INTRODUCTION

Background

This report has been prepared for Envision Utah, a public/private partnership dedicated to studying the long-term effects of growth for the Greater Wasatch Area (GWA). The GWA includes communities from Nephi to Brigham City, and from Kamas to Grantsville; and consists of 10 counties and numerous special service districts. The report grows out of Envision Utah's 2000 Quality Growth Strategy, intended to preserve the area's high quality of life, natural resources, and economic vitality.

Envision Utah commissioned this report in 2003 to provide local governments in the region an economic development resource to complement its other publications on quality growth and to help local governments- along with other public and private institutions- implement the economic development aspects of the Quality Growth Strategy.

The report was prepared by the Research Department of the American Planning Association (APA) in Chicago, and ECONorthwest. APA is a nonprofit organization of 34,000 professional planners, planning officials, and citizens interested in sound planning at all levels of government. ECONorthwest is a consulting firm based in Portland and Eugene, Oregon, specializing in economic development policy formulation and specialized economic analysis. Erin Flynn of Futureworks in Massachusetts, wrote an accompanying document entitled "Thinking and Acting Regionally in the Greater Wasatch Area: Implications for Local Economic Development Practice." The writing of these documents was guided by a local Task Force of economic planning experts, elected officials, and State, County and City experts, who ensured the applicability and accuracy of this report with regards to specific characteristics of the region. This report represents national "best practice" knowledge applied to Utah-oriented conditions.

CONTEXT FOR ECONOMIC DEVELOPMENT TOOLBOX

High quality jobs and a strong economy are fundamental components of quality growth and quality of life in the Greater Wasatch Area. Many communities tend to address commercial and residential needs first and foremost and see few direct benefits from attracting non-retail oriented business development. The result is that developers and business entrepreneurs interested in creating research parks, manufacturing facilities, warehouses and other potential job centers lack the variety and quantity of adequate land supply and building inventory. These development patterns have the potential to make the region less attractive as a place to locate or expand business operations and therefore less competitive. In order to compete as an economic region, the Greater Wasatch Area needs to better coordinate our economic development activities. Planning for quality job creation needs to be a higher priority for communities in the Greater Wasatch Area and greater attention must be paid to integrating economic development and planning.

ROLE OF THIS REPORT

This toolbox seeks to assist local governments in planning for quality job creation, and better integrating economic development and quality growth. This toolbox will help local governments to do the following:

Incorporate economic development planning into local comprehensive plans.

Provide a framework by which local governments can engage in self-evaluation to determine whether they are competitively positioned for economic development.

Assist in maintaining the integrity of the "jobs" aspect of local comprehensive plans and development regulations under fiscal pressure.

Encourage the development of infrastructure (utilities, transportation, communications) for job sites so that the infrastructure has been planned and is available when needed in the site selection process.

Encourage increased cooperation and limited territoriality between local governments in the effort to plan for, and create jobs.

Understand the statutory authority and programs for economic development available in Utah, and how they be applied as part of a broad strategy.

Help local governments implement the publicly supported Envision Utah Quality Growth Strategy.

ORGANIZATION OF THIS TOOLBOX

This Toolbox is organized into four chapters:

Chapter 1 provides a background on economic development. It describes what economic development is, and how government actions can affect it. It explains why government actions to encourage economic development must have a regional perspective, and how economic development and land use planning can be integrated to achieve the objectives of Envision Utah for quality growth.

Chapter 2 describes a series of analytical techniques for evaluating a local or regional economy, and the specifics of how local governments can conduct such an evaluation.

These techniques are organized as follows:

I. Economic overviews. Techniques that look at the current and past composition of an economy.

A. Economic base analysis

B. Shift-share analysis

C. Retail market analysis

D. Market-share analysis

II. *Evaluations of comparative advantages.* Techniques that explain why an economy is what it is, and why it has changed over time.

Chapter 3 describes and evaluates strategies and measures that local governments could employ to encourage economic development in the context of quality growth, and a process for selecting strategies for coordinated regional economic development. It also provides guidance in how to select and monitors strategies.

These strategies include the following:

1. Coordinate economic development programs and support services
2. Engage in business development
3. Provide development incentives and financing
4. Engage in business attraction and retention
5. Educate the workforce
6. Ensure an adequate land supply
7. Provide adequate infrastructure
8. Provide a quality of life conducive to business innovation

Chapter 4 presents national case studies that highlight regional mechanisms for coordinating economic development and land use.

Appendices provide more detail about many of the topics covered in Chapters 1– 3, as well as additional resources which local governments may want to utilize.

Local Government

Economic Development Toolbox

Prepared for Envision Utah by

The Research Department of the American Planning Association,
Chicago, IL

and

ECONorthwest, Eugene, OR

WHAT IS ECONOMIC DEVELOPMENT?

The definition of economic development for this report is as follows:

Economic development is the process of improving a community's well-being through job creation, business growth, and income growth, as well as through improvements to the wider social and natural environment that strengthen the economy.

ECONOMIC DEVELOPMENT & LOCAL GOVERNMENT INVOLVEMENT: AN OVERVIEW

WHAT FACTORS ARE MOST IMPORTANT TO ECONOMIC DEVELOPMENT?

Key Public Policy Question: What are the factors that influence business and job growth, and what is their relative importance?

This report proceeds from the assumption that the key objective of an economic development strategy is business development and job growth, which comes from the creation of new firms, attraction of outside firms into the region, and the expansion, relocation, or retention of existing firms. Government policies indirectly affect the production process and can play a crucial role.

DIRECT INPUTS TO THE PRODUCTION PROCESS:

Economic theory says that firms locate where they can reduce the costs of production. Certain factors are direct inputs to the production process:

Natural resources and supplies. Firms need various materials to develop products that they can sell. Some firms need natural resources: the lumber industry, for example, needs access to trees. Or, farther down the line, firms may need intermediate materials: for example, dimensioned lumber. The quality, quantity, and cost of local natural resources and supplies are all relevant.

Land and buildings. Land is important to businesses; it provides the foundation upon which buildings are constructed and the production process physical occurs. To effective, communities must have an available supply of development-ready land—appropriately zoned and with existing utilities and infrastructure.

Local Example of Firm Relocation:

Fleetguard Inc., a global filtration, exhaust, coolant and chemical specialist for diesel-powered equipment, recently moved its Western Distribution Center from Sparks, Nevada to Salt Lake City to be closer to its markets. Fleetguard conducted a logistics study and considered several sites in the western U.S. before selecting Salt Lake based on Utah's transportation corridors and its central location in the West.

The importance of location with respect to supplies and markets has clearly diminished in the last 30 years as a move to a knowledge-based economy with high-speed communication infrastructure and improved transportation links has allowed firms to locate further from their markets. An example is the software industry in Utah.

Existing buildings are useful for businesses that do not have the time or expense to pay for a customized structure on vacant land. The use of older, historical buildings preserves a community's architectural and visual character and is often popular with creative firms. Service firms and small start-up firms also may be able to adapt to older buildings that have become outmoded for their previous tenants. Speculative office, retail, or manufacturing sites also plays an important role in providing space ready for move-in, often with modern facilities and suburban locations that suit some firms.

Labor. The relative productivity and cost of labor is often the most important factor for businesses (especially service businesses). Other things equal, firms want higher productivity--in other words, more labor output per dollar. This depends not only on the cost of labor but also on the skills of the workforce.

FACTORS DIRECTLY AFFECTING THE COST OF INPUTS AND THE REVENUES FROM OUTPUTS

Of the direct inputs above, land is usually the only factor that is provided on-site. Labor and supplies have to be brought in from elsewhere. Therefore the location relative to these factors is important, as is the transportation and communication infrastructure that allows these supplies to bridge the distance. In other words, these factors help businesses get what they need at lower prices. They also help get the finished product to market at lower cost (allowing higher net revenues).

Location relative to supplies and markets. Firms need to bring their supplies (including labor) from other locations. The closer the supplying markets, generally the less expensive this transfer is. The final stage of the production process is getting the product (either goods or services) to market. As with supplies, the closer the receiving markets, the less expensive this transfer is. The location factor is often most important for firms that either have high-weight supplies

Factors that matter to firms

A. Direct inputs

1. Natural resources and supplies

2. Built space (and land to put it on)

3. Labor

B. Factors directly affecting the cost of inputs and the revenues from outputs

1. Location relative to supplies and markets

2. Infrastructure and utilities (including transportation and telecommunications)

3. Business clusters

C. Factors indirectly affecting the cost of inputs

1. Amenity and other quality of life factors

2. Government policies

shipped to them or that produce high-weight products, such as heavy machinery or transportation equipment. Service firms and manufacturers of lightweight products often require proximity to their customers, and proximity to a labor pool is important for all labor-intensive firms.

Infrastructure and utilities. An important role of government is to increase economic capacity by improving the quality and efficiency of infrastructure such as roads, bridges, water and sewer systems, airport and cargo facilities, energy systems, and telecommunications. In some cases, where the product is electronic information, the telecommunications infrastructure actually brings the product to its market.

Business clusters. Another way for businesses to reduce their input costs is to choose a location where there are other similar businesses, constituting an emerging or established "cluster." Firms in a cluster can reduce their direct input costs by sharing a large labor pool and suppliers that serve the cluster. Clusters also have advantages that go beyond direct inputs. The interchange of ideas that occurs through proximity can benefit business innovation, creativity, and efficiency.

A well-known national example of a cluster is the high-technology cluster in California's Silicon Valley. A prominent Utah example is the Salt Lake area's bioscience cluster, which includes many medical device manufacturers as well as pharmaceutical companies and biotechnology firms. The gene-mapping research at the Huntsman Cancer Institute at the University of Utah has been able to map over 30 genes related to cancer with the help of the genealogical databases of The Church of Jesus Christ of Latter-day Saints, providing an example of cluster dynamics within the biotechnology sector.

FACTORS INDIRECTLY AFFECTING THE COST OF INPUTS

Firms locate in a city or region because of the presence of factors that can have important, indirect effects on the cost of doing business.

Local government involvement in economic development takes a number of forms, including:

Clearing and assembling adequate land for business (zoning and urban renewal, and similar devices).

Underwriting risk (industrial development bonds, tax abatement, low-interest loan programs).

Providing amenities and infrastructure (construction of utilities, tax increment financing, urban renewal).

Promoting economic development (participating in chambers of commerce, economic development organizations, trade missions, other non-profit groups).

Providing job training, or establishing or supporting the institutions by which job training occurs (for example, community colleges and technical schools).

Changing the tax structure.

Modifying regulations that are seen as burdensome to business.

These are a mix of traditional and more entrepreneurial roles for local government. The specific options a local government has for promoting economic development are listed in Chapter Three.

Amenity and other quality-of-life factors. A local jurisdiction with a high level of amenity and other quality-of-life factors (for example, good schools, a clean environment, affordable and appropriate housing, and a diverse and exciting culture) attracts people simply because it is a nice place to be. In particular, it attracts skilled workers, decreasing labor costs for businesses.

Government policies. The supply, cost, and quality of all the factors above depend greatly on market factors--conditions of supply and demand locally, nationally, and even globally. But they also depend on public policy. In addition to directly public provision of infrastructure and services, public policy can affect the costs of doing business through regulation, taxes, and incentives.

WHAT CAN STATE AND LOCAL GOVERNMENTS DO TO AFFECT THE AMOUNT AND TYPE OF ECONOMIC DEVELOPMENT?

POLICIES AND ACTIONS

"Government must provide quality basic services and an efficient regulatory environment if it wishes to create economic development"

Even though government cannot affect all the important factors to economic development, it can have a significant impact both through its traditional role as public service provider and regulator, and through its entrepreneurial role as a deal-maker and business recruiter. Of these two roles, the former is essential—**government must provide quality basic services and an efficient regulatory environment if it wishes to create economic development**. Providing further incentives to businesses is optional—whether it makes sense depends on what government can reasonably offer, the extent to which such offerings are necessary to attract firms, and the cost of those offerings.

What's in a local economic development plan?

Many local governments incorporate an economic development element as part of their local comprehensive plan. The contents of such an element will be described in Chapter 3 and Appendix F. However, an economic development plan will typically address the following topics:

- Defining the local government's role in encouraging job retention and growth and economic prosperity.
- Assessing the local government's strengths and weaknesses with respect to attracting and retaining business and industry.
- Relating the local government's initiatives to the distinct competitive advantages of its surrounding region that make it attractive for business and industrial growth and retention.
- Coordinating local economic development initiatives with state and regional initiatives,

These and other strategies will be described in Chapter 3.

THE PROCESS FOR MAKING DECISIONS ABOUT WHAT POLICIES AND ACTIONS TO PURSUE

Chapter Three describes the types of strategies and actions that government might pursue to further economic development. It also describes ways to evaluate and select from a range of possible strategies and actions. In this Chapter we briefly describe the *process* of economic development planning, as well as the content of a typical local economic development plan.

The local economic development planning process

The economic development process is similar to the standard planning model. It has direct relationships with land use, regional coordination, transportation and other elements that are common in local comprehensive plans.

Like comprehensive planning, economic development planning typically begins by identifying a community vision as well as goals and objectives for implementing that vision. Analyzing a community's economic baseline is essential and should include broad economic trends, the local business mix, land supply, labor force, and other economic characteristics.

The steps can be summarized as follows:

Step 1. Develop a vision statement and goals

Step 2. Conduct economic baseline analysis

Step 3. Identify economic development issues

Step 4. Develop policies

Step 5. Develop action plan

Chapter 2

Economic Development Toolbox

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EVALUATING A LOCAL ECONOMY

OVERVIEW

To help governments think about the future, a solid analysis of current baseline conditions is necessary, as well consideration of past trends that may continue into the future and alter current conditions.

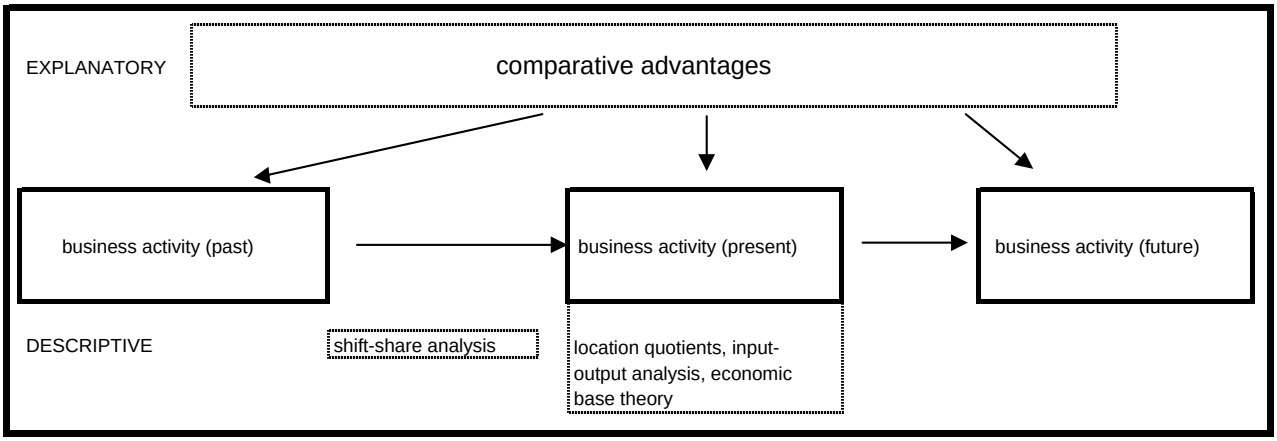
What is assessed in an analysis of past and current conditions may either be: (a) measurements of economic performance (typically, employment by industry, unemployment rates, income), or (b) the factors that influence economic performance (for example, the price and quality of labor, the amount and price of land, tax rates), or (c) both. The first set of factors is *descriptive*; the second set is *explanatory* and *predictive*. This chapter organizes the techniques for describing a local economy in the following two groups:

- Economic overviews that look at the current and past composition of an economy.

- Evaluation of comparative advantages, which explain why an economy is what it is, and why it has changed over time. Such an evaluation explains the economic conditions that the first set of techniques describes.

Figure 2-0 shows how these techniques relate to one another.

Figure 2-0. Organization of the techniques in this chapter



Source: ECONorthwest

Before a discussion of those evaluative techniques, we first describe a framework for thinking about economic impacts and the data sources that are available to aid evaluation.

DATA SOURCES

Both sets of analysis techniques use data, sometimes from the same source. Particularly useful sources are state employment departments and federal departments that collect and publish economic information.

State departments of employment services typically have "covered employment" data that show the number of employers, employees, and wages in most industries that are "covered" by employment insurance (1). The industries are usually categorized according to the North American Industrial Classification System (NAICS)(2). In Utah, the Department of Workforce Services (www.jobs.utah.gov) provides data on employment and average wages by occupation and industry, for the state, county, and local communities.

Federal agencies with relevant data include:

- **Bureau of Labor Statistics,** U.S. Department of Labor (http://www.stats.bls.gov/). Collects information on employment levels, occupations, and wages. Quarterly data on employment and wages are available at the county level. Annual data on occupations and wages are available at the metropolitan area level. Annual data on employment in various industries are available at the national level. Also available are the Consumer Price Index, which measures inflation as experienced by consumers in their day-to-day living expenses, and the Consumer Expnediture Survey, which measures the spending habits of U.S. consumers and includes data on their expenditures, income, and characteristics.

- **Bureau of Economic Analysis,** U.S. Department of Commerce (www.bea.gov). Publishes information on state and local personal income and employment by industry, as well as regional "input-output multipliers" that show how industries within a region are inter-related. These multipliers are used in input-output analysis, described below.

- **U.S. Census Bureau** (http://www.census.gov/). Conducts the comprehensive Economic Census every five years, providing detailed data on various characteristics of national, state, metropolitan, and county economies, including sales data. The Bureau also publishes annual County Business Patterns on the number of businesses, employees, and payroll by industry for all counties.

There are many other sources of qualitative and quantitative data about local and regional economies, including county assessor's offices, local real estate networks, and the records of other local organizations. The state and federal sources above,

however, are a useful place to start for obtaining quantitative employment and business data .

