. Industrial activity is typically associated with middle-wage jobs and relatively low barriers to entry; local business-to-business activities create opportunities for workers with relatively low education credentials and would-be entrepreneurs without high levels of personal wealth. Conversely, strategies that focus primarily on high-wage, high-skill clusters like IT, in which only two percent of workers have not earned a high school degree, will attract investment and exporting capabilities to a region but often are inaccessible to most incumbent workers and entrepreneurs.[9] These clusters should be valued for the significant contributions they make to regional and national exports, and represent an important part of any regional cluster strategy. However, such clusters cannot comprise the entire portfolio of targets – they must be complemented with others that provide a range of opportunities to a broader swath of the population.

One way in which to achieve this is to focus on clusters that can have an impact on many communities within a region. For example, an initiative that focused on entertainment, arts, and retail in Northern New Jersey was designed around broad sources of competitive advantage – all eight counties in the region had the assets to leverage overall growth in the regional cluster. This encouraged a high degree of cooperation, leading to widespread benefits, while allowing for an easier sell to a diverse set of stakeholders.[10]

Incorporating these approaches reflects an understanding of the demography and geography of opportunity associated with firms that could be part of the target clusters. Put another way, firms with strong existing networks that could advance the target clusters and support business activity in distressed urban communities provide another key asset when it comes to creating jobs and combating poverty. As such, demographic and geographic expansion through cluster selection and innovative collaborative efforts are key considerations when it comes to positively affecting equity and inclusion.

Cluster Process and Organization

Once a set of target clusters has been identified, the next step revolves around cluster process and organization. This is especially relevant in light of the low shares of employment and sales associated with Black- and Hispanic-owned businesses shown in Figure 2. This makes it imperative to focus on outreach and, where cluster leadership is less representative than optimal, to provide guidance for leaders around the issues of equity and inclusion.

One promising attempt to organize clusters to promote inclusiveness is a multi-partner collaboration called the Northeast Ohio Speed-to-Market Accelerator (STMA). The Northeast Ohio STMA is a regional partnership of organizations – including JumpStart, Inc., MAGNET, Lorain Community College, and NorTech – focused on achieving positive economic impact in the region through the implementation of collaborative, cluster-based regional development. The Northeast Ohio STMA shares a series of goals including:

- Accelerating the formation of new high-growth businesses and growth of existing businesses;
- Promoting the creation of high-wage jobs;
- Enhancing the capacity of small businesses in the cluster, including small and disadvantaged businesses; and
- Ensuring diverse workforce participation in clusters through outreach, training, and the creation of career pathways.

To date, Northeast Ohio STMA has successfully nurtured a pipeline of new opportunities for diverse entrepreneurs, nearly 20 percent of whom operate disadvantaged businesses.[11]

More broadly, cluster leaders and participants involved in cluster efforts – categories that typically include economic development officials and executives from the private sector – must represent the needs of and broadly resemble key stakeholders. Ideally, this would entail leadership that covers a variety of interests, constituencies, organizations, and neighborhoods, with an emphasis on those that have been historically disconnected from cluster initiatives and other innovative economic development approaches. This not only would result in the sharpest possible understanding of the challenges and opportunities associated with distressed neighborhoods and populations, it would increase the initiative's credibility among stakeholders, helping to fulfill each cluster's potential.

In cases where cluster stakeholders are simply not very diverse for historical or other reasons, it is imperative that initiatives be led by individuals who appreciate the importance of equitable and inclusive growth. These individuals should be committed to creating a pipeline of diverse prospects by reaching out to the schools, training institutions, and business development organizations that are creating the next generation of workers, entrepreneurs, and leaders.

In cases where cluster stakeholders are simply not very diverse for historical or other reasons, it is imperative that initiatives be led by individuals who appreciate the importance of equitable and inclusive growth. These individuals should be committed to creating a pipeline of diverse prospects by reaching out to the schools, training institutions, and business development organizations that are creating the next generation of workers, entrepreneurs, and leaders. Only through the implementation of processes that generate inclusion will clusters' full potential for catalyzing a widespread increase in economic competitiveness and prosperity be realized.

Success in growing a broad and inclusive talent pipeline is critical as well to the success of individual businesses and clusters. For example, in IT clusters in many parts of the United States, finding and retaining workers is the key competitive challenge, which creates both an opportunity and an imperative to expand and diversify the workforce. In Michigan, the public and private sectors are supporting "Michigan Shifting Code," a program to train workers in computer programming and related occupations.

In Detroit, where rapid growth in the city's downtown digital cluster has created thousands of jobs in just a few years, the local training partner is Wayne County Community College District, which has one of the most diverse student populations of any higher education institution in the country. As a result, this partnership has the potential to meet the workforce needs of one of the city's and state's key economic clusters while creating a more diverse workforce, an issue that plagues technology clusters across the country.[12]

Cluster Performance

Building off the first two areas, cluster performance – based on both inclusiveness and more traditional metrics like output and job creation – is the next step in the progression. At this point in the cluster initiative process, the first two stages (selection and process/organization) will have ideally laid the groundwork in terms of creating opportunities and expanding participation. However, it is important to remember that these steps represent *means*, and not *ends*.

Once a cluster initiative is in the performance stage, the focus must shift to ensuring that traditionally disconnected organizations are engaged while underrepresented groups and neighborhoods are competitive. In other words, the first two steps are about creating the background conditions required to encourage inclusive clusters; the third step involves a focus on the results needed for successful cluster implementation.

After an initiative reaches the performance stage, one can begin to quantify its impact in terms of equity and job creation and compare it to other cluster-led approaches that feature different targets or structures. Because measuring cluster performance in terms of equity and inclusiveness is so unusual, at present there are few case studies from which to draw.

One instructive example, however, is provided by NorTech, the award-winning[13] technology-based economic development intermediary organization serving 21 counties in Northeast Ohio. The organization recognized that the economic competitiveness of Northeast Ohio requires a strong, diverse talent base through the full spectrum of entrepreneurs and employees. To meet this objective, NorTech employs Inclusive Competitiveness, which is the practice of measuring and improving the performance of diverse populations within innovation ecosystems, emerging industry clusters, and other areas critical to overall economic competitiveness.[14] A new senior leadership position has been created to guide those efforts.[15]

Cluster Communication

Finally, if the first three steps are addressed, communication becomes the final step in optimizing inclusive cluster policy and practice. Although the essential ingredient for the success of any cluster initiative is a group of talented, connected people, initiatives have historically employed narrowly targeted communication and outreach to institutions and prospective member companies, both large corporations and emerging entrepreneurial enterprises.

The absence of complementary, community-level messaging and interconnected social networking strategies unduly hampers inclusive cluster development. Put simply, new media and communication tools are needed to cultivate new economic narratives in disconnected communities and foster inclusive cluster policy and practice. In today's highly networked world of interdependent economic ecosystems, communication that nurtures the deep connectivity of wide ranging constituencies is a necessary component of the three aforementioned steps of selection, process and organization, and performance.

