

## Intentional Management

By David J. Myers, CEcD

### THREE BASIC FUNDAMENTALS EVERY MICROPOLITAN AND RURAL EDO SHOULD ADDRESS

Economic development is a high-profile business. With so much attention on big projects, an economic development organization's approach to opportunities and threats is too often guided by external pressures. This may not lead to impactful and sustainable programs as priorities are constantly debated and key decisions are challenged. For micropolitan and rural communities, this is particularly significant as local economies tend to be more industry specific, resources may be scarce, and memories are long.

Before developing a strategic plan, or setting off to pursue a project, economic development organizations should consider developing tools that help them stay focused, guide decision making, and communicate the organization's value to stakeholders.

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In fall of 2017 and into early 2018, the economic development world was buzzing about the second Amazon headquarters project (HQ2). Economic development organizations (EDOs) got together with their local and state partners and put together some rather interesting proposals, at least judging by media reports. This project came on the heels of the FoxConn project, the Taiwanese electronics manufacturer set to receive an incentive package worth a reported \$3 billion for a large manufacturing facility in Wisconsin.

For many in economic development, this is what got them into the business – to get the big win. For many others, the goals are more basic. Community growth, even the most aggressive big project proponent knows, rarely happens at the mega project level. It happens one day at a time. When you go home at night, and your companies have, perhaps, grown just a little stronger that day because of you, that's a good day.

The legendary college basketball coach John Wooden began every season teaching his new players how to tie their shoes. Wooden was known for his focus on fundamentals. His results, 10 national basketball championships at UCLA, would please any competitive economic developer.

The fundamentals of economic development are often expressed in the importance of business retention and expansion, local market intelligence, workforce, small business development, regional partnerships, and the tools that support those areas. That, however, is the dribbling and passing part of the business, if one wishes to continue with the basketball analogy. What about tying one's shoes?

For many in economic development, this is what got them into the business – to get the big win. For many others, the goals are more basic. Community growth, even the most aggressive big project proponent knows, rarely happens at the mega project level. It happens one day at a time. When you go home at night, and your companies have, perhaps, grown just a little stronger that day because of you, that's a good day.

There are several critical things that every economic development organization (EDOs) must do in order to stay in business long enough to succeed. This article will look at three such critical needs with a focus on EDOs in micropolitan and rural areas. These areas are often overlooked in general conversations about the profession or simply told that programs and practices designed for urban areas are “scalable” to smaller areas.

Economic development programs in micropolitan and rural areas outside the urban core must, however, operate differently. The job is more personal. The mayor might be the one interested in a job in the company with which you work. Impact is measured in terms of neighbors, friends and family, not on big data or regional news. Real estate, particularly project financing, is considerably different in smaller markets. Housing availability plays a far bigger role in the process. Workforce is approached in a more precise manner and is both more stable and less elastic. Data is often less reliable and subject to the “suppression” of key employer information. This presents an additional challenge to marketing efforts that are already facing significant headwinds.

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## THREE BASIC FUNDAMENTALS EVERY MICROPOLITAN AND RURAL EDO SHOULD ADDRESS

*Economic development is a high-profile business. With so much attention on big projects, an economic development organization's approach to opportunities and threats is too often guided by external pressures. This may not lead to impactful and sustainable programs as priorities are constantly debated and key decisions are challenged. For micropolitan and rural communities, this is particularly significant as local economies tend to be more industry specific, resources may be scarce, and memories are long. Before developing a strategic plan, or setting off to pursue a project, economic development organizations should consider developing tools that help them stay focused, guide decision making, and communicate the organization's value to stakeholders.*

All of this only increases the need for organizations serving micropolitan and rural communities to pay close attention to the fundamentals. While every region should maximize resources and eliminate inefficiencies, this is a survival imperative in non-urban areas. Distractions can rob smaller areas of opportunity and endanger the existence of the EDOs that are generally working hard to position the community for the future.

The three critical needs seem simple, yet they can be a tremendous challenge. The first, staying on task, is vital since it allows the EDO to pursue effective economic development programs rather than the political flavor of the month (apologies to those who pursued the HQ2 project). The second, demonstrating your value, cannot be overlooked either. EDOs often work in arcane and mysterious ways as far as the general public is concerned. If an EDO overlooks communicating its worth, its days may be numbered. Finally, facilitating objective decision making on projects will be discussed. None of these are intended to suggest that this is the one and only way. All are simply examples of how one Accredited Economic Development Organization in a specific micropolitan community approached these needs.