TECHNIQUES FOR DESCRIBING THE STRENGTHS AND WEAKNESSES OF A LOCAL ECONOMY

This section describes a number of quantitative techniques for describing the strengths and weaknesses of the local economy. These techniques work best at the county or regional level, but can be applied to smaller units of government. An appendix to this Chapter provides some simple formulas and sample calculations for economic base and shift-and-share analysis and projections. Footnotes also direct the reader to basic texts on several other techniques, including input-output and retail market analysis.

These techniques are organized as follows:

A. *Economic overviews*. Techniques that look at the current and past composition of an economy.	*B. Evaluations of comparative advantages*. Techniques that explain why an economy is what it is, and why it has changed over time.
• Economic base analysis • Shift-share analysis • Market-share analysis • Retail market analysis	• Natural resources and supplies • Building and land supply and markets • Labor market • Location relative to market and supplies • Infrastructure and utilities • Business clusters • Amenity and other quality-of-life factors • Housing costs • Government policies

A. ECONOMIC OVERVIEWS

1. Economic base analysis

Importance: measures the extent to which the local or regional economy is exporting goods and services to the rest of the world. Theory: the more goods and services are exported, the more the local or regional economy will grow.

Introduction: basic vs. non-basic industries

The premise of economic base theory is easy to understand and has been the basis for regional economic analysis for decades: a region should try to get more industries that produce goods for export (*basic* goods). Non-basic industries (like retailing), the theory goes, rely on the basic industries for their existence because basic industries bring new money into the region in exchange for exported goods or services. In this two-sector model, economic growth occurs when demand for a region's exports increases or when the region produces goods and services that were formerly imported, a process known as "import substitution." (3)

The traditional view is that manufacturing is a traded, export-oriented, "basic" sector of the economy that supports the "non-basic" service sector According to this view, a loss of manufacturing output results in a loss of income to the region—income that can no longer support the local service industry. But other businesses are equally "basic." Tourism is essentially an export, bringing non-local dollars into an economy. More importantly, the economic driver in metropolitan economies could be the business services (legal, financial, management, technical support) that allow businesses to grow, enter, or adapt in changing markets as export industries wax and wane over time.

A related terminology that helps to widen the definition of "basic" is to think of "traded" vs. "non-traded" sectors. Traded sectors are essentially the same as basic industries, but the name "traded" implies that the definition is based on trading activity rather than the actual business product. The traded sector is essentially those businesses that compete with firms outside the local area. In doing so, they bring wealth into a local economy by exporting goods and services, and/or retain wealth within a local economy by substituting for goods and services that would otherwise have to be imported from elsewhere (4).

To identify whether an industry is basic or non-basic (or traded or non-traded) in an area, it is often necessary to look beyond broad industry classifications (manufacturing, services, etc.) to more specific industry classifications.

Examples of basic industries include durable goods such as fabricated metal products, electrical equipment and supplies, and transportation equipment, and nondurable goods such as food products, textile mill products, and chemical products. For instance, a basic industry in Utah would be a manufacturer of medical equipment, such as Merit Medical Systems in South Jordan. Some services (like child care or landscaping) may be non-traded in that they are not exported outside the region and are not competing with firms outside the region. Other services like investment banking may be exported outside the region as well as providing for local needs.

In most cases (with the exception of tourist-serving communities, noted above), the retail sector is not a basic one because it primarily serves local residents and therefore exchanges dollars within the community rather than bringing in new dollars. Moreover, retail jobs are often not high paying. Nonetheless, many communities pursue retail businesses because of incentives created by local tax structures, notably the ability to tax sales. To that end, some local governments will offer incentives to such businesses to locate within their boundaries. While this might make some sense as a revenue-generating strategy from the standpoint of the local government's fiscal health, it is limited as a long-term economic development strategy to generate wealth-creating jobs that bring income into the region from outside as well as result in additional demand for local business services, such as printing, office supplies, and insurance. Local governments that attempt to attract retail businesses are more likely to be competing for a limited share of an existing market—reallocating a portion of an existing pie rather than making the pie larger.

a. Technique: Location quotients

Importance: reveals concentration of specific industries in a local or regional economy. This may help to identify the "traded sector" that drives economic growth.

Location quotients are a specific quantitative technique used in economic base analysis (see Appendix to this Chapter for examples). Directly, location quotients measure the concentration of industry in a geographic area relative to a larger area. Indirectly, these measures of concentration can provide some indication of export-orientation—the extent to which certain industries are the "traded" or "basic" ones that are critical to economic growth (5).

First, location quotients describe the extent to which a particular industry is concentrated in one area relative to a larger reference area. A location quotient is

Examples of location quotients

1: Mitten manufacturing accounts for 5% of employment in the Region X, and also for 5% of employment in the nation. The location quotient is 5% divided by 5%, or 1. The region has the same amount of employment in mitten manufacturing one would expect if the region's employment were distributed across industries in the same proportions as national employment.

2: Mitten manufacturing accounts for 10% of employment in Region X, but only 5% of employment in the nation. The location quotient is 10% divided by 5%, or 2. The region has twice the employment in mitten manufacturing that one would expect based on the national distribution of employment across industries.

3. Mitten manufacturing accounts for 2.5% of employment in Region X, but 5% of employment in the nation. The location quotient is 2.5% divided by 5%, or 0.5. The region has half the employment in mitten manufacturing that one would expect based on the national distribution of employment across industries.

simply a ratio of ratios—specifically, the ratio of an area's employment in one industry to its employment in all industries, divided by the ratio of a larger area's employment in that same industry to this larger area's employment in all industries. Location quotients greater than one indicate that the industry is more represented in the smaller area (e.g., the region) than it is in the larger area (e.g., the nation), while location quotients less than one indicate that the industry is less represented in the smaller area than it is in the larger area. Putting that slightly differently, location quotients less than one indicate that the smaller area's share of a larger area's employment *in a specific industry* is less than the smaller area's share of the larger area's *total* employment. In short, the higher the location quotient, the more concentrated the employment in that industry is in the area.The interpretation of location quotients in the context of economic development policy is problematic. One common interpretation is that location quotients show the comparative advantage of an area in attracting and retaining various industries, and that they reflect the degree to which firms find an area advantageous. While this interpretation is probably correct, it is not clear that location quotients tell much about *trends*. A high regional location quotient in an industry might signal that the region has grown all it can, and employment growth in that industry might stagnate unless there is national growth in that industry. A low location quotient might, in contrast, indicate untapped potential. Recent growth rates of the industry can provide some insight into possible future trends. Table 2-1 gives an example of how location quotients and growth rates can be combined to classify indus-

Table 2-1. Method for classifying industry clusters

	Low Employment Growth	High Employment Growth
High Location Quotient	Important industries that may require attention	Important growth industries
Low Location Quotient	Industries with little promise for local economy	Potential emerging industries

Source: Carnegie-Mellon Center for Economic Development (2002): www.smartpolicy.org/pdf/clustercommunity.pdf

Location quotients can be used as an indirect method of measuring export orientation. The logic is as follows. To produce enough goods or services for internal regional consumption, the sector would only need to have the same share of employment in that sector that the nation has—that is, the location quotient would be one. If a location quotient is much greater than one, the region is very likely to be net exporter of goods or services from that sector (assuming that the region is not also way above average in the consumption of the output of that sector).

This logic rests on several big assumptions. One is that per capita consumption by sector is the same across all regions; for example, people in Salt Lake City are assumed to buy the same amount of shoes per capita as do people in Boston. Another assumption is that productivity does not vary across regions; that is, the same amount of employment is assumed to be necessary to produce a pair of shoes in Salt Lake City as in Boston.

There are other important caveats. One is that, even if the assumptions above are generally accurate, the location quotients only give an indication of net importing or exporting with respect to a sector. What this means is that not every business in a sector with a location quotient greater than one is exporting, and not every business in a sector with a location quotient of one or less is producing for local consumption. The degree to which the net effect is true of the entire sector depends on the amount of exporting *and* importing that is done within a business sector.

b. Technique: Input-output analysis

> *Importance: shows the overall regional economic effect of an economic change to one regional industry. This can help to evaluate the benefits of job creation efforts. It can also highlight the importance of revenue or employment in one regional industry to the overall regional economy.*

Input-output analysis is related to economic base theory in that it estimates the importance of exporting, which brings new dollars into the local economy (6). Rather than using location quotients, however, input-output analysis directly measures the inter-relationships between industries in a region, as well as the extent of importing and exporting. For example, it shows the effect that a dollar of new spending within one industry has on the income (or employment) of other industries with which it trades goods and services. These "multiplier" effects are useful in estimating the overall economic effect of an initial income or employment boost to one regional industry (such as the creation of a new manufacturing plant). It can also show how important one regional industry is to the rest of the regional economy, thereby helping to target economic development efforts (7).

Multipliers generated by input-output analysis essentially show how each dollar of additional income flows through a regional economy. Additional income has flow-on effects in two ways. One (the so-called "indirect" effect") is the result of the receiving firm using some of its additional to purchase inputs (goods and services) from other firms. These firms will then use some of that income to purchase additional inputs for themselves, and so on. A regional multiplier captures how much of this flow-on spending occurs within a region, rather than through importing. The other way in which this initial dollar has a flow-on effect is through the "induced" spending of households. When a person is hired or receives a pay increase through the additional income for an industry, the person's household does not usually save all the money. Like firms, the household makes additional purchases as a result of its income, creating income for other firms and households within the region if at least some of the purchases are local.

A potential use of input-output analysis is a simple one: by looking at the economic multipliers embedded in the model (for a state or region), one can get an idea of what *sectors* tend to generate more indirect effects by keeping more money in the regional economy. These might be the sectors to target to get the best return (in terms of local jobs and income) on public-sector investments in economic development.

Table 2-2 shows an example of employment multipliers from IMPLAN, a popular input-output model. The multipliers in Table 2-2 allow an estimate of the number of direct, indirect, and induced jobs generated by $1 million of expenditures in the

selected industries. Table 2-2 also shows multipliers for the total number of jobs generated by one job in the selected industries. Direct jobs refer to jobs in the industry in which the initial expenditures occur. Indirect jobs are jobs created by subsequent expenditures by businesses and employees directly impacted by subsequent expenditures by that industry on goods and services provided by linked industries. Induced jobs refer to jobs created by subsequent expenditures of direct and indirect income and wages.

Table 2-2. Example IMPLAN employment multipliers for construction industries, 2003

	Jobs per $ Million of Expenditures				Jobs per Direct Job	
Industry	Direct Effects	Indirect Effects	Induced Effects	Total	Type I Multiplier*	Type II Multiplier**
New Residential Structures	7.912	4.147	2.506	14.564	1.524	1.841
New Industrial and Commercial Buildings	8.806	3.604	3.372	15.782	1.409	1.792
New Utility Structures	10.834	3.757	4.045	18.636	1.347	1.720
New Highways and Streets	10.054	3.013	3.555	16.623	1.300	1.653
New Farm Structures	0.000	0.000	0.000	0.000	0.000	0.000
New Mineral Extraction Facilities	0.000	0.000	0.000	0.000	0.000	0.000
New Government Facilities	7.006	4.006	3.644	14.656	1.572	2.092
Maintenance and Repair, Residential	13.560	3.403	4.222	21.185	1.251	1.562
Maintenance and Repair Other Facilities	17.871	2.277	5.717	25.865	1.127	1.447

Source: Minnesota IMPLAN Group, Inc. Extracted by ECONorthwest.
Note: Type I multipliers estimate the total number of direct and indirect jobs; Type II multipliers estimate the total number of direct, indirect, and induced jobs.

The IMPLAN model reports multipliers for jobs, output (gross sales), wages, proprietors' income, and non-earned income (rent, dividends, interest) for expenditures in every industry in every county in the United States. IMPLAN is structured to allow estimates for individual counties or groups of counties in which the expenditures and impacts will occur. Multipliers for some industries in Table 2-2 are 0 because there are no businesses in these industries in the county used for this example.

The risk of input-output analysis is that it may be misused for political purposes to generate a "big number," seemingly justifying whatever local project has current favor (e.g., a sports stadium, a new freeway). Cost-benefit analysis is necessary to see how the economic benefits compare to the costs of a project. Moreover, many assumptions are made in translating a certain project into the initial benefits to one industry, and any errors in those assumptions are then magnified through the multipliers of input-output analysis.

Another limitation is that the multipliers generated through standard input-output software usually are not "fine-grained" enough to capture the linkages between industries that are narrowly defined.

These challenges in analyzing the results of input-output analysis mean that it is not a favored tool or local and regional planners, but it can be very useful if the skills are available to correctly run the models and interpret the results.

Limitations and criticisms of economic base and input-output analysis

There are several limitations that exist in relation to both economic base analysis and input-output analysis (8).

- *A focus on export orientation.* For a regional economy, some exporting is both desirable and inevitable. No metropolitan area in the U.S. produces all the goods and services its businesses and residents want. They buy from outside the region. Thus, they need to have something to trade for what they want: they need to export. But the relative balance of exports and imports can be affected in different ways. If a region is to export, what counts is its ability to make products that people want more efficiently—that is, to increase productivity. Increased productivity may be substantially enhanced by contributions from the service sector, not just the manufacturing sector. Productivity gains can lead not only to an improved trade balance (more exports) but also to increased wealth regardless of the level of exporting, as more things can be created for local consumption with the same amount of inputs. The trade balance can also be improved through substituting local products for ones previously purchased from a distance; in other words, import substitution is as important as exporting. Increased trade within the region can also lead to growth as specialization occurs and productivity increases.

- *Failure to explain the reasons for the composition of an economy.* This is true of the other economic overview techniques below. That is why evaluation of comparative advantages (described later) is also an important technique for analyzing a regional economy.

- *Inability to model structural changes in the economy.* Economic base analysis assumes a static, non-dynamic model of the economy. It does not take into account the fact that a local economy can adapt to larger economic changes. For example, a loss of income and jobs in a traded, export-oriented sector of a local economy will probably be only temporary, until the economy adjusts to new opportunities and constraints.

The importance of the flexibility of an economy was recognized in 1968 by Wilbur Thompson, an economist, who stated: “The economic base of the larger metropolitan area is, then, the creativity of its universities and research parks, the sophistication of its engineering firms and financial institutions, the persuasiveness of its public relations and advertising agencies, the flexibility of its transportation networks and utility

systems, and all of the other dimensions of infrastructure that facilitate the quick and orderly transfer from old dying bases to new growing ones." (9)

- *Assumption of a constant wage.* The multipliers used in economic base theory and input-output analysis assume that wages will stay constant as employment is added through greater exporting, but in fact wages will increase as the demand for labor increases. This will moderate the growth in employment that occurs.

- *Neglect of labor supply*. Economic base theory and input-output analysis focus on the demand for labor that results from the extent of exporting. But employment growth can occur through changes in the supply for labor. For example, infrastructure and environmental policy can attract more workers to a region, lowering wages and leading to more employment.

2. Shift-and-share analysis

Importance: shows how a local or regional economy has changed over time relative to a larger area, and breaks that change into various components: the influence of the overall national economy, the mix of industries in a local or regional area, and intrinsic local or regional conditions affecting certain industries.

Shift-and-share analysis is a technique used to identify regional departures from national industrial growth rates and to compare and contrast growth rates. It may also be used to project economic activity. In explaining differentials among regions, shift-share analysis breaks down the gross amount of change, whether positive or negative, as measured either by the industry group's income or employment, into three components (10):

- **National share.** This component represents the influence that the overall national economy has on a region's industry. The national share component is computed by multiplying the national employment growth rate over a given period by the amount of income or employment in a region for an industry at the outset of the analysis period (see Appendix for examples).

- **Industrial mix effect.** Also known as the "proportionality shift," this component identifies the influence an industry growing nationally at a rate faster or slower than the overall national economy has on a region's economy. For example, an analysis of a region's economy may disclose that a major portion of its growth may be attributable to concentration in high-growth service industries. The industrial mix effect is computed by multiplying the income or employment of a region's industry at the outset of the analysis period by an adjusted growth

rate that is the difference between the industry's national growth rate and the overall national growth.

- **Regional share.** This component, also termed the "differential shift," reflects the fact that industries are generally expanding more (or less) rapidly in some regions than they are at the national level. An area's regional share may increase either from its gaining a large proportion of an industry that is growing nationally, or because it contains the growing parts of a declining industry. For example, even though textile employment may be declining nationally, an area may increase its share in this employment if a new plant is located in it. An area which exhibits net gains (or losses) in its regional share for an industry does so because it has certain competitive advantages (or disadvantages) compared to other areas. These advantages may include better access to natural resources, a high quality of life, the presence of major academic institutions, or a better transportation system. They may also reflect regional economic conditions such as the availability of venture capital for starting research-based enterprises, or particularly productive workers.

Shift-share analysis is therefore helpful to show whether employment growth rates in a region are the result of a change in the overall national economy, a change in the fortunes of specific industries that make up a significant share of a region's employment, or a change in the region's competitiveness with respect to various industries.

Looking at shares can also help in the forecasting of growth in a smaller area by using information about growth by sector in a larger area. Most states have long-run forecasts of employment by sector; few cities have such forecasts. But those cities can determine the current amount of employment they have by sector (using state employment information about employment by sector, and by subarea (11)), and they can learn what the state forecasts anticipate the employment growth in different sectors to be. Those growth *rates* can then be applied to the current local employment *amount* to forecast growth in employment. A local area with a preponderance of high-growth sectors will, thus, grow faster than the forecasted state average for all sectors. This method relies primarily on the "industry mix effect" (or "proportionality shift") and assumes there is no change in the regional share (or "differential shift").

3. Retail market analysis

Importance: projects the amount and type of retail activity required to meet local demand, thus informing business location decisions and

planning decisions such as zoning and downtown planning/revitalization, with the aim of keeping retail spending within the community.

Retail market analysis is a way of estimating how much retail activity (and therefore how much retail building space and land zoned for retail) will be required by a community in the future. It can also identify which types of retail are likely to be most in demand or least in demand (12).