ADVANCING INCLUSIVE CLUSTER STRATEGIES

The steps described here must be undertaken in concert with an environment that encourages the creation and operation of new intermediaries that are dedicated to promoting the necessary conditions to successfully advance cluster-led strategies in distressed communities. Inner cities are served by a rich and diverse set of not-for-profits that typically provides direct services to residents, often with a focus on areas such as education, employment, and human and social services.

The business services that are provided in these communities are overwhelmingly focused on areas such as the construction sector and supplier diversity initiatives. These initiatives serve important needs by broadening participation in traditional economic sectors and opening up institutional and corporate procurement chains to a more diverse set of suppliers. Such efforts can be enhanced by recognizing the incredibly broad and growing set of opportunities within local business services. (See sidebar below on inclusive cluster opportunity.)

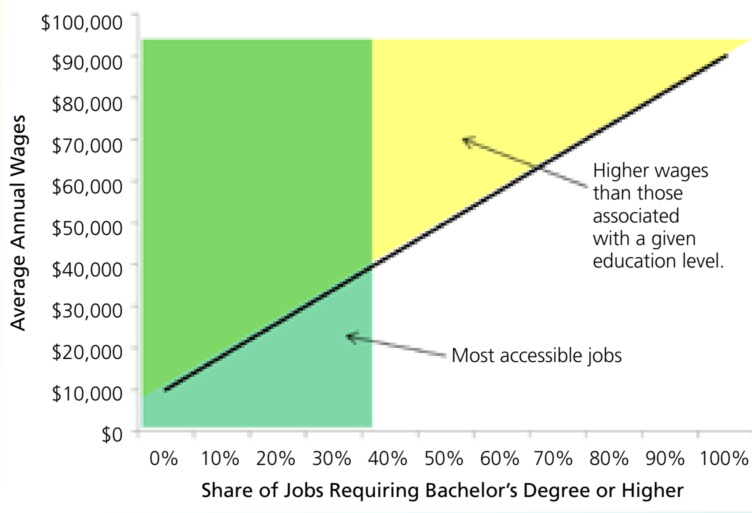
At the same time, efforts to expand local business opportunities must be complemented by the creation of new intermediaries that focus on creating linkages between the citizens of economically distressed areas and the technology- and innovation-based clusters that will account for a large share of future national growth, income, and exports. (See sidebar on Northeast Ohio collective action.) These intermediaries can help to create new economic opportunities by cultivating a larger pipeline of talent and supporting the establishment of job-

EXAMPLE OF AN INCLUSIVE CLUSTER OPPORTUNITY: LOCAL B2B

The cluster selection process represents a critical first step in creating job opportunities that are accessible to residents of disadvantaged communities. In order to do this, a number of metrics, which are either reported or can be calculated at the six-digit NAICS level,[16] must be examined.

National data from the Bureau of Labor Statistics (BLS) can be used to obtain the occupational breakdown associated with each industry. With each occupation reporting average wages, the educational credentials of its workers, and primary training requirements, one can compute the typical wages and requirements by six-digit NAICS industry. Translating this into cluster-level averages requires calculating a weighted average, with each of the metrics described above weighted by industry-level employment. When these calculations are complete, it becomes possible to plot accessibility (shown right on the x-axis) against average wages (shown on the y-axis) on a chart like the one shown in Figure 3, which demonstrates a hypothetical trade-off between wages and educational attainment.

FIGURE 3: UNDERSTANDING THE ACCESSIBILITY VS. WAGE TRADE-OFF



With this in mind, Local Business-to-Business Services (Local B2B) provides an important example of the type of cluster that economic development practitioners should focus on if the goal is to maximize inclusiveness. Based on data from the Bureau of Labor Statistics and the Economic Census, we found the average national wage to be roughly $42,000, with more than 25 percent of all jobs requiring at least a Bachelor's Degree. Yet within the Local B2B segment,[17] not only are typical wages slightly higher (just over $42,000 annually), but only 22 percent of jobs require a college degree; this combination of middle-wage jobs and less stringent educational requirements makes Local B2B an ideal target for inclusive cluster development.

Local B2B represents a particularly compelling opportunity for a number of additional reasons. For example, firms in this cluster tend to boast high levels of minority ownership, are well-represented in urban neighborhoods, and are necessary in every region. Strengthening Local B2B by promoting linkages to large purchasing organizations represents a straightforward opportunity to not only create jobs, but to set the stage for residents of low-income communities to escape poverty.

NORTHEAST OHIO COLLECTIVE ACTION

Northeast Ohio is the first region in the country where partner organizations in the innovation ecosystem – BioEnterprise, JumpStart, MAGNET, NorTech, and Team NEO – and the Fund for Our Economic Future have united to measure the competitiveness of African and Latino Americans in regional innovation clusters and commit to a common framework for collective action.

The effort will be focused on four main areas:

- Employment
- Entrepreneurship
- Engagement
- Education

The goal is to facilitate the development of a regional cluster inclusion and competitiveness action plan in order to:

- Monitor and facilitate cross-system action, building on existing core programs and creating new strategic initiatives extending out from and linking into the Northeast Ohio innovation ecosystem.
- Partner with organizations within the Northeast Ohio innovation ecosystem to apply and enhance proven technology and innovation-based economic development principles, practices, and strategies to efforts to improve the performance of African Americans and Latinos within regional innovation clusters and emerging industry sectors.
- Organize a subset of senior leaders of the Northeast Ohio innovation ecosystem, who will be responsible for ensuring operational execution and impact throughout the innovation ecosystem.
- Connect and convene public, private, and academic partners to define the vision, strategy, and priorities for inclusively increasing regional economic competitiveness.
- Monitor local, state, federal and regional government; regional and national philanthropy; and corporate funding opportunities.
- Build relationships to attract later stage investment capital to Northeast Ohio.
- Host networking and educational events.
- Communicate progress and performance of efforts to inclusively strengthen regional economic competitiveness.

creating enterprises, including minority business enterprises (MBEs). Unfortunately, these types of intermediary organizations are virtually nonexistent in distressed communities today, severely undermining the ability of residents and businesses in these communities to meaningfully connect to some of the country's highest-potential clusters.