## STAYING ON TASK

Several years ago, my organization, the Ponca City Development Authority (PCDA) in North Central Oklahoma completed what I thought was a very successful board retreat. We discussed the concepts of economic development that most professionals live with every day. We set targets, defined criteria, and developed strategic approaches to identified challenges. Yes, I thought, my leadership understood how economic development worked and was invested in the direction of our organization.

That lasted for about one week.

It did not take long before a board member called wanting to know why we did not submit a proposal for a large project that promised to pay very little, wanted a great deal in the way of incentives, and competed with several existing local companies for our finite labor pool. Never mind that we had decided in our retreat what we *would* pursue and what we *would not*. Another board member wanted to know why we would not provide proprietary information from an existing company to the media in order for PCDA to get better publicity. Yet another wanted to know when the *next* announcement would be made for a new company, clearly believing that this was the holy grail of economic development.

The experience from that board retreat made it clear that a more clear and customized way of setting and measuring goals was necessary. This began with the awareness that we needed to have a shared definition of success. While most economic developers understand the consensus building benefits of strategic planning, those plans often have a difficult time becoming living documents. The collective wisdom of a retreat becomes a binder on a shelf. In addition, a well-meaning but long list of objectives can be overwhelming and difficult to guide day-to-day actions in an economy as fast-changing as we face today.

who believe that an economic developer need only know the magic words to bring companies forward.

We began by asking our leadership whether the “creation of wealth producing jobs” (the core of our mission statement) was really the mission or whether the real goal was making “announcements.” After the deer in the headlight moment as they collectively asked “Aren’t they the same thing,” we had the opportunity to talk about real, primary job growth. We rolled out the clear and compelling statistics about where new jobs come from. We talked about the rise in small business, trends in large corporations, outsourcing, workforce issues as they relate to job growth, and other highlights.

To really build this into our DNA, we adopted a statement of “strategic plan values” as part of our strategic plan. These values were the first thing after our mission statement. These values were not adopted due to their consensus value. They were adopted because they were so obvious that they had been taken for granted. By putting them in writing, up front, they truly began to guide policy discussions and kept everyone on message. It became difficult to drop all interest in a pressing need of an existing company every time a shiny new prospect appeared on the horizon when we had a value that said “Recognize the comparable value of new primary jobs whether they are in new or existing companies.”

The experience from that board retreat made it clear that a more clear and customized way of setting and measuring goals was necessary. This began with the awareness that we needed to have a shared definition of success. While most economic developers understand the consensus building benefits of strategic planning, those plans often have a difficult time becoming living documents. The collective wisdom of a retreat becomes a binder on a shelf. In addition, a well-meaning but long list of objectives can be overwhelming and difficult to guide day-to-day actions in an economy as fast-changing as we face today.

So we backed up and took a long look at the fundamentals. If most jobs come from existing companies, how do we internalize this in our organization?

Getting community leadership to understand that economic development was about far more than the last recruitment project is a challenge, as any economic development professional knows. Media reports make it seem as if the process is easy, simple and quick, at least to those who are not involved in it on a daily basis. That impression forms the perspective of many community leaders

### **Strategic Plan Values**

1. Build and maintain effective partnerships;
2. Primary job growth anywhere in the region benefits Ponca City;
3. Recognize the comparable value of new primary jobs whether they are in new or existing companies;
4. Incentives, if used, should be influential, not enabling;
5. Promote jobs with pay scales above the county average; and
6. Implement programs with tangible and relevant outcomes.

### **Strategic Plan Goals**

1. Primary Job Creation
2. Rising Personal Income
3. Diversification
4. New Economy Growth
5. Attract Investment
6. Population Attraction
7. Organizational Stability

Although the “values” were simple, they proved to be a powerful tool to keep us on task. Coupled with equally clear, simple, and prioritized strategic plan goals, they have become the bedrock for our economic development operations. The goals were also simple statements, backed up by far more detailed objectives and strategies. The values and the goals, however, are all listed on a single page that makes them easy to see, remember, and not ignore. Applying these values to planning, including industry target selection, the use of incentives, general decision making, how we worked with prospects, and how we operate in general has allowed PCDA to remain focused and in control of our mission. (See sidebar on strategic plan values and goals)

These values and goals guide every discussion and provide the discipline and guidance when a new prospect throws a come hither look our way. There is flexibility to respond as needed and the Board of Directors has the authority to go beyond these values and goals. Experience has shown us, however, that they are very reluctant to do so, which demonstrates that a true consensus on the direction of the EDO is in place.