There are many things that households need, and if they cannot find them locally they may travel elsewhere (or order through the Internet or catalogs) to purchase them. Retail market analysis is thus an important way of keeping dollars within a local community that might otherwise have been spent elsewhere through important substitute. . This may not be that important if the local community is part of a wide economic region that will "share the wealth" through the flow-on spending and hiring linkages identified through input-output analysis. But it can be very important if the local community is relatively isolated and unable to capture the benefits of any spending that leaks outside the community. Even if it is not critical for the economic well-being of that community, retail market analysis may be critical for efforts such as downtown revitalization and preservation of historic "main street" buildings.

The key variables affecting the strength of the local retail sector usually include the following (13):

- The total amount of retail spending by residents of an area (which is determined primarily by the average household income and the size of the population);
- The portion of that spending that is spent locally (which is determined primarily by the amount and type of local retail businesses)
- The quantity (square footage) of retail floor space in the area
- Local retail sales per square foot of local retail space.

Data on the supply of gross and net leasable square footage of retail space are generally available through local property tax assessors. Data on the planned growth of the retail base over time of can be gleaned from building permit records. On the demand side, retail sales data (which should be adjusted for inflation, using the consumer price index or CPI) can usually be obtained from the agency that collects sales tax revenue. Unfortunately, these sales tax data only provide information on total spending within a given area, not the spending

by residents of that community. They thus omit expenditures that local residents make outside the area, and include local spending by people who live outside the area. This means that the "leakage" of local residents' retail spending to other communities cannot be estimated using these data. Similarly the effects of local expenditures by tourists and other visitors cannot be determined. Census Bureau data on retail trade, available on the Census website (see above), will provide data on sales per establishment, and sales per square foot, as well as other factors, over a period of time.

In general, the steps for a retail market analysis include:

(1) Defining the type of retail activity for which the analysis is being conducted, i.e., whether it is for an individual business or for a retail center.

(2) Determining the trade area, i.e., the area in which the retail center or business draws most of its customers. The analysis will identify the number of people living in the trade area and their income levels and will estimate their expenditures for the goods and services of interest. In an area study, these goods and services consist of the entire package of consumer need, while in a site study they are limited to those carried by the particular retail outlet being considered.

(3) Calculating the total demand, which is dependent of the household size, incomes, and relevant expenditures of the people living in the trade area.

(4) After evaluating the competition to the individual business or retail center, estimating the capture percentage or market penetration rate, based on an evaluation of the business or retail center relative to the competition. The expected sales volume can then be estimated by multiplying the total demand by the capture percentage. These figures must be calculated both for present and for the future to reflect changes that can be expected to take place over time.

(5) Once the expected sales volume is known, the potential size of the project can be calculated, based on the available data on sales per square foot for different types of stores. The analysis can be concluded by estimating income and expenses and evaluating the project's financial feasibility (14).

Example calculations for retail market analysis:

A retail market analysis is to be conducted to determine whether or not to expand an existing 4,800 square foot supermarket. Enough land is available on the site to build a 15,000 square foot supermarket with 38 on-site parking spaces.

The existing store draws most of its customers for an area of approximately three blocks in all directions. The trade area for the expanded store is estimated to extend approximately eight blocks in three directions; on the fourth side a 17-acre park , four blocks away, forms a natural barrier.

Population data show that the number of households in the projected trade area is 12,546. The median household income is $30,000. At that income level, the expenditure in grocery stores is approximately 20% of income, or $6,000 per household. The total demand in the area for grocery store products is therefore 12,546 households multiplied by $6,000 per household or $75,276,000.

The competition in and immediately surrounding the trade area is considerable. A new store is estimated to be able to achieve a capture rate of about 16%. This yields an expected sales volume of 0.16 times $75,276,000 or $12,044,160.

Because grocery stores have an average $528 of sales per square foot, the store could have a potential size of $12,044,160 divided by $528 per square foot or 22,811 square feet. As a result of these findings, the store owner begins talking with lending institutions, and hires a consultant to perform a full scale study. (from Wiewel and Mier, 1981, p. 3.)

Tracking past trends in the sales-per-square-foot ratio can show how the retail market has responded to changes in demand over time. It may reveal a number of past trends, for example:

- Increases in local retail sales may have been accompanied by a corresponding increase in the amount of retail floor space, thus keeping the sales-per-square-foot ratio fairly constant.
- Increases in local retail sales may have led to an oversupply of retail space, decreasing the sales per square foot over time.

Local retail sales and local retail floor space (and hence the ratio of sales per square foot) may have all remained relatively constant. This may obscure the fact that *total* retail spending by residents increased and there was some "leakage" of residents' increased spending power to other communities

This type of analysis can suggest a variety of responses, depending on the situation:

If both the total retail spending and local retail spending by residents are decreasing or stagnating, the culprit is probably slow or nonexistent growth in household income growth or population growth, suggesting that better employment opportunities or a population increase could remedy problems.

If the total retail spending by residents is increasing, but *local* retail spending is decreasing or stagnating, there is "leakage." Strategies to reduce leakage depend on whether the problem is one of undersupply of retail space or one of decreasing competitiveness of local retail space. If the sales-per-square-foot ratio has remained constant, this suggests that local space is competitive but there needs to be more of it. If the sales-per-square-foot ratio has decreased, this suggests that local retail needs to increase its competitiveness (by changing, for example, the product mix, the shopping environment, the location within the community, etc.).

If local retail spending is increasing but sales per square foot is decreasing to unsustainable levels, this suggests that there is an oversupply of retail space and no efforts should be made to provide additional retail space to meet current demand.

To convert these past trends and current conditions into estimates of future retail activity, assumptions must be made about likely changes in the future. Changes could occur to future demand (based on expected income and population growth, as well as changing consumer preferences), future supply (based in part on development "in-the-pipeline" as well as the supply of readily available and serviced retail land), and public policy that might affect land supply or relevant infrastructure like parking and transportation.

4. Market-share analysis

Importance: shows how an area's share of a larger area's business activity is changing over time.

Market share analysis is related to some of the other techniques above, such as

retail market analysis, but it can be applied to office and industrial activity as well as retail. The idea is to define a market within which a local economy is competing and to then identify what share of that market the local economy is capturing. Changes over time are especially important in providing some quantification of changes in a local economy's competitiveness.

The first challenge is identifying the market itself. The market of competition for a local economy is of varying sizes depending on the good or service that is being considered. For example, most retail activities only compete within their metropolitan region, not nationally, while manufacturing and some specialized service firms can compete in larger national or even international markets.

Once the market is identified, the next step is to gather data that will provide a measurement of the local economy's share. Sales or receipts are the most common factor that is measured (unlike location quotients and other techniques that usually focus on employment). Data sources include the U.S. Census Bureau's Census of Retail Trade, which is done every five years (the most recent one being in 2002).

In contrast with location quotients, which measure the relative concentration of a local economy in one industry vis-à-vis all industries, market share only looks at one industry at a time. Market share analysis might reveal that a local economy captures 20 percent of the retail sales in its metropolitan region, while location quotients would compare that retail share to the local share in other business sectors.

B. Evaluation of Comparative Advantages

The techniques above provide an overview of the makeup of a local economy—they do not explain why a locality has that makeup, or what its strengths and weaknesses are that have implications for future economic growth. An evaluation of comparative advantages (and disadvantages) is essential to get at the reasons for a city or region's economic situation, and to identify opportunities and constraints for future economic development.

The production factors described in Chapter 1 are important for this evaluation. To the extent that a city or region can supply these and other factors in relatively ample amounts, high quality, and low prices, it has a *comparative advantage (15).*

In contrast to the quantitative economic overview techniques described above,

the evaluation of comparative advantages is often qualitative. It does not usually yield numbers that can be applied to the current economy to predict future conditions. It does, however, highlight factors that may influence the future—positive factors that economic development efforts may seek to enhance, or negative factors that economic development efforts may seek to mitigate or reverse.

To analyze comparative advantages, cities or regions have to be chosen for comparison. Because the goal is to isolate a city or region's strengths and weaknesses relative to places that could logically be seen as "competition," it is important to choose cities or regions that are comparable in size, location, or market influence.

This section provides some information on the ways in which this evaluation of comparative advantages can be done. What this section *does not do* is analyze the relative importance of each factor. For some businesses, for example, labor market characteristics are more important than other factors like land supply or infrastructure.

The factors on which comparative advantage can be evaluated are the same factors listed in Chapter Two, in the same order.

1. Natural resources and supplies

   As transportation costs have declined, fewer firms need to locate close to the source of their raw materials. Therefore whether the natural resources and supplies are immediately available is not as important as how easily they can be brought in from elsewhere. This is a function of location relative to supplies and of the quality of infrastructure that brings supplies to a business (primarily transportation). Both these factors are described below.

2. Building and land supply and markets

   Economic activity requires built space. Built space requires land with basic and, often, extended public services. Land provides the physical foundation upon which buildings are constructed and the production process occurs. Demand for land derives from a demand for built space. A large inventory of vacant office space, for example, substitutes for the need to build new space and, other things being equal, reduces the demand for land.

   Demand for land depends on the type of firm. For example, manufacturing firms need more space and tend to prefer suburban locations where land is relatively

less expensive and less difficult to develop. Warehousing and distribution firms usually need to locate close to interstate highways. Service firms often need to locate centrally in a region to be close to their client base.

To determine whether a city or region has a comparative advantage in land supply and markets, it is necessary to consider (16):

- The supply of vacant, unconstrained land
- The potential for infill and redevelopment
- The amount of demand for land
- Characteristics of the land supply (including price and specific site characteristics)

Identifying vacant land and relevant constraints

To identify vacant land, a local jurisdiction can rely on county assessor parcel maps, aerial photos (if available), or direct field analysis. Comprehensive plan and zoning maps are also useful to show what the land can be used for.

Vacant land is not useful for development if it cannot be economically used due to one or more constraints. Development constraints can affect the timing of private investment on a site, and can even preclude development activity for many years. There are three primary types of development constraints (17):

- ***Lack of urban services and infrastructure.*** Infrastructure constraints include streets that are not up to urban standards, high levels of traffic congestion on nearby arterial streets, and inadequate sewer, water, power or telecommunication systems. These are constraints that are not specific to individual properties, but to the area as a whole, and they can be remedied by capital investment.
- ***Environmental issues and land use regulations.*** These include:
  - Natural geologic hazards such as seismic instability;
  - Steep topography;
  - Wetlands, floodplains, and riparian buffer setbacks;

- The presence of hazardous waste materials; and
- Land use regulations that limit the type, location, and extent of development that can occur (e.g., marine and aviation use restrictions)

Some of these barriers are absolute, especially if they are backed by public policy prohibitions on development (for example, a prohibition on development within wetlands or a 100-year floodplain). Others are not absolute barriers—they can be addressed by design and construction techniques—but they may raise costs to uneconomic levels (for example, a multi-million-dollar environmental cleanup of a contaminated brownfields site, or expensive cut-and-fill earthworks to create a reasonably flat building site on steep terrain).

- ***Unwilling Sellers.*** Land may be buildable and suitable for development, but not readily available because of land banking or speculation by existing property owners. For example, some firms may be holding onto large parcels of undeveloped land adjacent to their existing operations, to provide a location for future expansion. Property owners may also be holding onto land as a speculative investment, waiting to sell until they receive the price that they expect the market will bring at some future point. Properties with unwilling sellers may be counted in the long-term land supply, but they should not necessarily be included in the short-term land supply, because they may not be currently available for sale. The smaller the land area in the local economy, the more of a problem this is; a 50-acre property that is being withheld from development is probably a more significant barrier in a small town with few large developable, serviced sites than in a large metropolitan region with several available sites.

Identification of development constraints occurs through fieldwork and/or aerial photo interpretation.

Identifying potential for infill and redevelopment

The next step is to identify parcels that have infill and redevelopment potential. Some land parcels may be only partially vacant, but the vacant portion of the parcel may be able to support significant new economic activity through infill. Land parcels that are not vacant at all may have redevelopment potential if buildings can be re-used or replaced to support a higher level of economic

activity. This is particularly likely if the current use of the site is outmoded given current market conditions (18).

Redevelopment opportunities, such as opportunities for the reuse of a vacant manufacturing site, are often unique to a particular jurisdiction. The basic method relies on local knowledge to make these assessments. Interviews with realtors and developers can be helpful.

In addition, there are some quantitative rules-of-thumb that can be applied. On the supply side, they often rely on calculation of the ratio between improvement value and land value. The lower the ratio, the higher the likelihood of redevelopment will be (all else being equal). Since land values reflect the hypothetical value of the "highest and best use" of the land, a low-value improvement (such as a wooden shed) will generate a lower improvement-to-land ratio and thus a higher likelihood of redevelopment if it is located in a high-demand area like a central business district than if it is in an undesirable location unsuitable for business or large-scale residential activity. There is no absolute cutoff point for this ratio, beyond which redevelopment is possible or impossible, but it is safe to say that if the value of improvements is less than 25% of the value of the land, the site is ripe for redevelopment.

Also on the supply side, the presence of large areas of vacant land within one particular tax parcel may be an indication of redevelopment potential. For example, a 20-acre parcel may have a multi-million-dollar mansion on it. The improvement to land value would probably be high because of the value of the mansion. Still, the mansion owner may not feel the need for more than five acres surrounding the house and may therefore sell the other 15 acres for development. While this is technically "infill" or "redevelopment" because it is taking place on what was originally one tax parcel, it is really more similar to the development of vacant land. Some planning agencies recognize this and divide large parcels of land into vacant and non-vacant sections for their analysis, rather than categorizing an entire large parcel as "developed" because of the existence of one building.

Redevelopment and infill potential can also be estimated from a demand-side perspective rather than from a supply-side perspective. Using actual data on the use of land and buildings by firms, Portland's regional planning agency Metro estimated the percentage of new employment that was accommodated on "developed" sites as opposed to on vacant sites. What Metro calls "refill" includes various more intensive uses of a site, including more employees per square foot of building space, more building space per square foot of land, and

the move from an 8-hour work day to a longer day with multiple shifts. It is likely that refill (redevelopment and infill) could accommodate anywhere between 15% and 50% of job growth, depending on many factors, including the type of business and the initial vacancy rates in existing buildings.

Comparison with demand

Estimating land demand involves converting projected population and employment growth into demand for vacant or redevelopable land. Population and employment forecasts can be done based on historic trends in population, age, income, and employment, as well as public policy considerations like tax policy. These forecasts can more simply be obtained from state or regional agencies that produce them (19).

Forecasted employment or population can be converted to land demand by making assumptions about the amount of space that each new job or each new household requires (employment density or population density), and then making assumptions about how much building space can be provided on a certain amount of land (based on planning and zoning regulations such as maximum floor-to-area ratio or "FAR"). For example, if 1,000 employees each require 800 square feet of building space, they will require a total of 800,000 square feet of building space. If a FAR of 0.5 is expected under current zoning regulations, that 800,000 square feet of building space will require 1.6 million square feet (367 acres) of land.

The land demand can then be compared with buildable land supply, to see if the amount of land available is adequate for the projected. Where possible this comparison should be categorized by type of land (industrial, commercial, residential, recreational, etc.).

Land price and other land characteristics

The price of land is an important factor for businesses and the local jurisdictions that are trying to attract them. If land is not affordable, the amount of land that is available doesn't really matter. Generally, though, the more land is available, the more affordable it is. Regions with very few unconstrained vacant parcels of land will tend to have higher land prices than regions with large tracts of vacant, serviced land.

Some businesses are more sensitive to land price than others; firms that are land-intensive (such as large, single-story manufacturing plants, or businesses that need space for indoor or outdoor storage of supplies and equipment) will be the

most sensitive to land price differentials.

Other characteristics of land can be very important. In general, sites that are readily available, readily served by roads and infrastructure, pre-approved for specific uses, competitively priced, and actively marketed by public or private sectors are the most competitive.

Buildings themselves are also very important. In general, a range of building types appropriate to the mix of potential tenants is desirable. The existence of historic buildings in a central location is often a plus in attracting creative firms, while high-amenity office space that is ready for move-in is a plus in attracting service firms.

3. Labor market

The availability, quality, and cost of labor are all important to businesses. Cities and regions that have a large labor pool available are, all else being equal, more attractive than those with a small labor pool. Productivity can decrease if certain types of labor are in short supply. A shortage of appropriate workers decreases productivity by requiring more pay to acquire the labor that is available, the recruiting of labor from other areas, or the use of the less suited local labor (20).

Quality, as reflected in the education and skills of the labor market, is a critical factor. Cities or regions with a labor force that has the required skills, or that can attain the required skills through accessible education and training programs, are more attractive than cities or regions with few educational opportunities and a labor force that is poorly educated or mismatched with the needs of businesses.

As with land and infrastructure, the cost of labor is important to businesses. Rural regions where the cost of housing and other household needs is low often have lower wages as a consequence, and these rural regions can be seen as competitive by businesses looking for low-cost labor. Businesses that are the most sensitive to the price of labor are the ones that are labor-intensive (for example, some types of non-automated manufacturing, or services such as call centers, as opposed to most retail firms). For nearly all businesses, however, the skills and other qualities of the potential employees are at least as important as labor cost.

Because employers are concerned about the quality of employees, they may be willing to pay increasingly higher wages for increasingly skilled workers. This is compatible with Envision Utah’s goal for the Salt Lake City region to attract employment with relatively high salaries and wages. The more a region is able to

attract employers on the basis of highly skilled workers, as well as high quality of life, good value-for-money public services, efficient regulations, and well-supported business clusters, the less pressure there is for a region to have a "low-cost" workforce.

The labor force of a local economy can be analyzed in a number of ways. One is to examine the distribution of educational backgrounds in the workforce, as reported in the decennial U.S. Census. Another is to look at the distribution of occupations among local workers, from both the decennial Census and the U.S. Department of Labor's Bureau of Labor Statistics (http://stats.bls.gov). Information on average wages can be garnered from "covered employment" data from state employment departments or from the U.S. Bureau of Labor Statistics (BLS).

The next step is to compare the characteristics of the current workforce with the opportunities that are likely to arise in the future. The BLS publishes an Occupational Outlook Handbook every two years, as well as a quarterly report, which provide insight into what occupations are expected to grow and shrink nationally over the upcoming years. The BLS and many state employment departments also provide information on the skills and training required for an occupation. If the skills of the current workforce do not match those required for the growing, high-wage occupations that an area wants to attract, efforts on workforce training will be critical.