Strengthening inclusive cluster approaches on a large scale will also require advancements in policy and practice across a diverse set of stakeholders, including business organizations and anti-poverty groups but also the academic, research, corporate, and philanthropic communities. These groups must collectively support inclusive cluster demonstration projects, disseminate research and findings, and work to change organizational policies and practices to promote inclusion within cluster initiatives. Where possible, public agencies and philanthropic organizations must relax restrictions on existing funding to allow needed experimentation and tie new funding to commitments to demonstration projects and dissemination of findings. Such advocacy will be critical for the development of an actionable framework to support inclusive cluster policy and practice.[18]

NEXT STEPS

It is imperative to shift the conversation around industry cluster-based economic development strategies to one that is focused on equitable inclusion and competitiveness. More importantly, there is an urgent need for specific findings and recommendations on how the selection, organization, performance, and communication of cluster initiatives affect competitiveness, equity, and inclusion. Never has it been more important to understand how the micro-organization of clusters affects broader equity outcomes. An inclusive approach to cluster development will ensure that future initiatives are developed and evaluated not only on their potential to catalyze growth but on their ability to benefit broad segments of the population, in particular those most in need of new economic opportunities.

Ultimately, efforts that drive toward improving the equity and inclusiveness associated with cluster initiatives represent an important step in the right direction. At a time when concerns about inclusion, inequality, and job creation have permeated so much of the national discourse, it is vital to leverage one of the most effective economic development tools that exists today – cluster policy and practice – to address these issues. In fact, cluster strategies and tools can eventually be leveraged more broadly to organize inner city residents and communities to maximize the collective benefit to them. Ultimately, such a focus represents not only a pathway to prosperity for those who have often been bypassed by traditional economic development strategies, but also a key to preserving and enhancing our national competitiveness.

ENDNOTES

1 Based on U.S. Census Bureau projections, which can be found at http://www.census.gov/population/www/projections/analytical-document09.pdf.

2 See, for example, http://www.isc.hbs.edu/econ-clusters.htm.

3 See, for example, Mark Muro and Sarah Rahman, *Budget 2011: Industry Clusters as a Paradigm for Job Growth*. The Metropolitan Policy Program at The Brookings Institution. Available at http://www.brookings.edu/blogs/up-front/posts/2010/02/02-fy11budget-cluster-muro-rahman.

4 Teresa Lynch and Adam Kamins. *Creating Equity: Does Regionalism Have an Answer for Urban Poverty? Can It?* ICIC Research: September 2011.

5 Demographic data are based on information from the 2005-09 American Community Survey (ACS); inner city definitions are from ICIC's State of the Inner City Economies (SICE) database.

6 Johnathan M. Holifield, Esq., *Why Inclusion Matters for Economic Competitiveness*, ICIC Ask the Expert: August 2012. http://www.icic.org/connection/blog-entry/blog-ask-the-expert-why-inclusion-matters-for-economic-competitiveness.

7 See for example, Pastor, Manuel and Chris Benner. "Been Down So Long: Weak-Market Cities and Regional Equity." In Richard M. McGahey and Jennifer S. Vey, eds., *Retooling for Growth*. New York: American Assembly and Columbia University, 2008; Katherine S. Newman, James B. Knapp Dean of the Arts and Sciences, Johns Hopkins University, Testimony to the Senate Finance Committee, Hearing on "Drivers of Intergenerational Mobility and the Tax Code," July 10, 2012; Robert Weissbourd, "Strengthening Communities for Regional Prosperity." The Living Cities Policy Series, 2006.

8 The America21 Project is a nationally networked and regionally focused social enterprise to advance Inclusive Competitiveness – connecting diverse populations to the Innovation Economy – through STEM education achievement, high-growth entrepreneurship, and private capital formation and investment. http://blackinnovation.org.

9 Detroit Works Project Technical Team. *Detroit Strategic Framework Plan*, October 2012 (Draft).

10 Based on an interview with a key stakeholder in Newark, NJ.

11 Disadvantaged business defined by the Small Business Administration, http://www.sba.gov/content/8a-business-development.

12 Ben Worthen, "The Tech Industry's Diversity Problem," *The Wall Street Journal*, June 1, 2009.

13 Northeast Ohio Organizations Receive International Recognition for Economic Development Approaches, http://www.nortech.org/news-room/press-releases/northeast-ohio-organizations-receive-international-recognition-for-economic-development-approaches.

14 The Inclusive Competitiveness concept was developed by Johnathan M. Holifield, Esq., of The America21 Project. http://www.blackinnovation.org.

15 NorTech Adds Economic Inclusion Expert to Leadership Team, http://www.nortech.org/news-room/press-releases/nortech-adds-economic-inclusion-expert-to-leadership-team.

16 NAICS refers to the North American Industry Classification System that is used to identify various types of business activities.

17 Local B2B was defined based on an exercise in which all six-digit industries were categorized into various segments as part of a Major Purchaser Study conducted by Mass Economics and ICIC for the Detroit Economic Growth Corporation (DEGC).

18 The America21 Project has explicated this progression in its "T.A.P.I.M." (Thought – Advocacy – Policy – Investment – Market) Model, see "Inclusive Competitiveness: Glossary of Terms," http://blackinnovation.org/about/.

the power of COLLABORATION

By Jasper Welch

As economic development organizations (EDOs) rethink their roles and missions in a challenging economy, the role of entrepreneurs in job creation and economic development is being recognized as a critical part of the growth of regional economies. Why is so much attention being paid to the entrepreneurial (small business) portion of job creation in local communities and regional metro areas? The answer to this question is that emerging research on company and job creation has identified entrepreneurs, micro-business and small companies as significant contributors to new and expanding jobs and wealth creation.

Start-up companies and emerging companies create jobs, loan demand, and real estate demand, and contribute to the overall U.S. economy. During the 20-year period from 1990 to 2009, start-up companies created an estimated 5 million jobs per year in the U.S. and expansion (emerging) companies created 8.5 million jobs per year. (Source: Donald Walls, Ph.D.; Preliminary NETS Database, 2009, Walls & Associates; http://youreconomy.org/pages/walls.lasso) According to Amy Cortese, author of *Locavesting*, approximately 80 percent of net new jobs created in the U.S. come from companies with 20 or fewer employees. In another researched aspect of job creation, Cortese noted that U.S. counties with smaller firms (average size by county) grew jobs faster than U.S. counties with larger firms (average size by county). In my home county (Durango, CO micropolitan area), 87 percent of the jobs come from companies with less than 100 employees.

Newer business incubators are found on college campuses and research parks. While some incubators are in older modified buildings, many communities are investing in state-of-the-art facilities, such as the Quality Center for Business in Farmington, NM.

The power of collaboration by entrepreneur service organizations (ESOs) provides new opportunities for EDOs as they look for additional ways to spur company and job creation in their communities and regions. ESOs are locally and regionally based non-profit organizations and private businesses that provide services and support to entrepreneurs in the areas of finance, start-up, business development, and innovation strategies. A continuum of support for new and emerging entrepreneurs is being established in most communities, cities, and metro areas in the United States. This array of entrepreneurial support includes coworking, business incubation, business accelerators, and economic gardening (see *Economic Development Journal*, Fall 2011, "Serving Second-Stage Com-

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SUPPORTING ENTREPRENEURS

As economic development organizations (EDOs) rethink their roles and missions in a challenging world economy, the role of entrepreneurs in job creation and economic development is being recognized as a critical part of the growth of regional economies. Start-up companies and emerging companies create jobs, loan demand, and real estate demand, and contribute to the overall U.S. economy. This article focuses on programming, strategic initiatives, and sponsorships that an EDO can implement to support entrepreneurship and the follow on results of new company start-ups, new jobs, and wealth creation in its service area.