### **DEMONSTRATING YOUR VALUE**

Educating the general public about economic development is as much a part of the job as business retention and expansion. Building support for economic development programs means managing expectations, producing results, and demonstrating the benefits of those results. If the expectations or perception of the value is left to chance, or worse to coffee shop talk or online community pages, there is little likelihood that anyone will be satisfied with the accomplishments.

Public education without credibility, however, is worthless. In a micropolitan community such as Ponca City, it must mirror the more personal approach to economic development. It is not that people in smaller communities are any different than in larger areas, they just tend to be more connected to each other. The information flow to opinion leaders and important constituencies needs to be more focused and detailed. Press releases, annual reports, and the latest social media platform are not where they get their information, or at least the information upon which they rely.

Companies, consultants, and others looking from the outside know that every community has positives and negatives. The public knows this too. The flowery, self-congratulating language often found in newsletters, publications, and web sites is often viewed with suspicion by locals who frankly know better. Including the bad with the good in our local community outreach has made a world of difference in building the credibility of PCDA.

Credibility is, of course, important to any EDO. To us it is life itself. PCDA is supported by a one half cent sales tax dedicated to economic development and voted upon by the public every five years. This creates an imperative to demonstrate to voters that we know what we’re doing, that we are managing their money wisely, and that they are getting a return on their investment. When voters see that we’re leveling with them, the level of trust goes way up and the partnership between the community and PCDA is strengthened.

Last fall, 77 percent of voters approved another five-year extension of the economic development sales tax. It is true that a savvy and experienced volunteer election committee, working apart and without funding from PCDA, worked on our behalf during this election. It remains important, however, that we constantly demonstrate our professional competency as an EDO, our responsible fiscal stewardship, and our value to the community, and never take for granted that our stakeholders somehow just know this. We have to tell them.

The way we chose to demonstrate our professional competency was to become an Accredited Economic Development Organization (AEDO) through the IEDC. This had, for us, significant benefits with respect to bench-

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marking the structure and management of PCDA. It also, however, answered an important question for the voters before it was even asked. Does PCDA know what it's doing? The AEDO certification process offered a strong validation.

Since PCDA is taxpayer-funded, it was perhaps more important to demonstrate that public funds are managed ethically, responsibly, and prudently. Independent annual audits with unqualified opinions, coupled with the simple, straight forward manner in which the use of public funds is reported, helped to answer the question of whether or not we were good managers of public money. This information was included in our one page, simple annual report that is sent in utility bills.

That left the question of whether or not economic development was worth the money. To answer this we developed, in-house, an economic impact model that included only those results which had written documentation to prove our role. The model demonstrated a value of approximately \$20 in benefit for every dollar of sales tax revenue collected, in addition to job counts, investments, tax benefits, overall community impact, and more.

## DEFINING SUCCESS

A shared definition of success begins with developing the metrics that will help an EDO determine if it succeeded. In most communities, there remains those who continue to define success as new jobs or announcements. Most economic developers, however, understand that economic development has evolved into a more holistic approach to influencing the local economy.

In the case of Ponca City, Oklahoma, there remained a need to include job creation as part of the definition of success. This was felt to be an incomplete measurement of PCDA's role in the local economy so other data points were added. As a micropolitan community, the use of primary data (data collected directly from the source) was felt to be more accurate and reflective of immediate changes, particularly as the most recent U.S. Census count aged.

From an overall community standpoint, PCDA uses job creation agreements signed in any given year as the most direct measurement of the EDO's impact. In addition, the local unemployment rate continues as a metric as a legacy data point that the public continues to embrace. The impact to local jurisdictions is measured by the change in sales tax collections, population changes are measured through collecting school enrollment figures, investment through building permit fees and the benefit to schools is examined through the change to annual property tax values.