4. Location relative to supplies and markets

Where a city or region is placed with respect to supplies (including natural resources and labor) and markets is very important (21). To measure a city or region's comparative advantage, techniques such as analyzing the amount of population within a 100-mile radius can be used. These simple measures of "market area" illuminate differences between regions that are surrounded by vast rural areas (such as Salt Lake City) and regions that are surrounded by other urban regions (such as New York City). It is not just distance but ease of access to supplies and markets that is important. The distance to a key market may be short "as the crow flies" but the actual distance traveled via roads may be greater because of indirect, winding access. Travel times are also a consideration. Because of this, transportation (described below) is often as important a factor as the location itself (22).

As pointed out in Chapter 2, some industries are more sensitive to location relative to supplies and markets than others—particularly those with heavy and/

or bulky shipments, or the need for frequent face-to-face contact with customers. For many other types of firms, improvements in transportation infrastructure and telecommunications have lessened the importance of location. High-speed communication technology, passenger airline service, and express freight shipping have allowed firms, particularly those in the service, software, and high-technology manufacturing sectors, to locate away from supplies and markets. This is partially counteracted by the importance of "just-in-time" delivery of inputs into modern production processes, and the increasing expectation by customers that they will receive what they buy in swift fashion.

5. Infrastructure and utilities

Different places have different capacities in terms of infrastructure, including roads and other transportation infrastructure, sewer, water, electricity, and telecommunications. The more a local jurisdiction can provide businesses with public or private infrastructure that meets their needs cost-effectively, the more competitive that local jurisdiction will be (23).

Transportation remains very important in its role as bridging the gap between supplying and receiving markets and the local businesses. The availability of a variety of modes of transportation (air, rail, road, water) and the quality, frequency and price of these transport modes are important factors in evaluating the comparative advantage or disadvantage that a city or region has because of its location.

Sewer and water infrastructure also remain important to provide inputs and deal with byproducts of the production process.

As the "information age" has arrived, however, the availability of fiber optic and other high capacity telecommunications systems is growing in importance. Telecommunications provide the information that is a direct input to the production process, and which is sometimes the product itself (in the case of service firms that can transmit their product electronically).

Cost-effectiveness is key. Businesses may not be willing to pay for "gold-plated" infrastructure that exceeds their needs, and they may also not be willing to pay for infrastructure that is seen as poor value in relation to the high taxes or fees charged.

At the same time, low taxes alone are not sufficient. While businesses prefer localities that offer low tax rates, they will be less likely to choose an area if low taxes are reflected in poorly maintained infrastructure and a substandard

communications network. The perceived value when comparing tax rates (costs) and quality infrastructure (services) is a key element of a location's competitiveness.

6. Business clusters

Some types of firms tend to locate in areas where there is already a concentration of firms like their own, thus forming a "cluster." They do so for several reasons.

- They have access to a large pool of appropriately skilled labor if they congregate in the same location as similar existing firms.
- They can realize operational cost savings by using suppliers and other service providers that have located in the area to serve the cluster. Transportation and communication costs are often lower when the firms that need to interact are close to one another.
- They can benefit from the interchange of ideas that occurs, formally or informally, through proximity. Competition with other firms in a cluster can also promote innovation and creativity.

All of these factors work similarly to the way "economies of scale" work internal to a firm, and they improve the odds of attracting similar firms in the future (24).

The benefits of clustering vary across industries. Manufacturing and other "traded-sector" industries generally benefit from clustering. Services that are competing for a fixed amount of business in an area might see the benefits of clustering overwhelmed by the negative effects of saturating a local market.

As pointed out in Chapter 1, examples of regional industrial clusters in the U.S. include the high-technology "Silicon Valley" in California, and the bioscience sector in the Salt Lake City region.

In terms of comparative advantage, cities or regions that have existing concentrations of firms that they are seeking to attract are generally more attractive to those firms, because they offer the economies of scale that can lead to cost savings for businesses. That concentration also advertises very clearly that the region possesses the factors of production necessary for the success of businesses in that cluster.

Quantitative techniques such as location quotients can point to the existence or lack of clusters in certain industries. Input-output analysis can also show the

extent to which firms in a region are interconnected by trade, possibly indicating clusters. Past and projected employment growth rates are useful in showing whether a cluster is one with future potential or one that is on its way out. Finally, qualitative analysis such as interviews and focus groups can provide insight into the extent of formal and informal linkage and support between firms in a potential cluster.

7. Amenity and other quality-of-life factors

A city or region that features many amenities and quality of life factors, such as good weather, recreational opportunities, a diverse and exciting culture, low crime, good schools, and a clean environment, attracts people simply because it is a nice place to be. A place's amenities attract skilled workers, who are often willing to accept a lower wage in exchange for the "second paycheck" that comes through the relatively high quality of life.

These broad dimensions of "quality of life" are determined in part by factors outside of the control of cities and regions, such as climate, in part by factors outside of the control of government, such as cultural opportunities, and in part by factors that government can influence, such as public services. These public services like education, public safety, parks and open space, and environmental management are all key factors for employees and firms seeking a location (25).

8. Housing costs

Housing opportunities are also important to workers. If a range of housing types is available at a range of prices that are affordable to various workers, a local jurisdiction will have an easier time attracting workers and thus attracting firms. This is an especially critical issue in regions such as the northeast U.S. and the San Francisco Bay area, where rising housing costs have increasingly made it difficult to expand the economy because of a lack of affordable housing for workers. Housing costs have increased in these areas due not only to the desirability of the location, but also to supply-side constraints on the availability of land, such as topography, traffic congestion, and restrictive local government regulations. The existence of large-lot or "snob zoning" in local communities, for example, can discourage economic growth at the same time it preserves amenity (green space, uncongested streets, etc.) for existing residents.

In short, affordable housing policies are an important economic development tool as well as a route to social inclusion.

9. Government policies

In addition to directly providing infrastructure and support services, government plays an important role through its policies. Public policy can affect factors that are important to businesses primarily through regulation, taxes, and incentives (26).

- **Regulation.** Regulations protect the health and safety of a community and help maintain the quality of life. However, simplified bureaucracies and straightforward regulations can help firms react quickly in a competitive marketplace. Predictability is usually more appreciated by business than a lax regulatory system.

- **Taxes**. Firms tend to seek locations where they can optimize their after-tax profits. But tax rates are not a primary location factor; they usually matter only after corporations have made decisions on labor, transportation, raw materials, and capital costs. Once a firm has chosen a region and is looking for a location within that region, differences in tax levels across communities are more important, because the other production factors within the region are likely to be similar across communities.

- **Financial incentives**. Governments sometimes offer incentives to businesses to encourage growth. Generally, economic research has shown that most types of incentives have had little significant effect on firm location between regions. However, for manufacturing industries with significant equipment costs, property or investment tax credits or abatement incentives can play a significant role in location decisions. Like low taxes, incentives are more effective at redirecting growth within a region than they are at providing a competitive advantage between regions.

To evaluate the comparative advantages a local economy has with respect to government policies and incentives, it is necessary to consider whether government is using the tools above to create a climate for business that is welcoming and supportive but which is also financially and environmentally sustainable. A city with low taxes and an array of financial incentives does not necessarily have an advantage over a city with higher taxes and no financial incentives if it does not provide the infrastructure and services that businesses need to thrive. All else being equal, however, businesses will appreciate a location where it is not overburdened by taxes and where some assistance is offered. More important than financial assistance is probably the assistance that a government can provide by ensuring that its regulatory system is logical,

Notes & References:

(1) A significant proportion of employment (perhaps 10% to 20%, depending on the area) is not covered, including sole proprietors and many agricultural workers. Thus, the data on covered employment, though good for describing the relative composition of employment in large metropolitan areas, underestimates the amount of total employment.

(2) Executive Office of the President, Office of Management and Budget, North American Industry Classification System, United States, 1997 (Lanham, Md.: Bernan Press, 1998).

(3) E.M. Hoover and F. Giarratani, *An Introduction of Regional Economics*, 3d ed. (New York: Alfred A. Knopf, 1984), 316–330; see generally, C.M. Tiebout, *The Community Economic Base Study*, Supplementary Paper No. 16 (New York: Committee for Economic Development, December 1962).

(4) Corporation for Enterprise Development (see http://drc.cfed.org/measures/trad_sec_str.html)

(5) A. O'Sullivan, Urban Economics, 5th ed., (Boston: McGraw-Hill Irwin, 2003), 132-135.

(6) See generally, W. Isard, *Methods of Regional Analysis: an Introduction to Regional Science* (New York: MIT Press and John Wiley and Sons, 1960), ch. 8; D. A. Krueckeberg and A.L. Silvers, Urban Planning Analysis: Methods and Models (New York: John Wiley and Sons, 1974), 406-416. Descriptions of two commercially available models, IMPLAN and REMI, that run on microcomputers are available at: www.implan.com, and http://www.remi.com.

(7) O'Sullivan, *Urban Economics*, 135-138.

(8) This discussion draws significantly from O'Sullivan, *Urban Economics*, 138-141.

(9) W.R. Thompson, "Internal and External Factors in the Development of Urban Economies," in Issues. in Urban Economics, eds. H. Perloff and L. Wingo, Jr. (Baltimore, MD: The Johns Hopkins Press, 1968), 53

(10) Hoover and Giarratani, An Introduction of Regional Economics, 398–401.

(11) Economic analysts often refer to the data as the ES (Employment Security) 202 data, which is derived from unemployment insurance filings required by federal law that report the number of employees by location. States publish summaries of employment by industry and county that protect the confidentiality of individual businesses as "covered" or "wage and salary" employment. Confidential employment data for more detailed analysis can be requested from state employment departments, but use of this data is typically restricted to government agencies for planning purposes and the confidentiality of individual firms must be maintained in any published analysis of the data.

(12) See generally, J. England, Retail Impact Assessment: A guide to best practice (London: Routledge, 2000); G.V. Barrett & J.P. Blair, How to Conduct and Analyze Real Estate Market and Feasibility Studies (New York, Van Nostrand Reinhold, 1982); W.A. Lemmon, The Owner's and Manager's Market Analysis Workbook for Small to Moderate Retail and Service Establishments (New York: Amacom, 1981); R.L. Nelson, The Selection of Retail Locations (New York: F.W. Dodge, 1958); W. Wievel and R. Mier, Analyzing Neighborhood Retail Opportunities: A Guide for Carrying Out a Preliminary Market Study, Planning Advisory Service Report No. 358 (Chicago: American Planning Association, February 1981); E. G. Brossard, "RETAIL: Retail Trade Spatial Interaction," in Spreadsheet Model for Urban and Regional Analysis, ed. R.E. Klosterman, R.K. Brail, and E.G. Bossard (New Brunswick, N.J.: Center for Urban Policy Research, 1993), ch. 21.

(13) K. McClure, "Monitoring Industrial and Commercial Land Market Activity," in Land Market Monitoring for Smart Urban Growth, ed. G. Knaap, (Cambridge, MA: Lincoln Institute of Land Policy, 2001) 265-286.

(14) W. Wiewel and R. Meier, *Analyzing Neighborhood Retail Opportunities: A Guide for Carrying Out a Preliminary Market Study*, Planning Advisory Service Report No. 358 (Chicago: American Planning Association, 1981), 3.

(15) O'Sullivan, *Urban Economics*, 20-22.

(16) J. Landis, "Characterizing Urban Land Capacity," in Land Market Monitoring for Smart Urban Growth, ed. G. Knaap (Cambridge, MA: Lincoln Institute of Land Policy, 2001), 3-52.

(17) C. Hall, "Identifying Vacant and Buildable Land," and F. Steiner, "Identifying Environmental Constraints to Opportunities for Development," in *Land Market Monitoring for Smart Urban Growth*, ed. G. Knaap (Cambridge, MA: Lincoln Institute of Land Policy, 2001), 53-106.

(18) A. V. Moudon, "The Supply and Capacity of Infill and Redevelopment Lands: A Parcel-Based Geographic Information Systems Perspective," in *Land Market Monitoring for Smart Urban Growth*, ed. G. Knaap (Cambridge, MA: Lincoln Institute of Land Policy, 2001), 107-136.

(19) P. Waddell and T. Moore, "Forecasting Demand for Urban Land," in *Land Market Monitoring for Smart Urban Growth*, ed. G. Knaap, (Cambridge, MA: Lincoln Institute of Land Policy, 2001), 185-218.

(20) O'Sullivan, Urban Economics, 76-79; for a technical discussion on how to conduct a local labor market analysis, see E.C. Galambos and A.F. Shreiber, Making Sense Out of Dollars, Economic Analysis for Local Government (Washington, D.C. National League of Cities, November 1978), ch. 3; M.L. McLean and K.P. Voytek, Understanding Your Economy: Using Analysis to Guide Local Strategic Planning (Chicago: Planners Press), ch. 6.

(21) See e.g., M.L. McLean and K.P. Voytek, Understanding Your Economy: Using Analysis to Guide Local Strategic Planning (Chicago: Planners Press), ch. 7 (discussion of approaches to evaluate nonlabor resources).

(22) O'Sullivan, *Urban Economics*, 66-70.

(23) *Ibid*., 75 and 80-82.

(24) O'Sullivan, *Urban Economics*, 39-58.

(25) J.A. Segedy, "How Important Is "Quality of Life" in Location Decisions and Local Economic Development?" in *Dilemmas of Urban Economic Development: Issues in Theory and Practice*, eds. R. D. Bingham and R. Mier, Thousand Oaks, CA, Sage Publications, 1997), 56-81.

(26) N. Cohen, *Business Location Decision—Making and the Cities: Bringing Companies Back.* Washington, DC: The Brookings Institution, April 2000); T.F. Buss," The Effect of State Tax Incentives on Economic Growth and Firm Location Decisions: An Overview of the Literature." *Economic Development Quarterly* 15, No. 1 (2001): 90-105; A. Peters and P. Fisher, "The Failures of Economic Development Incentives," *Journal of the American Planning Association* 70, No. 1(Winter 2004): 27-37.

Chapter 3:

Selecting & Implementing

Local Economic Development Strategies

Prepared for Envision Utah by

The Research Department of the American Planning Association,
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Utah Code states, in § 17-27-301, and § 10-9-301

(2)The general plan, with the accompanying maps, plats, charts and descriptive and explanatory matter, shall show the planning commission's recommendations for the development of the territory covered by the plan, and may include, among other things:

(a) a land use element that: (i) designates the proposed general distribution and location and extent of uses of land for housing, business, industry, agriculture, recreation, education, public buildings and grounds, open space, and other categories of public and private uses of land as appropriate; and (ii) may include a statement of the standards of population density and building intensity recommended for the various land use categories covered by the plan;

(b) a transportation and circulation element consisting of the general location and extent of existing and proposed freeways, arterial and collector streets, mass transit, and any other modes of transportation that are appropriate, all correlated with the land use element of the plan;

(c) an environmental element that addresses: (i) the protection, conservation, development, and use of natural resources, including the quality of air, forests, soils, rivers and other waters, harbors, fisheries, wildlife, minerals, and other natural resources; and (ii) the reclamation of land, flood control, prevention and control of the pollution of streams and other waters, regulation of the use of land on hillsides, stream channels and other environmentally sensitive areas, the prevention, control, and correction of the erosion of soils, protection of watersheds and wetlands, and the mapping of known geologic hazards;

(d) a public services and facilities element showing general plans for sewage, waste disposal, drainage, local utilities, rights-of-way, easements, and facilities for them, police and fire protection, and other public services;

(e) a rehabilitation, redevelopment, and conservation element consisting of plans and programs for: (i) historic preservation; and (ii) the elimination of blight and for redevelopment, including housing sites, business and industrial sites, and public building sites; (continued on next page)

CHAPTER 3. SELECTING & IMPLEMENTING LOCAL ECONOMIC DEVELOPMENT STRATEGIES

3.I OVERVIEW; STATUTORY REQUIREMENTS

The previous two chapters have described how economic development may be defined and what tools are available for analyzing local and regional economies. With these as a backdrop, this chapter describes the selection of economic development strategies that work for your community.

In Utah, both counties and municipalities must adopt "general plans" that may include economic development elements (Utah Code §§ 17-27-301 to 302 for counties, and §§ 10-9-301 to 301 for municipalities). The Utah Code states, in § 17-27-301, and § 10-9-301, that the county or municipality "shall prepare and adopt a comprehensive, long-range general plan." In both cases, the county or municipal planning commission "shall make and recommend to the legislative body a proposed general plan for the area within the" city or county. (emphasis supplied).

The Utah Code gives counties and municipalities considerable discretion over the comprehensiveness, extent, and format of the general plan. However, the statutes do describe a number of desired elements as outlined on left:

In addition to the common language for both types of governmental units, the Utah Code, in Section 17-27-301(4) provides: "The plan may define the county's local customs, local culture, and the components necessary for the county's economic stability." Elements of the county plan that address incorporated areas may be effective within a municipality if the municipal planning commission and governing body adopt the plan (Utah Code § 17-27-301(1)(a)(ii). **This suggests that it is possible to prepare a single plan for all of the local governments in a county.**

Utah Code (continued)

(f) an economic element composed of appropriate studies and an economic development plan that may include review of [county or municipal] revenue and expenditures, revenue sources, identification of base and residentiary industry, primary and secondary market areas, employment, and retail sales activity;

(g) recommendations for implementing the plan, including the use of zoning ordinances, subdivision ordinances, capital improvement plans, and other appropriate actions; and

(h) any other elements the [county or municipality] considers appropriate. (Utah Code § 17-27-302 (2), for counties, § 10-9-302(2), for municipalities, emphasis supplied).