Photo credit: Nancy Wharton, DurangoSpace

Coworker Justin Repath and co-founder Nancy Wharton working in shared flex space at DurangoSpace in Durango, CO.

panies" by Penny Lewandowski and T.J. Becker, Edward Lowe Foundation). Economic gardening is a job creation strategy that is targeting Stage 2 companies for growth and expansion. Other ESO programs include Small Business Development Centers (SBDCs), local chamber programs for entrepreneurs, and college or university entrepreneurial initiatives.

Each community, region, and metropolitan area has one or more economic development organizations (EDOs) that are tasked with creating companies, well paying jobs, and private sector wealth (and corresponding tax base). An essential part of the strategies to achieve these lofty EDO economic goals and results is to determine the role of entrepreneurship, from start-up companies and location neutral workers to emerging companies and creative independents. This article focuses on programming, strategic initiatives, and sponsorships that EDOs can implement which will support entrepreneurship and the follow on results of new company start-ups, new jobs, and wealth creation.

The jobs created by small businesses cannot be overlooked by EDOs as they reposition their role and programming in economic development. Let's review some of the entrepreneurial programming elements that an EDO can be involved in, whether as a sponsoring agency, a community advocate or directly as an initiative of EDO programming. Examples of these elements include coworking spaces, business incubators, and business accelerators.

COWORKING

Coworking is a recent movement of independent "workspaces" that are created for remote workers, location neutral workers, and independent professionals. Location neutral workers are those independent, remote or telecommuter workers who can work anywhere, as they are not location dependent. As the workplace changes, flexible workspace is in high demand in urban settings and small town downtown areas.

Coworking is in the forefront of the changing workplace. According to DeskMag (www.deskmag.com) the number of coworking spaces worldwide is estimated at 2,072, with approximately 797 (38 percent) of these in North America and 878 (42 percent) in Europe. Market leading coworking companies often have multiple locations (like NextSpace with five locations in California) and their expanded programming for member entrepreneurs. In summer 2012, NextSpace CEO Jeremy Neuner announced the opening of a joint venture between NextSpace Coworking and the new Amplify Accelerator in Venice, CA (LA area). At DurangoSpace (Durango, CO), the local SBDC, local EDO (the Alliance), and the regional economic development agency (Region 9) are involved as members and advocates of coworking in Durango.

Coworking is more than just shared workspace. It is also a community of independent workers, telecommuters, and creative professionals who interact while still getting their individual work done. Neuner calls it the "NextSpace Effect"… in coworking; at DurangoSpace we call it "accelerated serendipity," since the community of coworkers creates entrepreneurial opportunities and connections to business networks.

From the perspective of an EDO professional, how does coworking fit within the job and company creation toolbox? Based on data from the Edward Lowe Foundation (www.youreconomy.org), approximately 10 percent of jobs in a county or region are created from self-employed individuals. In addition, many start-up companies come from the ranks of the self-employed entrepreneurs. But as many economic development professionals know, although location neutral workers are working within our communities, it can be difficult for an EDO to target this emerging group of workers for job creation strategies. Enter coworking – a flexible workplace where these independent workers can regularly work. EDO professionals should work to identify coworking workspaces in their service area, sponsor EDO programming that supports location neutral workers, purchase a corporate membership in a local coworking facility, and work with local coworking space owners to expand their service offerings.

BUSINESS INCUBATION

Business incubation was formalized when the National Business Incubation Association (www.nbia.org) was founded in 1987. As of October 2012, there were over

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1,250 incubators in the United States, up from only 12 in 1980. NBIA estimates that there are about 7,000 business incubators worldwide. Business incubators work with Stage 1 (two to nine employees) and emerging Stage 2 (10 to 99 employees) companies by providing entrepreneurial support services, business development services, leased space, and access to financing.

Most business incubators are based on a business plan and/or business feasibility model, including an application process. Some incubators are sponsored by a college or university; others are sponsored by an EDO or community development corporation, while others operate as a standalone non-profit. Business incubators can be specialized, such as focusing on biotech, mobile devices or software technologies, culinary arts, green technologies or university research and commercialization.

Typically, a Stage 1 company may be involved in the business incubator for two to five years. Start-up companies that successfully launch from an incubator are usually late Stage 1 or early Stage 2 companies that represent an excellent potential for job creation and expansion for the local or regional EDO. Graduate companies from the business incubator are excellent candidates for economic gardening programs and business development strategies.

From the perspective of an EDO professional, business incubators represent an excellent program for the support of start-up and emerging companies. For example, in the case of the San Juan College Enterprise Center in Farmington, NM, the local EDO was involved in supporting the local business incubator in the following ways:

- Joint signer of the Memorandum of Understanding (MOU) between the San Juan College, city of Farmington, and the countywide EDO on the creation, funding, and construction of a regional business incubator in 1997.
- The set aside grant award by the EDO of $80,000 in restricted funds for start-up, marketing, and furniture, fixtures & equipment expenses for the local business incubator.
- Co-location of the EDO offices at the new SJC-Enterprise Center in 2000.
- Ongoing EDO support over the past decade of the business incubation, through marketing the SJC-Enterprise Center, supporting New Mexico state legislation, and advocating expanded funding sources for business incubators.

Technology, software, and digital business start-ups are more likely to fit the accelerator model, which focuses this economic development tool on web applications and software development.

Photo credit: Charlene Anderson, Creative Geckos

The San Juan College Enterprise Center (business incubator) opened in late 1999. It has launched over 50 companies and created several hundred new jobs in Farmington, NM.

The Northern Indiana Innovation Center (NIIC) (http://www.niic.net) is one of the most complete models of business incubation, combined with coworking, capital funding, technology park facilities, and business growth strategies. Karl LaPan, CEO and "chief innovator," has led NIIC's development, creation, and implementation since 2000. This super-incubator is part of a 55-acre "high tech-high touch" Indiana certified technology park. LaPan is well known as an ESO innovator in the business incubation and emerging company sector.

NIIC represents a "best of breed" incubator where "best & next practices" economic development strategies are showcased with demonstrated results. This Indiana grown model can help EDOs determine which ESO elements to adapt to their service areas.