Specific operational results are measured in existing company visits, new company contacts, new leads worked (a BR&E lead is the same as a new company lead), new projects added and the number of projects completed/won. Added to these results are any other significant accomplishments that cannot be quantified with the use of data.

It is, as most measurements go, an imperfect way of defining success. There is a consensus that the above gives the EDO the best read of organizational effectiveness and its impact to the community.

## ECONOMIC IMPACT MODELS

Economic impact models are often used by EDOs to measure both the potential benefit and/or cost of a new project and/or the loss of an existing company or asset. They provide a framework for making data-driven decisions.

While the complexity of models varies, most use the following information to produce an estimated overall benefit to a community:

- Estimated number of jobs gained/lost
- Estimated average wage/pay of those positions
- The term of the impact
- The cumulative impact over the term measured
- Additional jobs added/lost as a result of the project
- Total payroll of direct/indirect jobs
- Investment
- Any incentives provided

These estimates are then used to measure the impact upon:

- Local Employment
- Temporary Construction Employment
- Housing
- Retail Sales
- Non-retail Sales
- Utility Sales
- Local and State Tax Impact

There undoubtedly remain those who believe that economic development should be measured by big announcements. It's fair to say that a proportion of the 23 percent who voted against the dedicated economic development sales tax felt this way, with the usual mix of folks who legitimately do not like taxes in any form making up the rest. The majority of voters who voted to renew the tax, however, suggests strongly that voters felt that PCDA was credible, responsible, and effective. This conclusion was based not on feelings but on evidence. (See sidebar on defining success)

To be sure, being supported by a tax paid by residents creates a specific responsibility to report. What we have found, however, is applicable to almost any community. An EDO's constituency, whether that is members, donors or the public, needs to be a partner, not a follower. They are not fans; they are invested in the organization. Communication is not just about educating or explaining. It starts with listening and this is a lesson PCDA seeks to remember every day.

## FACT-BASED DECISION MAKING

The use of impact models in economic development has been around for a long time. These models are useful in helping decision-makers decide if the cost of a project is worth the benefit. Impact models come in many shapes and sizes, from free, complex models through the Federal Reserve Banks, to more generic input/output models provided by private vendors (as well as more complex ones available from those vendors as well). (See sidebar on economic impact models)

It is not my intent to defend impact models, to promote one over another, to argue multipliers or to even suggest that an economic impact model is required. What is suggested, however, is that an EDO should have *some* way of determining real facts to guide the decision-making process. Impact models are used here as one example.

Everything discussed above regarding values, communication and consensus, collectively referred to here as “trust,” becomes irrelevant if EDOs do not apply a high level of objectivity to decision making. Risks are part of the business. Many EDOs take risks only when the odds suggest they will succeed. How an EDO evaluates that risk is critically important to maintaining trust. A project can fail and the EDO can move on if the decision making was rational. If decisions were based solely upon hopes and dreams rather than facts, the EDO will have dug itself a very deep hole.

A fact-based decision process is equally important for business retention, small business development, workforce issues, attraction, housing, and virtually any facet touched by an EDO. The numbers for a non-traditional project are particularly important since there is typically little in the way of history or precedent to guide the choice. A case in point is a project underway in Ponca City right now known as the “City Central” project.

City Central is a six-story, 71,000-square-foot multi-tenant office building. The structure was owned by an absentee landlord who wanted to donate the building to “the city.” The building was located across the street from City Hall and was a prominent part of the downtown landscape. As you might imagine, the city had a concern over the possibility of a mothballed, large office building in the heart of downtown.

As noted above, PCDA receives a dedicated economic development sales tax. That makes the organization a public trust of the City of Ponca City. The city, therefore, turned to its public trust and suggested that the building be donated to PCDA and that PCDA could use the asset to enhance the small but growing business services industries in the area. A rather exhaustive due diligence process soon began, paid for by the city. There were engineers hired, professional inspections of mechanical systems, and the building was reviewed top to bottom. No other real issues were identified other than the fact that a significant amount of work would need to be done to bring that space back to leasable condition.

The building was only 30 percent occupied. It had fixed costs that greatly exceeded the lease payments made and it faced, as noted above, significant renovation. PCDA and the city contacted the U.S. Economic Development Administration (EDA) and eventually partnered with the EDA on a public works grant to provide a significant portion of the renovations.