In addition to the common language for both types of governmental units, the Utah Code, in Section 17-27-301 (4) provides: "The plan may define the county's local customs, local culture, and the components necessary for the county's economic stability." Elements of the county plan that address incorporated areas may be effective within a municipality if the municipal planning commission and governing body adopt the plan (Utah Code § 17-27-301(1)(a)(ii). **This suggests that it is possible to prepare a single plan for all of the local governments in a county.**

Thus, the statutes suggest the type of analyses described in Chapter 2 to at least include:

(1) an economic base analysis to identify basic or export-oriented businesses and nonbasic or local service businesses;

(2) an assessment of employment and retail sales, including an identification of primary and secondary markets for retail establishments;

(3) a review of revenues and expenditures of the county, presumably to determine whether the costs related to overall development patterns proposed in the plan can be supported by revenues generated by the local government. This type of analysis, which is beyond the scope of this report, is called a "fiscal impact" or "cost-revenue" study (1).

UTAH CODE SUMMARY

Again, the Utah Code requires the preparation of general plans, but leaves the content of those plans, including whether or not to address economic development, up to the individual county or municipality. This chapter assumes that both counties and municipalities will incorporate the economic development element into the general plan. While the planning commission is the entity responsible for preparing and submitting the plan to the legislative body, it is desirable that it be assisted by an ad hoc or formal group with a mix of persons with skills and interests appropriate for such an element.

Appendix F contains a model statute describing an economic development element that was developed by the American Planning Association for its Growing SmartSM planning statute reform project. The description of the element is more detailed than the language found in the Utah Code, and may be helpful for those Greater Wasatch Area communities that are preparing an economic development element for the first time, or revising an existing element.

3.II FORMING AN ECONOMIC DEVELOPMENT VISION

Most local governments that engage in planning for economic development employ a visioning exercise to develop a positive image of the future. The resulting "economic vision" is the formal expression in words that describes what the local government wants to be at some point in the future, which in turn is translated into goals, objectives and strategies.

There are many possible economic futures for any given jurisdiction; there are some impossible ones as well. The challenge is to decide on a future that is not only desirable, but that is also possible given the factors that constrain it. Thus, a vision for the future economy of any jurisdiction should :

(a) **Balance vision and pragmatism**. A vision should be a balance between what the jurisdiction would like to achieve, and what resources and public support the jurisdiction can realistically expect in support of that vision. For example, if the vision involves large expenditures for public infra-structure, such as water and sewer, the local government must be willing to find a way of paying for it through the use of revenue bonds;

(b) **Reflect the jurisdiction's role in the larger regional and state economies**. Regional employment patterns influence the direction that the local government can take, although it may find a way to carve a specialized niche, such as tourism or entertainment that departs from the dominance of regional trends. Thus, understanding the dynamics of the regional and state economies is important;

WASHINGTON COUNTY, UTAH'S "CORE VALUES"

These "core values" are the vision statement in Washington County's 2003 strategic plan for economic development.

EXPANDING DIVERSIFIED ECONOMY WITH INCREASING WAGES: We encourage a diverse mix of growth from both existing value-added businesses as well as those we recruit that will provide high quality career opportunities for our citizens, and their children and that will increase wages and income enabling our citizens to improve their standard of living.

ADVANCED QUALITY OF EDUCATION: We value quality education for our youth and life long learners, which includes the technical advanced skill courses necessary for our work force and employers. We seek to deliver this education through neighborhood schools, Dixie Applied Technology Center and increasing four-year offerings at Dixie State College.

ESSENTIAL SERVICES AND INFRASTRUCTURE: We are committed to ensuring the availability of services that are essential to availability of services that are essential to sustain our growth and business development. This includes, but is not limited to, improving airport services, enhancing traffic flow, increasing telecommunications capability and maintaining adequate supplies of water, sewer, electrical power and natural gas.

COOPERATION AMONG COMMUNITIES AND THE REGION: We value a spirit of cooperation and coordination between all cities within the county, region and state to resolve issues of common concern and recognize the need to work together to promote the economic development of the region.

MAINTAIN QUALITY OF LIFE: Any economic development must maintain our traditional quality of life which consists of quiet neighborhoods, support and cultivation of the arts and culture, and encourage affordable housing especially for young families.

STEWARDSHIP OF OUR NATURAL BEAUTY AND PRESERVATION OF OPEN SPACE: All economic development must be consistent with the stewardship we have over the natural scenic beauty that is an inherent part of our environment and natural surroundings. In doing so, we seek only those economic business opportunities that will enhance our natural environment and preserve the quality of our air and water. We maintain the amount of county land under private ownership by balancing public and private land development with the active preservation of targeted lands for open spaces.

(continued from page 5)

(c) **Understandable to citizens**. Despite the emphasis on the desirability of technical studies and analyses to underpin strategy, what a local government proposes as its vision should be clearly written and easy to comprehend. It should not be doused in economic jargon; and

(d) **Consistent with a jurisdiction's comprehensive plan.** As suggested by the Utah Code, the economic development strategy must be integrated with other actions affecting land use, transportation, community facilities, as well those taken to protect the environment. Thus, some actions may take the form of land use measures, others may take the form of proposals for infrastructure improvements.

USING TECHNICAL ANALYSIS TO SHAPE THE VISIONING PROCESS:

The technical analyses describe in Chapter 2 help set a context for the visioning process. Here are some examples of how the analyses can shape the visioning process:

EXAMPLE 1: DIVERSIFYING BUSINESSES TO SUPPORT RESIDENTIAL GROWTH

(1) The local government believes it needs new businesses and industry to support residential growth. It wants to diversify the tax base to make it more resilient to changes in the national economy. It also wants to ensure that local residents can have their daily needs met by businesses in the community. To determine how diversified employment is and whether residents are going elsewhere for their daily shopping needs, it conducts a detailed economic base analysis. It also conducts a retail market analysis to determine how much local buying power is being captured by local businesses, and whether there are additional retail opportunities.

EXAMPLE 2: IDENTIFYING COMPARATIVE ADVANTAGES

(2)The local government hopes to capitalize on its inherent locational and resource-based strengths. It wants to determine which one of its local industries has grown because of certain competitive advantages in the regional economy. It uses shift-and-share analysis to analyze changes in the regional economy at several points in time. The critical factor, of course, is the regional share of employment growth. If it is positive, and consistently so, then there are probably factors at work in the regional economy that are influencing this number. The local government then decides to further investigate the requirements and characteristics of the industries that are growing because of positive changes in the regional share in order to help refine its vision and corresponding strategies.

EXAMPLE 3: ATTRACTING A SKILLED WORKFORCE

(3)A new employer says it is difficult to attract employees with the required skills to high-technology businesses. This may be the first time the local government has heard this complaint, but it is concerned that this might be the harbinger of a trend. It decides to survey local firms regarding their future employment and training needs. In addition, it commissions a formal analysis of the local labor market to determine whether supply of certain types of workers is sufficient in the face of demand. It may decide that, as part of its vision, it needs to work more closely with local schools and universities to ensure that they are providing opportunity for the skills and knowledge that an analysis of the labor market trends suggests that employees need. It may also decide that the community lacks the cultural and lifestyle amenities that the prospective employees seek.

EXAMPLE 4: CAPITAL INVESTMENT PLAN TO INCREASE TOURISM

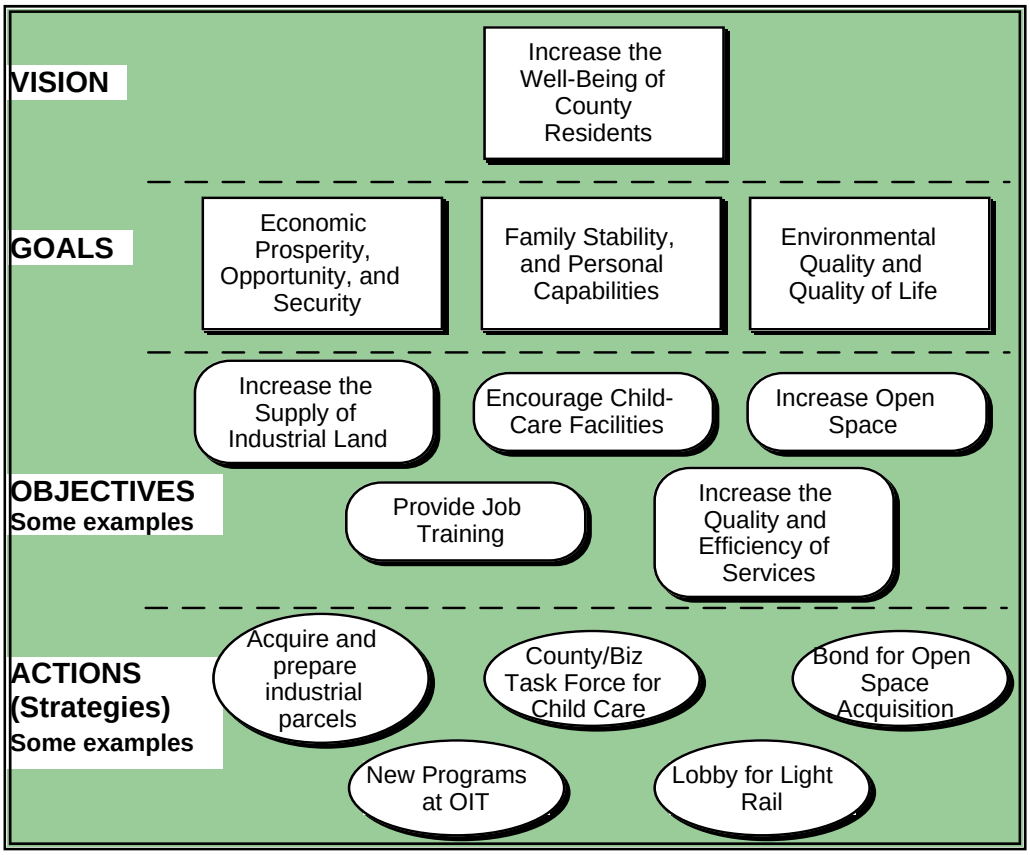
(4) A local government decides it wants to increase tourism and has come up with two ambitious programs of capital investment, one involving a sports stadium and a second involving a new multipurpose performance center. Which approach will have the most beneficial impact on the local economy, given the cost? It commissions an input-output analysis of the two alternatives to help government leaders understand the impacts of each on the local economy.

PUTTING VISION TO ACTION

Based on the analyses above and others that may be undertaken, the local government begins to assess its strengths and weaknesses and evaluate the impacts of factors in its external environment that affect economic development. The visioning process yields the statement of what the local government hopes to become. However that process is conducted and by whom, the vision is eventually translated into a more specific set of goals (2).

Figure 3-1 shows a typical example of how broad goals get increasingly more detailed, ultimately leading to specific actions or strategies to be taken in the short run.

Figure 3-1. Example of visions to actions



Source: ECONorthwest, Clackamas County Economic Development Strategy

3.III POTENTIAL STRATEGIES

A strategy is a "collection of actions and activities that help achieve a predetermined goal" (3). This section describes some potential strategies that local governments, either alone or with other institutions, can use to carry out their economic development vision. Some of these strategies are drawn from the experience in other regions and may need to be adapted to the Greater Wasatch Area. It is worth noting that such strategies are not neutral in terms of economic, political, or social consequences. . . some communities accept low-wage jobs that others shun; some jurisdictions place a high priority on maintaining the natural beauty of the environment; other seem to seek out growth at any cost. Public sector leaders shape the economic direction of the community by actively pursuing job retention, attraction, or creation strategies. Development choices—even a do-nothing strategy is a choice—will influence the long-term economic health of a community (4).

The following strategies are described:

1. Coordinate economic development programs and support services
2. Engage in business development
3. Provide development incentives and financing
4. Engage in business attraction and retention
5. Educate the workforce
6. Ensure an adequate land supply
7. Provide adequate infrastructure
8. Provide a quality of life conducive to business innovation

Each section describes the strategy and its subsets and assesses the strategy's strengths and weaknesses. In addition to lists and tables, footnotes provide additional information on useful texts, monographs, and studies.

Appendix C contains a complete list of state and federal programs, including state statutes that affect economic development. Indeed, the Utah Code offers most of the economic development incentive programs found in other states as well as a number of new programs targeted at certain sectors, such as the Utah Fund of Funds, a venture capital statute enacted in 2003.

STRATEGY 1.0 COORDINATE ECONOMIC DEVELOPMENT PROGRAMS AND SUPPORT SERVICES

Method 1.1: Intraregional coordination

At the very broadest level is **intraregional coordination**, which is the effort to avoid competition among communities in a region. There are various degrees of intraregional coordination. At one end of the spectrum is the establishment of a formal organization, performing an economic development planning, financing, recruitment, and retention function. At the other end of the spectrum is informal coordination that entails the jurisdictions within the region talking to each other on a regular basis or on an ad-hoc, as-needed basis for specific issues.

One component of intraregional coordination would be pooling resources to attract companies to the region. This could occur in an informal setting as well as with a formal regional organization. Providing funding for transportation infrastructure like light rail or airports, or participating in regional industrial land studies are examples of this. The motivating factor for this coordination is the recognition that job creation and retention have economic effects that spill over city boundaries. If a company comes to Salt Lake City, workers from nearby suburbs can benefit by commuting to those jobs. Businesses in the entire region would benefit from all workers spending some of their money in their home city or nearby, and from the new business making some of its purchases locally.

At some point, though, the firm has to decide on a city or county within the region, and jurisdictions realize that, despite the spillover economic effects, the city where the firm locates receives the added benefit of property tax revenue. Regional tax-base sharing can be used to mitigate the potential intraregional competition that can occur in the quest for more property tax revenue, reduce disparities in fiscal capacity—per capita property valuation—among local units of government (which often results by chance of geographic location, and provide needed revenues at different points in a community's life cycle. In 1971, the Minnesota legislature created a tax-base sharing program to allocate 40% of the growth in the commercial and industrial property valuation in the seven-county Twin Cities area to a regional pool that is taxed at a weighted areawide rate. Funds from this areawide pool are distributed via an allocation formula that takes into account a local government's population and fiscal capacity. The effect of this program in the Twin Cities area has been to reduce tax-base disparities on a regional level from 50:1 (the relationship between the wealthiest and least wealthy communities in terms of per capita valuation) to 12:1 (5).

For this strategy to be effective, a region's influential leaders must champion intraregional cooperation. A city's elected officials could take such a role, but for the strategy to have the greatest impact it would need similar action by officials in other cities, as well as community support among the voters. Organizations like a local development corporation could play the role of an advocate, bringing the issue into the public debate, where it could find an influential champion.

Assessment

Intraregional coordination is potentially very effective because it uses resources towards a shared goal. Resources are not used to draw firms from one city in the region to another, but from another part of the country to the region. In particular, it can project a stronger impact to potential businesses outside the region, especially important when the region seeks itself as competing with other regions in the U.S. and indeed the world.

Intraregional coordination can protect public revenue from being used for unnecessary financial incentives that would otherwise only affect the choice of location *within the region*. By protecting public revenue, it allows for the provision of key public services like education and parks that are important for economic and community development. Tax-base sharing, in addition to reducing the incentives for intra-regional competition, would directly reduce some of the inequities in public funding for key services in the region.

Method 1.2: Establish ED institutions: (Organizational alternatives)

The location of the economic development function in a local government sends an important signal to existing and potential businesses as well as the local government's operating departments. For small local governments, it is common to find an **economic development coordinator** who works for the government's chief executive officer in a staff capacity. In some cases, the economic development coordinator may not work directly for the chief executive officer, but will be a staff person in a line department like the planning department. While not having the same level of authority as a department head, the coordinator is responsible for serving as the lead when projects involving economic development arise. Such a person may be the single contact point in the organization for handling requests for information about the community, undertaking staff work on tax incentives, and generally seeing that other local government departments are responsive to business needs.

A second alternative is the creation of a department, typically called a

department of community and economic development, which includes such functions as economic development, community development (administering federal Community Development Block Grant monies and other federal and state grants), engineering, and zoning, building, and related permitting and inspection functions. Here the purpose is to make economic development a line or operating function rather than a staff function. The activities that most closely align with economic development, including permitting and engineering, are incorporated into this department. The economic development director may be a division head within such a department. A variant on this would be to make the economic development function an operating department by itself.

A third alternative is the creation of **a nonprofit organization** that relies on the contributions of businesses, local industries, and individuals. Such entities are usually organized as 501(c)(6) organizations and have boards of directors elected by their memberships. They may be community development corporations or chambers of commerce (although they may not be named that). They are not part of the local government, but do coordinate with it. They will tend to serve as a voice for the business sector rather than the public sector. Such entities will typically have a staff that responds to an executive director (6).

The final organizational form is a **public-private partnership** organized as a nonprofit 501(c)(6), (5), (4), or (3) organization where the board of directors consists of elected and appointed officials. It will be supported by contributions from business, industry, and private individuals and the local government may also contribute to it. Here the organization represents both the public and private sectors, but it is still outside the day-to-day functioning of local government (7).

Assessment

There is no ideal organizational form for economic development. Much of the success of the economic development function depends on the capabilities of those engaged in economic development as well as the overall culture of the organization and the attitude of governmental and private sector leaders.

In general, placing the function in government itself as a government department or staff function will give it the perspective of the local government. Here its important function will be to coordinate local government actions and serve as an internal advocate for business interests.

Placing the function outside government, as a nonprofit, allows the economic development entity to function without regard for governmental boundaries and to move quickly where the local government could not. Another plus is the

ability to maintain confidentiality on such sensitive matters as the identity of prospects and making of loans and grants, where a business will have to provide financial information (8). On the other hand, privatizing the economic development function may distance the activity from key local government activities and may lead to questions about how the nonprofit is conducting itself out of the public eye, especially if it is receiving public funds.

Method 1.3: Streamlining development review

Local governments regulate businesses and industry in a variety of ways—through building, zoning, and environmental regulations. These regulations are essential for protecting businesses, workers, public health, and the overall quality of life. However, over time development review processes and regulations may protect less than they present a series of lengthy and uncertain procedural hurdles for business. This is due to several factors:

- The development review process has become increasingly more discretionary, employing devices like planned unit developments, site plan reviews, and conditional uses that require applicants to go before a board or commission and obtain a special review of the development that previously would have simply required the filing of an application for a building and zoning permit and a ministerial approval.