BUSINESS ACCELERATORS

Business accelerators are a third type of ESO for launching newly formed management team ideas. Business accelerators are relatively new to the entrepreneurial scene, with a concentration in the San Francisco Bay area, LA area, New York City, and medium markets such as Austin, TX, and Boulder, CO. The best-known and most successful programs are Y Combinator (Silicon Valley) and TechStars (Boulder, CO). In January 2011, TechStars began licensing their accelerator programming and process to EDOs, business incubators, and higher education organizations. In the TechStars and Y Combinator accelerator model, only a select few start-ups are accepted into the flagship accelerators, based on a very competitive selection process.

Technology, software, and digital business start-ups are more likely to fit the accelerator model, which focuses this economic development tool on web applications and software development. Once a founder's team is selected (one company in 50 to as many as 500 applicants), the accelerator program injects initial equity funding ($15K to $50K). The accelerator program features a group of mentors, coworking like facilities, and access to angel capital and investor networks. Additional capital infusions may be from $25,000 to first rounds of $100,000 or more. The accelerator program lasts for 90 to 120 days as the companies develop "business viability" and a sustainable business model.

The transformation event is Demo Day at which time the start-up companies pitch their business models and viability to investors that are part of the accelerator's network of equity capital investors. At Demo Day, graduating companies are matched with qualified investors, subject to mutually agreed upon terms of equity funding. Part of the reason Y Combinator and TechStars are "best in class" as business accelerators is found in the strength, quality, and breadth of their respective investor and mentor networks.

BLENDING BEST PRACTICES AND DIVERSE STRATEGIES

What can EDOs do to better support entrepreneurs in their service area? There are six options (or approaches) for EDOs to consider in their programming and support of entrepreneurs and small businesses. The more traditional EDO approaches leave out the entrepreneurial programming, whereas Option 6 described below is more comprehensive and better suited to today's fast moving economic changes. Option 6 is a fully integrated ED strategy that includes entrepreneurs by blending best practices and diverse strategies for the EDO going forward.

Let's review the first five EDO options among communities in their approach to economic development followed by the sixth option:

1. Do nothing and hope your local economy just works out.
2. Say that everything is OK, and we'll just let the marketplace decide.
3. Hang on to the companies you have, and ignore the rest (start-ups, recruiting new companies, expanding companies, location-neutral workers).
4. Retain what businesses you have, and try to expand existing companies.
5. Traditional "3 part" economic development that includes recruiting, expansion, and retaining companies.
6. Option 6 is a comprehensive strategy that involves the full spectrum of start-up companies, emerging enterprises, and established corporations:
    - Coworking & independent workers,
    - Start-up (Stage 1) companies involved in business incubation,
    - Launching early Stage 2 companies (incubation and acceleration),
    - Focus on growing Stage 2 companies & jobs (economic gardening),
    - Retain Stage 3 (100 to 499) companies and Stage 4 (500+) companies, and
    - Recruit new companies where there is a community match or cluster compatibility.

As economic development professionals, we understand that the first three ED approaches are not really viable. Clearly, the need for company and job creation is an essential success measure for an EDO. It cannot be

RESOURCES

Economic Gardening

- Littleton, CO (http://littletongov.org/bia/economicgardening)
- Castle Rock, CO (http://castlerockeg.com)
- Edward Lowe Foundation (http://edwardlowe.org/tools-programs/economic-gardening)
- Florida Economic Development Institute (http://www.growfl.com/about/economic-gardening)
- National Center for Economic Gardening (https://nationalcentereg.org)

Coworking

- League of Coworking Spaces (http://lexc.org)
- WorkBar, Boston, MA (http://workbar.com)
- NextSpace, SF Bay Area & LA, CA (http://nextspace.us)
- CitizenSpace, San Francisco, CA (http://citizenspace.us)
- CreativeDensity, Denver, CO (http://densitycoworking.com)
- New Work City, New York City, NY (http://nwc.co)
- Cohere Coworking, Ft. Collins, CO (http://coherecommunity.com)
- Conjunctured Coworking, Austin, TX (http://conjunctured.com)
- DurangoSpace, Durango, CO (http://durangospace.com)

Business Incubation

- National Business Incubation Association (www.nbia.org)
- Northern Indiana Innovation Center (http://niic.net)
- Northern Arizona Center for Entrepreneurship & Technology (NACET) (http://nacet.org)
- San Juan College Enterprise Center (http://sanjuancollege.edu/EnterpriseCenter)
- Santa Fe Business Incubator (http://www.sfbi.net)
- Ben Franklin Tech Ventures (http://nep.benfranklin.org/incubator-network)
- Grand Junction Business Incubator (http://gjincubator.org)
- Rocky Mountain Incubation Collaborative (http://rmincubation.org)

Accelerators

- Global Accelerator Network (http://globalacceleratornetwork.com)
- Y Combinator (http://ycombinator.com)
- TechStars (http://www.techstars.com)
- LaunchPad LA (http://launchpad.la)
- 500 Start-Ups (http://500.co)

left to chance or ignored, as is the case for Options 1, 2, and 3. Under funded and under staffed EDOs can be found at the Option 4 level of limited ED programming. Classic economic development strategies include recruiting new companies, retention of existing companies, and expansion of existing companies (Option 5). But this approach misses the entrepreneur segment of company creation and job growth. Thought leaders among economic development professionals are looking for best practices and next practices.

Why not consider Option 6? Simply put, entrepreneurial company creation and follow-on job creation is becoming a more significant part of EDOs and their mission. The economic impact of coworking, incubators, accelerators, and related ESOs is emerging as an important part of company and job creation strategies for thriving local and regional economies.

Which leads us to ask how can we deliver the best EDO programs, sponsorships, and advocacy roles that support entrepreneurs, whether in terms of start-up companies or micro enterprise job creation? Following is a list of specific EDO strategies that can guide the ED professional into more effective programs and results:

1. Seek out the coworking facilities in your EDO service area and become a professional and/or corporate member. You'll have a front row seat in the starting zone for entrepreneurs and independent workers.
2. As part of your EDO coworking membership, consider sponsoring technology and software development meetings or other related coworker community (entrepreneur) programming.
3. Participate with your local business incubator, whether as a program sponsor, member of the advisory board or by loaning an EDO executive for a project.
4. Sponsor a business plan competition, in conjunction with the local entrepreneur service organizations (ESOs), such as the SBDC, chamber, angel investor group or business incubator. There are several "best practices" models, such as in Oregon: http://southernoregonangelinvestors.com.
5. Sponsor an Ignite in your EDO service area. At an Ignite, participants are given five minutes to speak about their ideas and personal or professional passions, accompanied by 20 slides. While this type of program may be a stretch for an EDO professional, there are many communities that are growing ideas, culture & arts, and intellectual pursuits using the Ignite model. An EDO can also use this model for conferences and hosted events, moving beyond the boring preplanned meeting.
6. Join the National Business Incubation Association. Attend the International NBIA conference (held each spring) and experience the front lines of what is happening in Stage 1 company development and job creation.
7. Investigate the business accelerator model, including licensing options with TechStars (Boulder, CO). Another approach is to identify a business accelerator that your EDO can work with, in order to establish this rapid company development and growth strategy in your service area.
8. Consider sponsoring an emerging company CEO roundtable. In Durango, CO, the regional EDO (www.scan.org) sponsors the Emerging Growth Company initiative in partnership with the local SBDC, the Alliance (Durango area EDO), and Ft. Lewis College School of Business.
9. Create an ESO directory and web site portal for your EDO service area, including public, private, and non-profit entrepreneurial resources. Private sector ESOs, such as CPA firms, banks that lend to small businesses, or intellectual property or business law firms will likely help fund this effort to connect ESOs to entrepreneurs.