With the potential for a building donation, the EDA grant, a large donation from the building owner who recognized that there were issues of deferred maintenance, and a projected \$250,000 from PCDA, the renovations were possible. That possibility, however, hinged on



City Central in Ponca City, OK

whether or not the operational expenses could be managed and, more importantly, whether or not it posed an acceptable financial risk to PCDA.

To determine the risks and evaluate the potential costs and benefits of both inaction and action, we modified our economic impact model (the same one used for the election) to suit this project. The first order of business was to see what would happen if the building was to close and the current occupants of the building had to close or leave town. This informed us that the closing of the building would have a negative economic impact of \$14 million a year. To a community of 25,000 people, that is a big number.

If, however, the building could be brought to 80 percent occupancy in five years, it would provide a positive impact of \$25 million a year. In addition, at this level of occupancy, it would also return a profit to PCDA of approximately \$100,000 per year (break even was 60 percent occupancy). Getting through the first five years was the challenge. The building was projected to lose \$250,000 its first year with annual future losses declining as tenancy was presumed to grow modestly. Our model showed that we would need \$650,000 to cover operating expenses until the building turned profitable. If occupancy increased by 10 percent each year, just one of the scenarios examined, the difference between doing nothing and moving ahead with the project was over \$84 million for the five year climb to sustainability.

This was the information the decision makers needed. They knew the cost of renovations to PCDA (\$250,000). They knew the cost to operate the building until it turned profitable (\$650,000). They weighed setting aside several years of sales tax revenue for this purpose. The bottom line was whether or not an \$84 million benefit to the community was worth an investment of economic development sales tax funds totaling \$850,000. With this information in front of them, they looked to the future and said “go.”

While there were many in Ponca City who did not like the idea of PCDA taking over a large multi-tenant office building due to perceived competition with the few

other rental office spaces in town, it was difficult to argue and almost impossible not to understand the basis for the decision. The assumptions used in the model were conservative and public. It is worth noting that the decision on this project was made almost exactly one year before last fall's 77 percent approval vote for PCDA.

The project hit all seven of PCDA's strategic plan goals. The tools used to evaluate the risks and rewards were data-based, objective, and defensible. The mayor may have started this project because he did not want an empty office building in downtown. Fortunately for his vision, the EDA was there, and the data backed him up.

## CONCLUSION

One does not have to be an economic developer for long before someone uses the phrase "it's good for the economy" as justification for the EDO to get behind a project. It is true that some of the excitement from being in this business is that your day will often take you in directions that you would never have imagined when you woke up that morning.

There is, however, a real difference between pursuing the right opportunities and wanderlust. Too often, the fanciful journey is the result of a prominent person "suggesting" that the extra work you are taking on is important. Having the foundation and the tools to stay on task can make the difference between remaining focused, or wondering if you actually accomplished anything of value. (See sidebar on PCDA's tools of the trade)

Whether you call your constituency your boss or your customer, no business can take for granted that their message and their work is understood by the people that need to understand it. Economic development means many things to many people and it is imperative that an EDO and a community agree on what successful economic development means to them. Trust is the key and trust must be built.

## PCDA'S TOOLS OF THE TRADE

- Current Strategic Plan
- Incentive Guidelines
- Customized Economic Impact Model
- Annual Workplan
- Annual Marketing Plan
- Simple Annual Report
- Weekly E-Newsletter
- Property Inventory
- Current Workforce Study\*
- Data Subscriptions\*
- Social Media Accounts
- Local and Regional partnerships

\* Indicates budget item (hard cost)

Finally, decision making needs to be based on an objective measurement. A gut feeling is fine, so long as it is then backed up with facts. The decision-making process must not be used as a validation for a desired outcome. For an EDO to succeed long term, it must have a sound, fact-based decision-making process in which its constituency has confidence.

No two communities approach or practice economic development the same way. The examples and the specifics included here may not work everywhere. The general elements of staying on task, demonstrating your value and basing decisions on solid facts, seem obvious enough, like tying your shoes. The process of how an EDO does them can be a challenge. Without an intentional approach to these fundamentals, however, an EDO is like a basketball team without a game plan. ☺

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