- The development review process has become more layered. Not only is there more discretionary review of developments but there are also more entities involved: planning commissions, boards of zoning appeals, historic preservation and design commissions, to name a few. Each of theses layers of review involves an additional level of discretion, and telescopes the review process.

- Old development regulations may, for a variety of reasons, prove unworkable or ineffective in addressing the problems for which they were originally enacted. For example, the development standards in subdivisions may be producing streets that are too wide and too costly to maintain. The local government may also find that, over time, the patchwork amendment of the local regulations has yielded a system that is hard to understand for the average citizen, much less a local business person.

- There may be turf problems in the permit processing system, with the chief building official differing from the zoning administrator and the city engineer in dispute with the planning director. When these disputes arise,

Techniques for Streamlining Development Review

Here are some techniques that local governments use to streamline development review.

Core Processes

Review of applications for completeness before substantive review begins.

Parallel review by more than one staff discipline.

Time limits for staff review

Mechanisms for Communication and Problem Solving

Designate an ombudsman for licensing and permitting

Permit expediters or project managers for large-scale or high-priority projects

Cross training of staff

More training at regular intervals

Multilingual instructions and staff

Use of contract employees or reviewers during peak activity

Regulatory Framework

Increase in user friendliness of forms and other publications

Formal review of existing codes and policy documents to clear up ambiguities and reduce the need for variances.

Preparation of unified development codes

Use of hearing examiners to replace multiple boards

Organizational structure

Analysis of workload for standard applications and inspections

Monitoring or quality review of application reviews and inspections

Source: George Arimes, *Manager's Guide to Improving the Development Review System* (Chicago: American Planning Association, 2003), 4.7 to 4.8.

there may be no simple way to resolve them.

To minimize regulatory burdens and streamline development review, governments should carry out comprehensive reviews of their key regulatory programs on a periodic basis, preferably every five years, to improve their effectiveness and lower their compliance costs (9).

This includes examining the organizational structure for development review, staffing and skill levels, patterns in petitions for appeals and variances, quality and timeliness of inspections, and time involved in obtaining permits. It may also involve looking at the physical space in which the development review function takes place to determine if it is pleasant and humane or bureaucratic and oppressive. It is also useful to bring businesses into the review process for their views on how they are treated and what changes need to be made.

Assessment

The ability of a business to obtain approval for its developments without undue delay and administrative hassle is significant. In the development world, time is money, and reducing the time necessary for approval can make the difference in efforts to attract target employers. The strategy will remove bureaucratic barriers that keep local entrepreneurs from entering the market place, giving businesses a single point of contact on compliance issues. Nonetheless, evaluating regulatory processes is complex and sometimes contentious. Consequently, the local government that undertakes this strategy must acknowledge that it is a major commitment of time (much of it volunteer) and money (for outside assistance, if necessary).

STRATEGY 2.0. ENGAGE IN BUSINESS DEVELOPMENT

Method 2.1 Sustain and improve business skills and management training

Small business assistance centers provide accessible management training, counseling, consulting, and research services for small firms. Programs respond to the needs identified by individual businesses in the areas of technology transfer, management, financing, marketing, and workforce training. A variant on small business centers is **entrepreneurship training** in which business programs are established in high schools and community colleges. Another component is an annual or semi-annual **business start-up fair** where prospective entrepreneurs can meet with those who have experience beginning business or who can offer useful support services. An economic development agency places fledgling businesses in contact with low-cost or no-cost mentors (such as retired executives) who could provide advice for local small businesses in the area of management, marketing, accounting, financing, and other business skills. It can take a less direct coordinating role in small business assistance: getting the center off the ground and then letting it perform. One view is that the best form for the small business center is a specialist institution that is organized in close association with, rather than within, university business schools and technical colleges (10).

Assessment

Small businesses, by definition, do not have as many employees as larger firms, but they are more numerous, so they account for a significant proportion of jobs in a city. Since many large employers are increasingly owned by companies outside a region, small business development is a way of fostering economic benefits that stay within the region. In addition, most large businesses started off

as small businesses, so small business development can eventually lead to large local businesses. Because this strategy focuses on assisting local businesspeople who are likely to have strong ties to the community, the results can be a benefit for the community if the small business hires locally or serves as a role model for other local entrepreneurs. Another advantage is that these programs are usually not as costly as loans, grants, or tax relief.

Method 2.2 Business incubator

In this strategy, a public entity acquires or constructs a building and provides, or arranges provision of, low-cost space and support services for start-up businesses in targeted industries, with graduation criteria. The goal of an incubator is not simply to provide low-cost space, but to provide shared support services that smaller companies might not be able to afford on their own. The goal is also to foster synergy through the communication and proximity of incubator tenants. Mentoring and business advice is often provided by the entity operating the incubator and through linkages to the Small Business Administration, retired executives, or local colleges.

An economic development agency could provide the inspiration and initial guidance for an incubator; it could also provide land and buildings at favorable lease rates. Because of the high degree of involvement that is required for incubator formation and management, however, an economic development agency might have to look to a separate organization to take the lead on developing, operating and managing an incubator.

Assessment

The effect of incubators is meant to be the nurturing and eventual success and expansion of targeted companies. Compared to general commercial or industrial space, they offer an opportunity to target industries with identified growth potential, high wages, compatibility with local skills, or unique themes (like “green businesses” or “high-tech” businesses).

Besides direct job creation, incubators can foster community development by nurturing local companies and encouraging skill development of local residents. Often incubators are linked to a local community college and provide internship opportunities that benefit both college students and the tenant companies.

One drawback in terms of the effectiveness in leading to job creation is that many of these small businesses still fail, and the ones that succeed still take some time to create significant job growth outside the incubator setting. The job

creation results of an incubator take more time to occur than with the attraction of a large existing employer. Another potential limitation to the effectiveness of an incubator is that there needs to be an opportunity for growth outside the incubator; if the city lacks suitable space for a graduating company, it will lose the investment it made in that company.

Incubators have high initial costs for the acquisition or construction of the building space, and they can have high costs for the management of the nurturing programs such as shared services and mentoring. Most incubators are run by non-profit organizations, able to access multiple grant sources to subsidize the capital and operating costs. However, incubators that are operated on a for-profit or self-sufficient basis – taking a stake in the success of the firms that "graduate" from the incubator – are an expanding form of incubators.

STRATEGY 3. PROVIDE DEVELOPMENT INCENTIVES AND DEVELOPMENT FINANCING

Program 3.1 Provide financial incentives

States and local governments offer incentives on the theory that they will lead to business investment and thus to new jobs. These in turn will produce an increase in demand for goods and services and will result, through a multiplier effect, in a demand for an additional round of services. Economic development that is the result of incentives should also increase the tax base, allowing either expanded public services or lowered taxes on residents (11).

There are a variety of financial incentives that Utah cities and counties can offer, either through the state or directly (see Appendix C). The best known is **tax-increment financing** (TIF). TIF is a method of financing redevelopment activities that is directly tied to the success of those activities. The local government conducts a study on the need for TIF and prepares a plan for the area to be designated as the TIF district. The local government determines the property tax revenue it is collecting in the given area before redevelopment occurs. The local government then borrows money, with loans or by the sale of bonds. The borrowed funds are used in various ways to improve the development prospects of the area such as any publicly owned building, facility, structure, landscaping, or other improvement within the project area from which the tax increment funds were collected, the cost of the installation of publicly owned utilities in the project area, and the cost of administrative, overhead, legal, and other operating expenses of the redevelopment agency created to oversee the TIF program. As private development occurs in the area, tax

revenue increases, and the excess above pre-redevelopment property tax revenue in the area is used to pay off the loans or bonds and to finance further redevelopment activities. That excess is the "tax increment" in tax increment financing.

In Utah, TIF is authorized under the Utah Code, Tit. 17B, Ch. 04, The Redevelopment Agencies Act. This legislation includes provisions that are also similar to urban renewal statutes in other states, including requirements that the local government prepare a detailed redevelopment area plan and make findings of blight. The local government may use the power of eminent domain in the project area and relocate homes and businesses. A local government may also designate as a TIF district property that is environmentally contaminated (i.e., a designated superfund site).

A variant on TIF is the Aerospace and Aviation Development Zone, authorized under Utah Code §§ 9-2-2001 et seq. to encourage commercial development around airports. Under this act, aerospace and aviation projects can receive a rebate amounting, over the life of the project (which is not to exceed 20 years), to a maximum of 30 percent of state sales taxes and company and employee income taxes as well as any indirect state revenues as calculated by the Office of State Planning and Budget. The Department of Community and Economic Development makes this designation. The rebates do not include any local taxes generated by new development.

A second device is the **enterprise zone**. In Utah, enterprise zones are authorized under Utah Code, Tit. 9, Ch. 2, and are limited to rural areas that meet certain distress, planning, and population criteria. Those population criteria exclude Salt Lake, Utah, Davis, Weber, Cache, and Washington counties and the cities within those counties. A city or county applies to the state for designation of an enterprise zone and if the state, through the Department of Community and Economic Development, finds that the application meets the statutory criteria, it designates the zone. Businesses that create jobs, invest in new buildings or equipment, rehabilitate an existing building, or contribute to nonprofit community development organizations are entitled to tax credits on their state income tax liability.

A third form of tax incentive is the tax-exempt **private activity bond**, also known as industrial development bond. Such bonds finance land, buildings, or equipment to develop or expand businesses and have a lower interest rate than conventional financing because they are issued by the state (or in some states, by local government as well). In Utah, private activity bonds are issued by a

Private Activity Bond Authority operating within the limits of the federal Tax Reform Act of 1986, which established a ceiling or a volume cap on the value of bonds that can be issued in each state. In Utah, the cap stands at $233,795,000, and the state legislature allocates differing percentages of the volume cap to various purposes. For example, $56,110,800 or 24 percent of the cap is allocated to multifamily affordable housing and manufacturing facilities, expenditures involving property acquisition, construction, renovation, and new equipment purchases.

Assessment

There is a large body of empirical research on whether traditional economic development incentives of the types described above (as well as property tax abatement) have any impact on job growth. The most recent review of incentives, which appeared in the *Journal of the American Planning Association* in Winter 2004, declared that the literature on incentives is simply inconclusive:

> It is possible that incentives do induce significant new growth, that the beneficiaries of that growth are mainly those who have the greatest difficulty in the labor market, and that both states and local governments benefit fiscally from that growth. But after decades of policy experimentation and literally hundreds of scholarly studies, none of these claims is clearly substantiated. [12]

Despite the fact that incentives are widespread, say the authors, the reason for their unclear impact appears to be that incentives, for all their cost to state and local governments, are still too small to matter much. "Typically," they write, "a firm's wage bill will be much greater than its tax bill; for the average manufacturing firm in the U.S., payroll is about 11 times the firm's state and local taxes before incentives. . . Thus fairly small geographic differentials in wages could easily outweigh what appear to be large tax and incentive differentials" (13).

Tax increment financing sounds very attractive – the local government is (theoretically) not giving up any revenue, as the tax increment would not (again, theoretically) exist were it not for the redevelopment activities financed by that increment. However, there are potential problems with TIF. If tax increment financing is imposed where it is not needed to encourage development – where development would have occurred in the absence of TIF – then the tax increment does not represent (or only a portion represents) local government revenues that would not have otherwise been collected. Instead, the tax increment cuts into general revenue that the local government would have otherwise received. If tax

increment financing is structured in this manner, and is imposed when not necessary, the tax increment also deprives other governmental bodies that receive property tax revenue – school districts, other special districts, the county, and so forth – of the increase they would otherwise have received.

A 2001 comprehensive review of the empirical research literature evaluating the impact of tax increment financing on economic development found conflicting conclusions about the effectiveness of TIF programs. Evidence suggested that TIF-adopting cities in Michigan experienced faster property value growth than non-TIF cities. In Indiana, researchers found that TIF programs raised property value and employment in a city beyond the level that would have been expected if the TIF program had not been created. Two studies in the Chicago metropolitan area yielded different results. One found that TIFs have a substantial positive effect on economic development, but a second concluded that the adoption of a TIF reduces assessed property value growth rates over an entire city and that that municipalities that adopt TIFs stimulate the growth of blighted areas at the expense of non-target areas (14).

Enterprise zones were the subject of a great deal of discussion and debate in the late in 1970s and early 1980s. The original concept of the enterprise zone, which came out of Great Britain, was much different than the approach adopted in Utah. The enterprise zone approach in Britain sought to stimulate local projects by removing financial and regulatory obstacles. Among its features: (a) an area of one square mile or so in the most depressed part of a city, not a rural area; (b) complete relief from land use controls, but requirements for compliance with basic anti-pollution, health, and safety standards; (c) reductions or exemptions from property taxes for new development in the enterprise zone, and a reduction in capital gains taxes. Federal legislation to support enterprise zones was introduced in Congress but never passed (15).

The first major study on enterprise zones was conducted on Evansville, Indiana, in the late 1980s. Using shift-and-share analysis, it found that substantial growth in employment in the Evansville enterprise zone that was due neither to metropolitan area growth nor to the industrial composition of the zone, but instead was a function of the comparative advantage of the zone. It also concluded that as implemented in Indiana and in the Evansville enterprise zone, the program was cost-effective in job generation, with a lower cost per job than most economic development programs (16).

Subsequent research on enterprise zones in other states has shown mixed results, depending on the state and particularly the analytical technique employed (17).

A national study in 1998 of urban enterprise zones found that zones lead to a churning of economic activity. Enterprise zones did have an impact on employment growth among new establishments. However, that employment growth was offset by employment losses among ongoing establishments. Findings for changes in shipments, payroll, capital spending, and number of establishments were similar. The authors suggested a number of possible explanations for these findings. New businesses may merely be displacing previously existing businesses. Another explanation, say the authors, was politics: local politicians and policy professionals were eager to trumpet new jobs and activity in the zones as evidence of success. Evidence of "success" thus served to help continue or expand the programs. Jobs lost in the zones are often unlikely to be attributed to the zone policies. Because of this, the zone incentives may be targeted more towards new establishments rather than towards existing establishments. If the zone incentives are then marketed more towards attracting new establishments, existing establishments may not be aware of all of the programs' incentives. Finally, the authors conclude, it may be that the zone programs are replacing economic development initiatives that are better suited for existing establishments (18).

One literature review on the impact of industrial revenue bonds, as they were formerly termed, concluded that the growth effects of these instruments are ambiguous as best (19). As a practical matter, because of changes in federal tax laws in 1986 (20), which imposed the volume cap on states, private activity bonds or industrial development bonds are used less in economic development than they used to be because of the problems of states exhausting their cap for all types of tax-exempt financing and having to resort to taxable bonds (21).

Program 3.2. Venture capital network and revolving loan funds

Access to capital is important for small businesses. This is particularly true for technology-based businesses. Banks may not be comfortable with making loans to technology-based companies because they lack the knowledge and tools to assess the risks of financing deals for these types of companies (22).

Venture capital refers to capital invested or available for investment in the ownership element of a new enterprise. Its defining characteristic is that the capital investor retains some equity in the venture. Venture capital firms may provide private seed money to finance the early development of a product or a service. They may also provide start-up capital sufficient to generate initial sales and profits and to get the enterprise through its first three to five years. Eventually the new enterprise may seek an initial public offering (IPO). An IPO

creates a viable market for the company's stock and provides its founders and early-stage investors with a cash return on their investment and, eventually, liquidity for their remaining shares. A **venture capital network** is a network of early stage investors who participate privately in high risk/high return enterprises with the prospect of seeing outstanding returns on investment when the new enterprise either goes public or, alternatively, is acquired or merged with another enterprise. There are large numbers of venture capital networks in the U.S (23).

In 2003, the State of Utah enacted the Venture Capital Enhancement Act, H.B. 240 (see Appendix C). This act creates a Utah Capital Investment Board that will issue future "contingent tax credits" in order to attract investors in a Utah "fund of funds" who seek "money market" levels of return, similar to yields from power companies, banks, and others conservative investments. The professionally managed Utah Fund of Funds would invest in a variety of experienced venture capital funds committed to working with and investing in Utah high growth ventures.

A **revolving loan fund** (RLF) is a fund established by a state or local government and is typically capitalized with state or federal monies. The fund is used to support new business start-ups and expansions. Monies from the fund are offered at below market or negotiated interest rates. They serve as bridge financing to close the gap between the business owner's resources and needs and private financing. Standard uses of such funds include real estate, machinery, and permanent working capital. Typically such funds will have a requirement of so many jobs created per dollar of RLF contribution (e.g., 1 job per $20,000 of the loan) and may also have a requirement that a certain proportion of jobs be for low- and moderate-income persons. Principal and interest payments from loans are returned to the fund for investment in future projects.

The State of Utah has established a state-level RLF, utilizing a variety of federal resources. These resources include: (1) Direct loans to the private developer through the Farmers' Home Administration; (2) Direct loans and RLF capitalization through the Economic Development Administration (EDA); and (3) RLF capitalization through the Department of Housing and Urban Development's Community Development Block Grant program (CDBG) (see Appendix C).

Assessment

As a practical matter, operating a venture capital fund is beyond the authority and technical competence of cities and counties. The need for seed money and for working capital for high risk initiatives in exchange for an equity position is

more appropriately satisfied by bank and non-bank sources such as venture capital networks or the new Utah Fund of Funds, guided by experienced professional investment advisors. Revolving loan funds, however, which are only loans as opposed to equity positions in a company, are a useful way of inducing small to medium-sized firms to locate or expand, where private financing is insufficient and there needs to be a bridge between owner's equity and bank loans. Still, an RLF is not a substitute for private debt and equity, and RLF programs typically place a limit on the proportion of the project to be financed by RLF monies. However, even an RLF requires the local government, or someone retained by the local government, to assess the quality of the business plan for the prospective recipient of the loan. If the loan were granted, the local government would need to monitor the development to see if prospective jobs of the number and type proposed have in fact materialized and to ensure that the loan is paid back in a timely manner so that the monies may be used again.

STRATEGY 4. ENGAGE IN BUSINESS ATTRACTION AND RETENTION

There are a variety of techniques for business attraction and retention. Many of these are performed as a matter of course by state departments of community development and tourism bureaus, and regional chambers of commerce. Local governments may undertake them as well, although they may be more suited to a nonprofit group or a private marketing firm.