Entrance to NextSpace coworking in downtown San Jose, CA.

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10. Get involved with Stage 2 companies, using the economic gardening model. Position your EDO to be a sponsor and advocate for the Edward Lowe Foundation sponsored Companies to Watch awards program, started in 2005. Colorado is one of several states involved in this program. (http://colorado.companiestowatch.org)

11. Expand your EDO programming, sponsorship, and advocacy to include entrepreneurs. This EDO involvement and sponsorship(s) in the ESO sector can lead to company creation and job creation strategies at the ground level.

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NEXT STEPS

So what are the next steps for leading economic development organizations? Here are three elements of a successful entrepreneurial approach to economic development:

- Engage your internal EDO staff and external resources (consultants, investors, entrepreneurs) in a thorough assessment on what is happening and what ESO programs are in your EDO service area.
- Take the risk and leadership role in developing your EDO specific Option 6 in ways that fit and enhance company and job creation in your community. Look to other EDOs' "best practices" in their company and job creation strategies.
- Be willing to implement your EDO Option 6 strategies based on research, best practices, ESO partnerships, and feedback on what is working. The future of EDOs will involve the entrepreneur, location neutral worker, and micro-enterprise, as the U.S. and world economy continues to be restructured.

In summary, the expanded Option 6 model for EDO programming and advocacy builds upon classic economic development strategies by adding entrepreneurship, ESO support, and company and job creation (enterprises with less than 20 employees). As we look to expand and enhance our critical roles in economic development, it is clear that company and job creation by entrepreneurs and emerging companies is essential for a successful economic development organization.

the jobs act –

CROWDFUNDING AND BEYOND

By Ron Kitchens and Phillip D. Torrence

Economic development as a practice and profession dates back at least 2200 years to the Roman Empire when the Roman Senate granted tax abatements to merchants using the Port of Delos. Over these past 22 centuries, economic development has pretty much remained the same: a community or governmental-based group focusing on selling location, natural resources, and labor. The business of economic development has always been closely controlled and managed due to confidentiality, competition, and scarcity of opportunity.

While a command and control strategy may have served the profession well in the past, it will not in the future. As large projects that are dependent on natural resources and location become even scarcer, collaboration and crowdfunding will be the mantra for the future. One example of the potential power of an open source economy is the recently signed federal JOBS Act, www.gpo.gov/fdsys/pkg/BILLS.../pdf/BILLS-112hr3606enr.pdf, which creates a new playing field and rules for economic development. Those places that adapt to the new reality will be those that thrive; those that fail to adapt risk being a footnote in history.

For those communities looking to establish an entrepreneurial environment, crowdfunding opens up a new "port of entry" for sustainable business ventures. As long as a company is looking to raise less than $1 million, the JOBS Act removes seemingly insurmountable mountains of paperwork that most entrepreneurs are not qualified or willing to take the time to answer. As most typical startups can successfully get going with as little as $25,000, the worldwide web can easily help the budding entrepreneur to find 1,000 people who are willing to give $25 for a "little return." Although getting that little return is a risk, the small amount initially invested is viewed as a moderate investment by most.

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When President Obama signed the JOBS Act into law, it was designed to increase job creation and economic growth by improving access to public capital markets for emerging growth companies. The JOBS Act's purpose is to drive the creation of jobs in America by removing access barriers to capital for U.S. and non-U.S. companies from both public and private sources.

The JOBS Act makes significant changes to the securities laws and focuses on streamlining the initial public offering ("**IPO**") process by reducing some of the costs and burdens of going public. While important provisions of the JOBS Act will go into effect immediately, other provisions will require further rulemaking by the Securities and Exchange Commission ("**SEC**").

What led us here? There were so many obstacles and upfront costs to funding new ideas with the old and staid methods that it discouraged most to participate. The average IPO in the U.S. costs more than several million dollars in up-front fees and costs to have the first right to sell shares of a

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SOCIAL NETWORKING MEETS ANGEL INVESTING

For businesses looking for startup funding, the Jumpstart Our Business Startups Act or JOBS Act signed into law by President Barack Obama on April 5, 2012 offers a new pot of gold under the proverbial rainbow. Rather than asking family members for a few seed dollars or packaging up a business plan and heading off to a bank or other credited financial institution for a formal loan, entrepreneurs can appeal to the "crowd" for funding. Using social media networks like Facebook, Twitter or LinkedIn to get a message out, Crowdfunding, defined as the use of small amounts of capital from a large number of individuals, can support entrepreneurship by exponentially increasing an entrepreneur's ability to finance a new business and having cash available on day one.

company to the public with limited general solicitation allowed. Crowdfunding, the collective process of capital gathering or people pooling their money or resources together, usually via the Internet or social media outlets to support the efforts of others, will allow private investors who were previously shut out of angel and startup funds to participate. Social sharing of great new ideas is contagious. Multiple social media platforms spanning the world have been developed with billions of participants.

The crowdfunding law change will unleash the enormous power of social media to mate good ideas led by good people with capital. As a result, the small entrepreneur with little resources to start will now have greater access to capital. Economic growth is driven by innovation. Innovation is driven by experimentation. Crowdfunding funds experimentation. Let's take a look at some of the significant portions of the JOBS Act that will impact our local economies.