Program 4.1 Business attraction

Before an economic development agency or local government undertakes a program of business attraction, the object of that program should be clear. That is why many marketing strategies employ the technique of **targeting**, identifying a group of firms that the development organization wants to reach, thus distinguishing desired from undesired companies. "The purpose of targeting," one author has stated, "is to eliminate wasted effort." It is intended to focus on groups that either have growth potential, linkages to existing businesses in the area or in some other way would be attracted to the particular region or local government setting because of particular competitive factors (24). Linkages can be identified through industrial cluster analysis (25).

An examination of groups included in North American Industrial Classification System (NAICS) will provide those involved in formulating a business attraction strategy with a starting point (26). NAICS divides firms into categories that can be broken up into market segments on the basis of products or services.

However, this approach, although relatively simple and while the data are easily accessible, requires a fairly fine-grained analysis of industrial classification to get at specific firm types. Such an analysis would disclose the type of skill mix such businesses desire as well as general wage levels, the latter an important issue if the objective is to raise the level of wages in a community. Unless such an analysis is done, it may result in the identification of firms without a full appreciation of their locational requirements with respect to the region or local government's attractions. Again, use of these classifications will merely provide a point of departure (27).

The direct marketing techniques that are part of a business attraction strategy include:

- Publication of brochures or pamphlets about the region's or local government's attractions to business and industry. Such publications may be general in nature or, again, targeted to a specific industrial classification.
- Advertising in trade publications, or generalized advertising supplements.
- Direct mail to specific industries or locational consultants.
- Participation in industry trade shows.
- Telemarketing of potential businesses.
- Prospecting trips to certain areas of the country (or other countries) where potential new businesses are located.
- Seminars for prospective businesses.
- Websites.
- Maintenance of a publicly accessible database of available commercial and industrial land and buildings (see land market monitoring below).

One business attraction program offered by the State of Utah is the Industrial Assistance Fund (IAF) that a company can tap for relocation/expansion costs. This incentive loan can be repaid through credits earned from money spent on Utah purchases, on its Utah payroll and from Utah jobs the company creates that meet IAF requirements for higher-quality jobs. This program is designed to convert the loan to a grant. Three basic programs exist: (1) Corporate Funding, which is dependent on the amount of Utah purchases and wages; (2) Targeted

Industries, which is primarily aimed at information technology, biomedical and aerospace; and (3) The Rural Utah Program, which has a focus on job creation in rural areas. The Department of Community and Economic Development administers the program, which is discussed in Appendix C.

Assessment

Business attraction strategies can be an expensive proposition, and the costs may be well beyond those of small local governments. Moreover, existing businesses may see little advantage in attracting new businesses that might constitute regional competition; they are more focused on their immediate needs. As a practical matter, despite how elegant the targeting strategy, few local governments would turn down a business prospect that does not fit the profile of a particular targeted industry. In any case, for small groups of local governments, the best approach may be one that assigns responsibility for business attraction to an economic development organization that can market an entire region or significant subpart.

Program 4.2 Business retention

Business retention techniques are aimed at anticipating the needs and responding to existing local businesses. Most are common sense. They include:

- Surveys of local businesses to determine plans for changes or expansions and attitudes toward local governments.
- Periodic business roundtables or breakfasts.
- Regular personal visits by local government officials to businesses.
- Creation of teams of top local government managers to expedite responses to problems identified by local businesses.
- Publication of newsletters to local businesses.
- Active involvement by local government officials in chambers of commerce and other business groups.
- Appointment of local business owners or managers on local boards and commissions, even if they are not residents.

These tasks can be assigned to a staff person or a department head in the city or county, although nothing quite suffices like direct contact by a mayor, city manager, or county commissioner to convey the impression that the local government is serious about business retention.

Assessment

Business retention strategies sometimes take a back seat to business attraction because they are less dramatic. Many of the problems that local businesses will identify are routine: problems getting a sign permit; difficulties in obtaining a variance to expand a building or parking lot; lack of responsiveness by a utility department to a storm water problem. These can be rectified by constant contact between the local government and businesses. The strategies may also identify longer-term problems within the local government such as infrastructure needs in a certain section of the community or difficulties with current development codes. They can also serve as an early warning system for major internal problems facing local businesses, such as the prospect that a distant parent company may close a local plant, or other problems that suggest an at-risk firm. Benefits of these strategies include networking; good relations with existing businesses may lead to other prospects for new businesses.

STRATEGY 5. EDUCATE THE WORK FORCE

Workforce training programs include customized instructional approaches that are based on firms' requirements. The program can be part of a financial assistance package, where benefiting firms are obliged to hire qualified local personnel as the first source of employees. Local employment programs can provide training and personal skills development programs to help especially disadvantaged social groups gain employment or acquire increased skills. Cities can also provide online information systems that provide job seekers with information about potential employers and public programs for skill development.

The public school system is obviously a key player in this strategy, being responsible for primary and secondary education in the city, but there are other groups that can play important roles, particularly for workforce training. The local community college system, local businesses, nonprofit workforce training groups, and the economic development agencies can all use their resources to address workforce-training issues.

Again, the State of Utah offers a variety of programs aimed at workforce training (see Appendix C). It funds the Custom Fit Training Program, which provides training for new or expanding companies. A Custom Fit representative will

discuss with the company the training needs anticipated, and then develop a specific customized training plan to meet those needs. The required training can take place at a variety of locations, including the business or a local institution. Often, training is provided in both locations. The program can provide instructors from the State's learning institutions, private sector, consultants or instructors within the industry. The program is designed to be flexible to meet the specific needs of the company.

Short Term Intensive Training (STIT) programs are customized and designed to meet full-time job openings. Programs are usually less than one year in length, and will be designed to meet the specific training needs of a company, while matching needs with people seeking employment. Although potential employers/ employees must pay tuition to participate, STIT can provide a pool of qualified employees from which a company can hire. STIT gives the option of training at a 66 percent discount of normal training costs. State funding for this program is distributed to the following: Weber State University, Southern Utah State University, Salt Lake Community College, Utah Valley Community College and The College of Eastern Utah.

Utah has also established a computerized, job-matching system that quickly screens applicants to ensure that they meet the qualifications set by a company. The Workforce Services office in Salt Lake City administers this program. It can be adapted for mass hirings, and includes pre-employment screening, radio and newspaper advertising of jobs, and assistance in providing interview spaces for employers and jobseekers.

Assessment

Though some firms bring workers with them, and the labor force outside a city can be tapped through lengthy worker commutes, most firms rely on the local workforce. If a company requires unskilled workers, education and workforce development may not be that important. But most firms today require some job-related skills in addition to a quality primary and secondary education foundation. In addition, quality local schools are important for attracting future employees who care about their children’s education. The benefits of education extend beyond job creation to quality of life issues that are difficult to quantify.

STRATEGY 6. ENSURE ADEQUATE LAND SUPPLY

Program 6.1 Monitor the land market (28)

Government land use policies affect the supply of buildable land for commerce and industry, as well as residential development. Shortages in various categories of land use can result when local governments fail to shift land use designations in the face of increased demand.

Without an accurate land inventory, if public policies regulating the amount of land available for development regulate growth too rigidly, they can have disastrous effects on the price of raw land. In addition, when infrastructure is not properly sized, due to uncertain knowledge about the actual supply of buildable land, the government pays more for public facilities. And, imperfect information about land supply and availability multiplies the risk of private development decisions. Such risk and uncertainty make development more expensive, because greater risk projects require higher investor returns. Market uncertainty limits competition, as fewer developers are willing to invest time and money in the process.

While monitoring land use change used to be a time-consuming task, modern geographic information systems make the effort a great deal easier. To that end, many communities are instituting **land market monitoring systems** to evaluate the demand for and supply of land (29). Geographic information software is used in the tracking process.

The focus of a land market monitoring system is on the availability of "buildable land" and the rate such land is being consumed for urban development. Buildable land supply can be measured using several characteristics:

- Vacant, with no improvements, or underused, improved at less density or intensity allowed by zoning.
- Zoned for a particular use under question—i.e., residential, industrial, or commercial.
- Without physical constraints, such as excessive slopes, floodplains, or environmentally sensitive areas.
- Provided with urban services, such as water, sewer, and roads.
- On-the-market—land available for purchase for development now or in the foreseeable future.
- Economic feasibility.

Local governments usually view buildable land as vacant, physically unencumbered, serviced by infrastructure, and properly zoned. By contrast, private developers would not view such land as buildable if it were available for purchase or economically feasible. Land supply estimates based only on the "vacant" and "underused" classifications, zoning, and physical constraints will not necessarily be on the market or economically feasible. It is possible to gauge whether land, or land in a certain area, is on the market by interviewing landowners through a random sample, identifying large blocks of land under similar ownership, and tracking real estate sales through Multiple Listing Service data maintained by Realtors. In addition, comparing housing and nonresidential structure prices to the costs of constructing residential, commercial, and industrial sites can give a rough estimate of economic feasibility.

The inventory of available land can be related to forecasts for the need for industrial, commercial, residential, and public/institutional land, which are based on density (housing units/net acre), intensity (employees per net acre, which will differ for the type of business or industry), and public service standards (e.g., so many acres of parks for certain levels of population), which affect the amount of public land that new development consumes.

Assessment

Land market monitoring will help a community determine when to make changes in the allocation of different types of land use to respond to changes in the local or regional land market. This will prevent both an oversupply of land in certain categories in advance of market need and an undersupply, pushing up land prices for certain categories while underutilized land lays fallow. Often local governments adopt a wait-and-see attitude regarding the land market, largely because they may not understand its dynamics. A land market monitoring system can provide valuable signals to both the public and private sectors about the appropriate amount of land to set aside for industrial and commercial uses in responses to changes in the local and regional economy. Land market monitoring is particularly an appropriate vehicle for a regional planning agency to undertake on behalf of member local governments. The software, hardware, and the skills to operate such a system may be more efficiently provided by a regional agency than individual small local governments.

Program 6.2 Provide adequate buildable land for housing development

A subset of land market monitoring is ensuring there is sufficient buildable land

for housing development for various types of housing units at differing price and rental ranges. A good supply of housing, including affordable housing, is important in order to ensure that there is the opportunity for workers in local businesses to live in the community and not have to commute excessive distances because they cannot find suitable housing nearby. Moreover, having a suitable supply of buildable land for housing sends the message to employers that the local government wants both the business and the employees at work at the business.

A simple, although not conclusive, indicator that serves to monitor land supply with respect to job and housing growth is the **jobs/housing balance**, a ratio between the full-time jobs in the community and the number of housing units. In general, a jobs/housing indicator is probably more accurate at the regional or subregional level, since it takes into account a larger number of jobs and units.

A high ratio, say 2:1, indicates that job growth, while great, is accompanied by insufficient housing production levels that are resulting in a scarcity of workers living in the same region (or local government) in which the jobs are created. Therefore there will be a housing shortfall. As a consequence, there will be a great deal of interregional or interjurisdictional commuting. The San Francisco area is a good example of a region where there is a high jobs/housing ratio. Resort communities, like Aspen, Colorado, where the available stock of affordable housing is bid up because the area is attractive is another example.

A lower ratio, between, say 1.25: 1 to 1.5:1 indicates that housing over jobs is favored, and the housing market probably has an adequate supply to meet the needs of most families. If that ratio is consistent over most of the local units of government in a region, then that indicates a healthy and diverse market (30).

A more technical approach is to conduct a market analysis and examine housing prices and rents in relation to household income in the community, not only for existing residents but also for those expected to reside there, and determine whether there is a shortfall in any particular segment of the market. A local government may decide that it wants to achieve some future mix of different housing types. For example, it may decide that 20 percent of all new housing should be affordable to households of between 80 and 50 percent of the gross median household income in the area. A housing market analysis would disclose whether the market was producing this type of unit, suggesting a change in the local government's housing strategy.

Program 6.3 Establish industrial, technology and business parks

Government can combine its ability to acquire property and assemble land with its ability to build infrastructure (roads, utilities, etc.) and create an **industrial park or business park** that would meet the specific needs of sought-after industries (31). The private market normally does this, but government has the added advantage of being able to use public land and eminent domain. In addition, it can focus on a public purpose like job creation rather than on making a profit through the development. A redevelopment agency as authorized by Utah law, or a community development corporation could lead the public development of an industrial or business park.

Assessment

Industrial and business park development is expensive, and it is risky. If the community fails to attract firms to the park, the land remains vacant and under-used. It could be locking up land that might be more attractive as smaller parcels for various other uses. As with land and building purchase, site selection is very important. Further, even if an industrial park development attracts jobs, but merely pulls existing jobs from one part of a community or region to another, it will be ineffective in *creating* job growth.

The design and character of industrial and business parks can impact economic development through quality of life effects. Industrial or business park development that is not mixed use goes against current planning goals of decreasing motor vehicle trips through increasing proximity among working, living, and shopping/entertainment options (32). On the other hand, sometimes mixed-use development is not practical: for example, if tenant companies have too many negative external impacts, or if there is a deliberate intention of grouping similar enterprises together.

Program 6.4 Brownfields

A **brownfield** is an abandoned, idled, or underused industrial and commercial facility where expansion or redevelopment is complicated by a real or perceived environmental contamination. Since one cannot be aware with certainty of all the chemicals and materials ever used on industrial or commercial premises, or of the level of care with which they were stored, used, and disposed of, the class of land with “perceived environmental contamination” can potentially encompass any lot or parcel ever used for industrial purposes and even for certain commercial purposes (auto repair shops, for instance).

Assessment

The brownfield problem – a reluctance to purchase and develop already-developed sites due to a perception that they may be polluted – exists to the degree that it does because of the nature of liability under federal and state laws regarding the cleanup of contaminants and the assessment of the costs of that cleanup. The Comprehensive Environmental Response, Compensation, and Liability Act, commonly called CERCLA (42 U.S.C. §§ 9601 et seq.) was adopted with the purpose of holding parties responsible for the pollution of land liable for the costs of removing the pollution and restoring the land to its natural state.

But the language of the statute is somewhat broader: the past and current owners and operators of premises where hazardous substances have been released are financially responsible for the cleanup of the contamination. CERCLA essentially imposes liability for contamination of land upon the past and present owners and users of the land regardless of their lack of culpability in actually polluting it.

Nonetheless, brownfield sites are often located in close-in areas that that are convenient to housing and transportation. Local governments see them as a resource, particularly since new infrastructure would not need to be extended, and their reuse would ensure a continuation of compact development patterns.

However, brownfield redevelopment usually costs more than a greenfield sites because of the cleanup and related costs, including the time it takes for the proposal to receive approval of federal and state agencies. Before site remediation can be completed, an environmental assessment must be conducted, and until the assessment is completed, the full cost of making the site suitable for redevelopment may not be known.

Utah does not have any special incentive programs dealing with brownfield redevelopment at the current time.

Program 6.5 Land assembly

The public sector acquires land and/or buildings, either on the open market or through eminent domain, or it makes use of land that is already under public ownership. Purchase of adjacent land parcels can be used to assemble a larger parcel under a single owner. The land and any buildings are then made available to public or private developers, usually through a bidding process. In Utah, redevelopment agencies are most logically the leaders for this strategy because they have the power of eminent domain and related authority.

Assessment

Land assembly is most important for land-intensive firms and less so for services firms. If there is little contiguous vacant land under unified ownership in a city, it is difficult to attract large employers who need large parcels of vacant land, unless the employers are willing to buy existing buildings and redevelop or demolish them. Many employers are not willing to face the costs of redevelopment or demolition, nor are they willing to negotiate with multiple landowners. The public assembly of land can make it possible for these land-intensive businesses to locate in the city.

Public purchase of buildings is less important, since most companies prefer to construct purpose-built structures. One notable exception is preserving historic buildings that may not be economical for a private company to rehabilitate, but that are important to the image of the city or a commercial area. If a public entity acquires a building that is vacant or threatened with demolition, it can prevent the loss of economic momentum that results from seeing landmark buildings sit vacant or become vacant lots. The public entity can then recoup its investment if the private market picks up and the building is later sold. Even if the public entity has to rehab the building for a private company, it may be a good investment to keep economic momentum going in a commercial area.

Land purchase is expensive, and building purchase and rehabilitation is even more so. Discretion must be applied in choosing the properties for acquisition so that the public investment is not wasted on land or buildings that employers will never want. On the other hand, the payoff can be quite large if an employer is able to move into the city simply because a large piece of assembled property was made available.

STRATEGY 7. PROVIDE SUFFICIENT INFRASTRUCTURE

Communications infrastructure, water supply, sewers, roads, sidewalks, parks, public transit, and airports are critical components of an area's development capacity and long-term competitiveness. Businesses rely on infrastructure to conduct their work and transport their goods and services. Also, a well-maintained city looks good, making it a pleasant place in which to live and work. Local government is responsible for most of these infrastructure components and can therefore exert significant influence on development type and pattern. An economic development agency can suggest infrastructure improvements to other departments.

One recent study of five regions in Washington State—Bellingham, Tacoma,

Spokane, the Tri-Cities, and Wenatchee—that have chosen a technology focus for their economic development efforts recommended that, of all of the types of infrastructure, high quality, reliable broadband Internet access is a necessary component to high tech development. Here the five regions were attempting to emulate the success of Seattle. All five of these regions had been built around resource industries—agriculture and food processing, forestry and wood products, petroleum refining, aluminum smelting, and nuclear energy related technologies, but these were not seen as having long-term economic growth potential. The common factor to the success of the five, according to the study, was the willingness to invest in broadband access, and related communications infrastructure (33).

METHOD 7.1 CAPITAL IMPROVEMENT PROGRAMMING

The capital improvement program (CIP) – a five- to six-year schedule of capital improvement projects – is one of the local government's most powerful tools for implementing a local comprehensive plan and supporting both commercial/ industrial and residential growth. By carefully selecting and timing capital projects, the CIP process can ensure that a local government repairs and replaces existing infrastructure, meets needs in mature, growing and redeveloping areas, coordinates activities of various government departments, and ultimately influences the pace and quality of development in a community.