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ACCESS TO PRIVATE CAPITAL

One of the primary goals of the JOBS Act was to make it easier for private companies to raise capital by amending the Securities Act and Exchange Act and requiring the SEC to amend its rules and regulations as follows:

- The SEC is to revise Rule 506 of Regulation D and Rule 144A to eliminate the prohibitions on general solicitation and general advertising in private offerings conducted pursuant to these rules. Previously, companies using the Rule 506 Exemption were allowed to raise an unlimited amount of money if they did not use general solicitation, advertising, or fraudulent materials to market securities by simply fulfilling the requirement of filing Form D, a brief notice including the names and addresses of owners and stock promoters. Rule 144A provided a safe harbor from the registration requirements of the Securities Act of 1933 by allowing large institutional investors to trade restricted securities among themselves, thus eliminating restrictions imposed to protect the public.
- The Securities Act will be amended to provide that trading platforms (software through which investors can open, close, and manage portfolios offered by brokers in exchange for maintaining a funded account and specified number of trades per defined period) involved with the sale of securities in a Rule 506 private placement are not subject to registration as a broker or dealer as long as certain conditions are met (including the condition that no such person receives compensation in connection with the purchase or sale of securities and that the platform does not have possession of customer funds or securities in connection with the purchase or sale of securities).
- The SEC will increase the amount of securities that can be issued in a 12-month period under Regulation A which regulates whether offerings of $5 million or less can qualify for simplified registration from $5 million to $50 million (or promulgate a new Regulation A-like exemption from registration similar to Regulation A permitting such increased amounts).
- The Exchange Act will be amended to raise the registration trigger at which private companies are required to register a class of securities and become subject to public company reporting obligations (shareholder thresholds will increase to 2,000 holders of record or 500 persons who are not accredited investors, excluding shareholders who acquired securities through an employee compensation plan or in connection with the crowdfunding exemption).

Private companies that sell equity securities (instruments that show an ownership position – shares – in a corporation that is relative to the corporation's assets and profits – outstanding shares) to venture, angel or private equity investors have long relied on an exemption from public registration, Rule 506 of Regulation D. This exemption permits sales of shares to sophisticated investors subject to certain limitations, including that the company not engage in "general solicitation" or advertising of the offering. The JOBS Act expands Rule 506 to permit general solicitation and advertising for private offerings under Rule 506 if all purchasers qualify as "accredited investors" under SEC rules.

Startups have increasing access to tools that allow them to communicate with large numbers of potential investors, including blogs, e-mail newsletters, and investing communities. By lifting the restriction on general solicitation, entrepreneurs will be able to use these tools and others to announce their intentions to raise funding without a concern that they are undermining their ability to rely on Rule 506.

Essentially, entrepreneurs can advertise the existence of the offering to the general public, which may help them reach potential investors who would not otherwise have known about the offering. However, in order to stay within the boundaries of a Rule 506 private offering, they cannot sell to the general public – if they engage in general solicitation, all purchasers must be accredited investors.

In the U.S. now, there are approximately 60,000 angel investors, individuals who provide financial backing for small-startups usually through a one-time payment of seed money and are typically family members or friends of the entrepreneur. Crowdfunding is likely to create 60 million new angel investors in the U.S. alone.

Defined by the SEC under Regulation D, accredited investors include individuals, banks, insurance companies, employee benefit plans, and trusts that are financially sound and have a reduced need for protection by government filings. Accredited investors are classified as an individual having an income of more than $200,000 per year (or $300,000 jointly with a spouse) for the past two years, having a net worth exceeding $1 million, or being a general partner or officer of the investment being offered.

Entrepreneurs should consider what types of solicitation and advertising are appropriate for their businesses. Entrepreneurs may want to consider what impact, positive or negative, any such solicitation or advertising may have on the entrepreneur's or company's image or credibility, the company's operations, and ability to attract appropriate investors.

CROWDFUNDING

In the U.S. now, there are approximately 60,000 angel investors, individuals who provide financial backing for small-startups usually through a one-time payment of seed money and are typically family members or friends of the entrepreneur. Crowdfunding is likely to create 60 million new angel investors in the U.S. alone. This is a powerful transformational development that alters the landscape of financing forever as companies looking for funding in the neighborhood of $5,000 to $500,000 can draw from a larger pool of investors offering much smaller investment amounts, which can range anywhere from $25 to $2,000 depending on the investment.

Peers that believe in inventors and entrepreneurs and their startups will likely fund good ideas expressed by people that gain trust quickly. Since most crowdfunding investments will be small, it will enable new experiments to be tried. With micro-financing, testing new ideas and testing new investments can be done with a minimization of individual pain in the case of failure. People may gamble a $25 bet on a long shot that normally would never get funded if the minimum investment venture capital style was expected to be $250,000. Some of these long shots that get funded by crowdfunding, that would have never received funding with the old financing paradigm, are going to be the ones that change our world for the better.

Crowdfunding is going to be a tool for people to invest in their own communities. This type of helping hand support to people in your own communities will help create sustainable economic health. Crowdfunding will likely be teamed with crowdsourcing of information and resources. Every enterprise will become an exercise in the power of collaborative communities. Crowdfunding has the potential to do more than anything before in getting more people than ever excited to go into work each day.

Here is how crowdfunding works under the JOBS Act. Securities laws will be amended to provide a new "crowdfunding" exemption from registration, meaning that private companies will be allowed to raise up to $1 million over a 12-month period from an unlimited number of investors, including unsophisticated investors, through "crowdfunding." The specific requirements for the crowdfunding exemption are as follows:

- The aggregate dollar amount of securities that an issuer (a domestic or foreign government, corporation or investment trust that develops, registers, and sells securities for operational financing) can sell in a crowdfunding transaction is up to $1 million over a 12-month period.
- Individual investor limits, limiting the amount an issuer can sell to an individual investor in any 12-month period, will be limited to the maximum of (i) the greater of $2,000 or 5 percent of the annual income or net worth (for investors whose net worth or annual income is less than $100,000), and (ii) 10 percent, not to exceed $100,000, of annual income or net worth (for investors whose annual income or net worth is equal to or greater than $100,000).
- Issuers utilizing the crowdfunding exemption to raise capital must sell the securities through an intermediary (either a registered broker or a person registered with the SEC as a "funding portal").
- Issuers must make financial and other information available to both the SEC and investors, both in connection with the offering and on an annual basis, under a disclosure regime (a transparent and structured reporting system) that enhances the disclosure and likely increases the expense with the size of the offering.

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STREAMLINED IPO PROCESS

The JOBS Act will significantly streamline the IPO process, making it more attractive for "emerging growth companies" (**"EGCs"**) to go public. An EGC is a company with less than $1 billion in annual gross revenue during its most recent fiscal year (other than any such company that first sold common equity securities in a transaction registered with the SEC prior to December 8, 2011). It should be noted that, in addition to not necessarily being "emerging" or "growing," EGCs are not particularly small companies. According to industry sources, over 90 percent of the companies that conducted IPOs in 2012 had annual revenues of less than $1 billion.

With this streamlined IPO process, crowdfunding will offer expanded investment opportunities for investors and help bring new and innovative products to the market that otherwise might not have been possible with the old regulations. The process of accelerating EGCs for economic developers could move much faster as connecting local opportunities with local money just got easier.

Everyone wants to improve the communities they live in, particularly if their pocketbooks have the opportunity to profit financially by doing so. Crowdfunding sites that offer local investment opportunities will have a strategic advantage over those that offer investment opportunities far away as due diligence can be performed more easily. In addition, cities and states with accredited research universities in their midst will have the added benefit of having an established pipeline for startups and EGCs based on research. Lastly, investors who live near the location of a startup or EGC investment offered through crowdfunding have opportunity to meet the entrepreneur and literally watch their investment being built from the ground up.

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Under the JOBS Act, EGCs will benefit from the following changes to the IPO process:

- EGCs will be able to make pre-filing (oral or written) solicitations of interest, requests made to prospective investors that involve no monetary obligation or commitment until a final offering by the issuer, to qualified institutional buyers and accredited investors (within the meaning of Rule 144A and Regulation D, respectively) to determine whether such investors might have an interest in a contemplated IPO or other securities offering.
- EGCs will be permitted to submit a "quiet" draft registration statement (preliminary prospectus of pertinent information to shareholders filed by a firm prior to proceeding with an initial public offering of securities) to the SEC for a confidential nonpublic review, provided that such draft registration statements are publicly filed no later than 21 days before the date on which the issuer conducts a road show.
- EGCs will need only two (rather than three) years of audited financial statements in their registration statements to go public.
- Brokers or dealers will be permitted to publish/distribute research reports covering an EGC prior to or following the filing of a registration statement even if the broker or dealer will participate in the offering.
- The JOBS Act also requires the SEC, within 180 days of the JOBS Act's adoption, to conduct a review of the disclosure rules contained in Regulation S-K which lays out reporting requirements for various SEC filings used by public companies, in order to update, modernize, and simplify the requirements of the IPO registration process for EGCs.

We have all seen the media feeding frenzy around the initial filing of the registration statements by high profile companies like LinkedIn, Zynga, Groupon, and Facebook, as various journalists, analysts, and other commentators combed through them for financial information, compensation data, and other insights on their businesses. We have further seen how the SEC review process has led some companies to modify the way they present key business metrics or accounting information.

Under the new rules, companies may initiate the review process with SEC examiners without releasing the full registration statement to the public, and may be able to resolve presentation and disclosure issues confidentially with the SEC before disclosing their registration statement to the public. Additionally, for entrepreneurs contemplating an IPO, the ability to rely on scaled disclosure and more limited governance obligations should reduce the costs of going public.

IPO "ON-RAMP" FOR EGCS

The JOBS Act will also create a simplified entrance or "on-ramp" to access the public capital markets for EGCs by phasing in certain public company disclosure requirements over time. Once public, an EGC will have a limited transition period of one to five years (depending upon the size of the EGC) during which the regulatory requirements will be relaxed in order to reduce the cost of compliance. During such transition periods, an EGC will be:

- Exempt from Section 404(b) of the Sarbanes-Oxley Act of 2002 passed by the U.S. Congress to protect investors from the possibility of fraudulent accounting activities by corporations in response to accounting scandals like Enron, which requires auditor attestation of internal control over financial reporting on Form 10-K.

- Exempt from the detailed narrative disclosure requirements of compensation discussion and analysis.
- Exempt from the executive compensation voting requirements of the Dodd-Frank Wall Street Reform Act of 2010 which increased government oversight of trading in complex financial instruments restricting the type of proprietary trading activities that financial institutions are allowed to practice with the intent of preventing major collapses, including the requirement for say-on-pay, say-on-frequency and say-on-golden parachute shareholder votes and the executive compensation disclosure provisions requiring the pay-for-performance graph and CEO pay ratio disclosure.
- Exempt from complying with new Generally Accepted Accounting Principles (GAAP) pronouncements otherwise applicable to public companies until the pronouncements become applicable to private companies. These new GAAP principles require significant disclosure and expand the definition of a "service" being offered to a customer as anything that has value. Their purpose is to give financial statement users a better picture of how a company is earning its money.
- Exempt from any rules that the Public Company Accounting Oversight Board may adopt relating to mandatory audit firm rotation and any requirement to include an auditor discussion and analysis narrative in the audit report.
- Permitted, with some exceptions, to "opt in" and comply with the disclosure rules otherwise required of issuers under the federal securities laws on an "a la carte" basis.

The "on-ramp" provisions of the JOBS Act are structured as amendments to the Securities Act of 1933 and the Securities Exchange Act of 1934, which took immediate effect upon signing by the President. There will likely be transition and implementation issues that EGCs and their counsel will have to address until the SEC has had an opportunity to issue interpretative guidance and update the rules currently promulgated under such acts.

Although the JOBS Act moved quickly through Congress, it will take time to evaluate what impact it will have on investors and the scope of companies able to take advantage of its provisions. Nevertheless, the "on-ramp" established by the JOBS Act will likely make the IPO process significantly more attractive to most U.S. and non-U.S. issuers seeking to access the U.S. capital markets and should provide many newly created public companies with an eased transition to the public company regulatory regime.

The staff of the Securities and Exchange Commission's Division of Corporation Finance has already provided guidance regarding the initial procedures EGCs should use to furnish draft registration statements to the SEC for confidential nonpublic review. This guidance is available at http://www.sec.gov/divisions.corpfin/cfannouncements/draftregstatements.htm. Eligible companies may begin making such submissions immediately.

IMPACT OF THE JOBS ACT

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Over the past 10 years and since the adoption of the Sarbanes-Oxley Act of 2002, the IPO alternative for many domestic venture capital-backed companies has been closed. Over the past several years, many of our domestic venture capital-backed medical device and life science companies have found opportunities on foreign stock exchanges such as the Australia Stock Exchange (ASX) and the London Stock Exchange.

For the large group of companies that are expected to fall into the category of EGCs in the future, the effect of the JOBS Act is to repeal wide swaths of Dodd-Frank, Sarbanes-Oxley, and other reform legislation, as well as longstanding public company disclosure requirements. Ironically, many of these "impediments" to capital formation were implemented in the last decade to address perceived failings in regulation identified in the wake of the dot-com bust, the Enron scandal, and the most recent financial crisis.

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Crowdfunding offers an interesting new method of funding outside of traditional angel or institutional investors. However to the extent that, through crowdfunding, a company finds itself with a large base of unsophisticated investors, the company should expect to spend substantial time and resources related to the administration and communication challenges inherent in that type of shareholder base. For example, items such as shareholder actions may be more challenging to manage and may require more detailed communication or extended time to complete.

While there is no "magic bullet" or "one size fits all" approach to economic development, it is clear that the practices, plans, and perceptions that built our nation, states, and communities will no longer build our economies. To build vibrant business communities, collaboration and capital formation must rise to the top of our strategies.

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Our great nation is about to enter a period of economics, where the power "of many" or crowdsourcing has the ability to chart a new future for people struggling to make their start or yearning for empowerment. For example, just think of what organizations have been able to do like Kiva (www.kiva.org) for entrepreneurs around the globe looking to cast aside poverty or Kickstarter (www.kickstarter.com) for independently crafted projects. Capital is about to become boundaryless and available to great opportunities anywhere. Those communities which figure out how to harness this power will thrive into the next century and beyond.