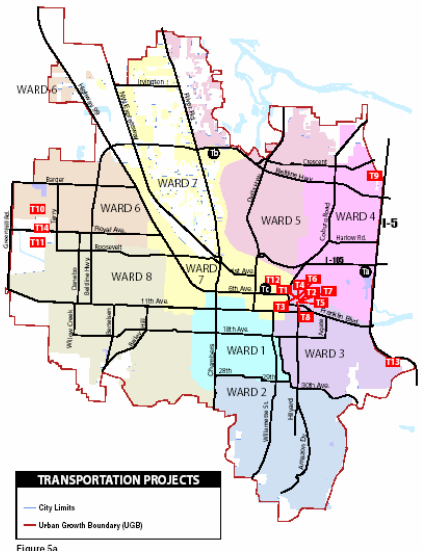
The CIP document itself consists of project descriptions and schedules and tables showing revenue sources and expenditures by year. Capital improvements include major non-recurring expenditures for such projects as civic centers, libraries, museums, fire and police stations, parks, playgrounds, street construction or reconstruction, sewage and water treatment plants, water and sewer lines, and swimming pools. Costs associated with capital improvement projects include architectural and engineering fees, feasibility studies, land appraisal and acquisition, and construction.

The local government's chief administrative officer (mayor or city manager) or another designated official begins the CIP process about six months before the document needs to be adopted. A revenue forecast is prepared, and municipal departments are asked to submit projects that will be evaluated, prioritized, and sequenced by year. Often the local planning commission is asked to review a draft of the CIP, in order to relate project priorities to the comprehensive plan. After holding a public hearing, the local legislative body considers the CIP, revising project selection and scheduling as appropriate. It then adopts the CIP as a general policy document (although this can vary from community to

community). The first year of the CIP becomes capital budget, when it is adopted by ordinance along with the operating budget by the legislative body. Once the capital budget has been adopted, then the local government departments can begin to spend money on individual projects, contract for architectural and engineering design, acquire land and easements, sell bonds as necessary, and send out requests for construction bids. Local governments that apply the CIP process rigorously monitor the condition of existing infrastructure and carefully evaluate the costs of proposed projects with design studies, so that future expenditures come as no surprise and projects can stay within budgets.

Figure 3-2 shows the easy-to-read format for the transportation portion of a six-year CIP for Eugene, Oregon. A map accompanies the CIP schedule showing the location of projects in the community.

Figure 3-2 Transportation Projects, 2004-2009, Eugene, Oregon



Transportation

Table of Funded Projects
(Figures in $1000's)

	2004	2005	2006	2007	2008	2009	Total
Preservation/Maintenance							
Bicycle System Preservation and Rehabilitation	405	405	405	405	405	405	2,430
Street and Alley Preservation	8,575	8,575	8,575	8,675	8,675	8,675	51,750
Subtotal	**8,980**	**8,980**	**8,980**	**9,080**	**9,080**	**9,080**	**54,180**
Upgrades and Capacity Enhancement							
2nd-4th Connector	120	1,451					1,571
8th Avenue/Mill Street Intersection Improvements				1,810			1,810
Broadway, Mill to Hilyard Modifications					1,190		1,190
Ferry Street, 6th to Broadway					400		400
Judkins Point Interchange/Glenwood Boulevard	250						250
Neighborhood Traffic Calming	30	30	30	30	30	30	180
Priority Bikeways	300	300	300	300	300	300	1,800
Royal Ave, Prairie Mt. School to A-Channel			2,200				2,200
Services for New Development	400	400	400	400	400	400	2,400
Sidewalk Access Ramps	30	30	30	30	30	30	180
Street Lighting (Arterials & Collectors)	60	60	60	60	60	60	360
Street Lighting (Residential)	30	30	30	30	30	30	180
Street Tree Stocking & Planting Program	30	30	30	30	30	30	180
Traffic Operations Improvement Program	55	55	55	55	55	55	330
Traffic Signal Improvements and Upgrades	150	150	150	150	150	150	900
8th Ave, Ferry to Hilyard				1,215			1,215
8th Ave, Mill to Ferry	810						810
Subtotal	**2,265**	**2,536**	**3,285**	**4,110**	**2,675**	**1,085**	**15,956**
New Capital Facilities							
6th Avenue, Ferry to Broadway			1,318				1,318
6th Avenue, High to Ferry	437						437
Chad Drive Extension	1,112						1,112
Ferry Street, 6th to 8th	400						400
Legacy Extension, Avalon to Royal Ave.	262	263	823	824			2,172
Roosevelt Extension, Terry to Royal		270	274	160	963	963	2,630
Subtotal	**2,211**	**533**	**2,415**	**984**	**963**	**963**	**8,069**
†Total	**13,456**	**12,049**	**14,680**	**14,174**	**12,718**	**11,128**	**78,205**

Source: City of Eugene, Oregon, *Capital Improvement Program, 2004-2009*, Adopted February 24, 2003, website: [accessed March 13, 2004]: http://www.ci.eugene.or.us/ASD/Finance/CIP/CIP_Adopted.pdf.

Assessment

Providing infrastructure is expensive, but it is essential in leading to job creation; without the infrastructure, most job creation cannot take place. The mere provision of infrastructure is not enough; the quality of infrastructure is

important as well. Because nearly all regions have vacant or built land with acceptable infrastructure, public infrastructure provision is likely to be more effective in influencing an intra-regional location decision or a specific site decision—that is, in steering development within a region or city—than in affecting inter-regional decisions. Infrastructure provision is less effective when the government is too far ahead of the market, putting infrastructure in areas of little interest to the private sector. In nearly all cases, though, the private market is clamoring for infrastructure improvement well in advance of any government decision to provide it. To that end, the capital improvement program is an important indicator to existing and prospective businesses that a local government is willing to anticipate the need to maintain and expand infrastructure. The regular preparation of the CIP and the systematic execution of projects contained in it serve to give strong notice to the private market about the local government's commitment and competence.

STRATEGY 8. PROVIDE A QUALITY OF LIFE CONDUCIVE TO BUSINESS INNOVATION

The term "quality of life" is a term of art for a various factors, some intangible, that make a community attractive to live in. A quality of life strategy assumes that government or some type of public/ private partnership is able to have a significant influence on these factors, and improve them over time. This will make it likely, in theory, that new businesses will be attracted to communities that have the most appropriate combination, and that existing businesses will expand for the same reason. Table 3-1 provides a summary of these factors, as suggested by readers of *Money* magazine.

Yet despite the availability of easily identified factors, there is a wide dispute on which factors are important, and to whom, and how to measure them. Dowell Myers, a professor of planning at the University of Southern California, has described the three different approaches to measurement (34). The first, a **livability comparison**, emphasizes ranking places based upon composites of objective indicators. The definition focuses on "urban livability," the quality of the shared living environment in cities. Relevant factors include those measurable from secondary data sources, he says, including local income and education levels, housing prices, health care, climate, and arts and entertainment. Myers comments that a lack of theory to guide measurements is a significant flaw of the livability approach, particularly because place comparisons are not designed to measure quality of life as residents see it.

A second approach is measuring **wage differentials**. Places that offer a less favorable quality of life must compensate to attract workers by offering higher wages. The two main factors that determine wage differentials between cities are cost of living differences and quality of life differences. Myers points out that some cities may offer

Table 3-1: Alphabetical List of Quality-of-Life Attraction Factors

• Affordable car insurance • Affordable medical care • Clean air • Clean water • Close to big airport • Close to colleges/universities • Close to relatives • Close to skiing area • Diversity of local firms • Far from nuclear reactors • Good public transportation • Good schools • High civic involvement • High marks from ecologists • Housing appreciation • Inexpensive living • Lack of hazardous wastes • Local symphony orchestra • Low crime rate • Low housing prices • Low income taxes • Low property taxes	• Low risk of natural disasters • Low risk of tax increase • Low sales tax • Low unemployment • Many hospitals • Museums nearby • Near a big city • Near amusement parks • Near lakes or ocean • Near national forests and parks • Near places of worship • New business potential • Plentiful doctors • Proximity to major league sports • Proximity to minor league sports • Recent job growth • Short commutes • Strong state government • Sunny weather • Zoos or aquariums

Source: M.T. Smith and S. Nance-Nash, "The best place to live now," *Money* 22, 124-42 (1993), cited in J.A. Segedy,. "How Important Is 'Quality of Life' in Location Decisions and Local Economic Development?" In *Dilemmas of Urban Economic Development: Issues in Theory and Practice* edited by R. D. Bingham, and R. Mier, 56-81.(Thousand Oaks, CA: Sage Publications, 1997), 63, Table 3.2.

higher wages but have higher cost of living and lower quality of life. Other places may offer lower wages but offer higher quality of life and lower cost of living. Economists measure wage differentials by excluding income levels and cost of living factors. They use regression analysis to predict wage levels as a function of different attributes of places, such as climate and crime to show "how much wages rise in a given community for every inch of snowfall the area gets." The problem with this approach, says Myers, is that the economists definition of quality of life "departs from popular and business use, which includes housing and cost of living factors" (35).

The third approach is measurement of **personal well-being**, in which individuals

are asked to reflect on the personal details of their lives, not on shared community factors. This might involve happiness with marriage and family life, a job, or housing, or specific recreational pleasures. This approach, notes Myers, stresses matters that are largely beyond governmental control.

Of the three approaches, the one that is best known is the livability approach, in such publications as *The Places Rated Almanac*. Dowell Myers observes that livability measurements allow users to make comparisons between cities, particularly for the purpose of competing for new firms, but do not "meet the needs of locally committed businesses and citizens who seek to protect and improve their community's quality of life over time" (36). Myers argues instead for a hybrid "community trend" approach in which local trends in components of quality of life using secondary data and personal interviews are monitored over time. This combines both an objective indicator profile of changing community character and a subjective citizen assessment of each factor. The approach would track which factors are growing better or worse, as they apply to a given community.

No contemporary discussion of the relationship between quality of life and regional growth and appropriate strategies would be complete without an assessment of the provocative work of Richard Florida, a professor of regional economic development at Carnegie Mellon University. Florida's theory of economic development bears directly on Envision Utah's desire to see growth in higher-than-average paying jobs, especially in high- technology sectors.

The theory, which appears in the book, *The Rise of the Creative Class*, and in a Brookings Institution monograph, posits that regional economic growth is linked to the **presence of creative people who prefer places that are diverse, tolerant, and open to new ideas**. As Florida states it:

> Diversity increases the odds that a place will attract different types of creative people with different skill sets and ideas. Places with diverse mixes of creative people are more likely to generate new combinations. Furthermore, diversity and concentration work together to speed the flow of knowledge. Greater and more diverse concentrations of creative capital in turn lead to higher rates of innovation, high technology business formation, and generation of job growth. [37]

Florida contrasts his controversial theory with traditional theories of economic development, among them the belief that regional growth comes from attracting companies or building clusters of industries, or from concentrations of educated people. In his Brookings Institution monograph on the relationship between

diversity and high technology growth, which summarizes the research work, Florida and Gary Gates of the Urban Institute use statistical analysis to show the relationship between diversity and high-technology growth (38). The study looked at the top 50 metropolitan areas.

Florida and Gates compare their diversity measures to a measure of high technology industry concentration and growth developed by the Milken Institute. Its index, the result of a 1999 study, was called the "Tech-Pole" and it was based on a combination of two factors: (1) the output of an area's high tech industries expressed as a percent of the nation's high-tech industries, and (2) a ratio of the amount of a metropolitan area's output from high-tech industries to the amount of the nation's output from high tech industries. The first measure favors large metropolitan areas, and the second favors small areas with large technology sectors. The resulting index measures the relative gravitational pull that a metropolitan area exerts on high-tech industries. The study also uses a second index, the "Tech-Growth Index", which measures growth in the output of high-tech industries within metropolitan areas from 1990 to 1998 relative to the national growth rate in the output of high-tech industries during the same period.

Ranking of Salt Lake City Region by Various Indices

Milken Tech-Pole: 29

Milken Tech-Growth: 19

Composite Diversity: 28

Foreign Born Index: 28

Bohemian Index: 23

Source: Richard Florida and Gary Gates, "Technology and Tolerance: The Importance of Diversity to High-Technology Growth," Brookings Institution Survey Series, Center on Urban and Metropolitan Policy (Washington, DC: Brookings Institution, June 2001), Appendix B.

Indeed, eleven metropolitan areas with the highest levels of overall diversity were among the top 15 high-technology areas. San Francisco, Boston, Seattle, and Washington, DC, are the top four high-tech regions, and rank in the top six regions on the composite diversity index.

"The bottom line of our analysis," they write, "is basic: tolerance and diversity clearly matter to high-technology concentration and growth." They state: "…the theory is that people in the technology businesses are drawn to places know for diversity of thought and open-mindedness, and that our measures potentially get

at a broader concept of diversity and inclusiveness" (39).

How did the Salt Lake City region fare in the comparison among the 50 largest metropolitan areas? The rankings appear below. In particular, the composite diversity index places the region in the middle of the sample, below New Orleans (27) and above Columbus, Ohio (29).

Assessment

As noted above, quality of life is often thought of as access to open space, the presence of symphony orchestras, theatre, and museums, clean air and water, opportunities for recreation, and good schools. Nonetheless, evaluating quality of life is difficult, given the conceptual problems of distinguishing those factors that government can address and those that arise from an individual's satisfaction with his/her situation in life. Still, while there are problems with it, the livability comparison identified by Dowell Myers using shared objective characteristics of communities with secondary data is probably the most popular and is a vehicle that can be applied for relocating firms and workers. The livability comparison approach allows local governments to look at what other communities are doing that allow them to rank "better" on various evaluation scales, provided those scales indeed measure factors that affect business decisions.

The Florida/Gates work poses new implications for the meaning of quality of life and its relationship to economic growth. While the Florida/Gates work does not lay out a roadmap or a set of specific actions for attracting the "creative class" (a weakness of the research), it does tend to support the proposition that metropolitan areas will grow, in Florida's words, by "remaining open to diversity and actively working to cultivate it, and investing in the lifestyle amenities that people really want and use often, as opposed to using financial incentives to attract companies, build professional sports stadiums or develop retail complexes" (40).

This concept does not fit easily into conventional economic development or city planning. However, it does imply that such planning should work to create vibrant communities with rich ethnic, educational, cultural, and lifestyle milieus, and opportunities for human interaction. "Cities and regions," Florida writes, need to recognize the importance of incorporating all three facets of the new economic model: technology, talent, and tolerance. Without all of these factors working together, communities will be unable to become true Creative Communities and achieve the economic growth and quality of life their citizens deserve" (41).

SELECTING STRATEGIES

The process of selecting strategies and particular actions for economic development planning is not always a straightforward one, and indeed can sometimes present uncertainty. Clearly, it should relate to the evaluation of the strengths and weaknesses of the area economy and the organization capacity of the local government and potential partners for carrying out the strategy. Here are some questions that local government officials should ask themselves when deciding and detailing different courses of action:

- What are the direct costs of the strategy?
- How is the strategy to be funded?
- Who is to implement the strategy?
- How stable or accessible is the funding?
- What are the benefits? Can those benefits be quantified?
- How long will it take?
- Has it been tried before, either in our community or in others? If so, what were the outcomes?
- What are the legal implications of the strategy? Does the local government actually have the authority to carry out the strategy, or will it need to rely on other public or private partners to implement it?
- What is the anticipated outcome?
- Do the strategies need to be implemented in any particular order?
- Which strategies are central to the success of the whole plan? To other strategies?
- Which strategies are time sensitive (for example, those that depend on a funding source with a cut-off date)?
- What strategies can be implemented quickly in order to demonstrate tangible results and build momentum?

- What strategies can be linked exclusively?
- What strategies are mutually exclusive, duplicative or negating?
- What strategies clearly have lower priorities? [42]

Tables 3-2 to 3-5 summarize the more detailed discussion of potential economic development strategies. In these tables, this report provides an assessment in terms of "pros" and "cons" for each strategy. Also listed is the location factor that they most directly address. For these summary tables, the strategies are grouped into not only "direct" vs. "indirect" assistance, but also "projects" vs. "programs and policies."

Table 3-2 Economic development strategies: direct business assistance: projects

Projects	Location Factor Addressed	Pros	Cons
• Land or building purchase and assembly	• Land availability and cost	• Puts ownership of key property in hands of public job-creating authority • Overcomes fragmented ownership and scarcity of large developable sites	• Risk of holding undesirable property • Expensive
• Industrial park creation	• Land availability and cost • Access to markets	• Prepares land for development • Designed for multiple users and many jobs	• Land can remain vacant and under-used while waiting for desired firms
• Business accelerator (incubator)	• Land availability and cost • Workforce • Business formation	• Focus on job creation • Nurtures companies of the future	• High initial costs for space and program management • Need to have management expertise to provide technical assistance • Small businesses do not lead to employment and tax base growth immediately

Source: ECONorthwest

Table 3-3: Economic development strategies: direct business assistance: programs and policies

Programs and Policies	Location Factor Addressed	Pros	Cons
• Financial incentives: grants and loans, including revolving loan fund	• Varies depending on what the grants and loans are used for, could include: • Business climate • Land availability and cost • Business formation	• Some existing programs have low cost per job • Can be targeted for various goals (historic preservation, job creation, etc.)	• Effectiveness varies and is hard to measure • Improvements can capitalized by property owner through increased tenant rent • Requires local government to monitor loans, grant conditions
• Small business assistance	• Workforce • Business formation	• Relatively inexpensive • Local focus • Small businesses are numerous	• Requires dedicated, knowledgeable staff

Source: ECONorthwest

Table 3-4: Economic development strategies: indirect business assistance: projects

Projects	Location Factor Addressed	Pros	Cons
• Infrastructure improvement	• Access to markets (transportation and telecom) • Business environment (other utilities)	• Expands production possibilities • Increases access for workers and clients • Improves environment for workers and clients	• Expensive • Difficult to measure effectiveness
• Other public service improvement	• Community stability	• Promotes quality of life factors essential to attract workers	• Expensive • Difficult to measure effectiveness
• Planning and redevelopment studies	• Various	• Provides useful market information and visions for redevelopment • Few direct costs	• Relies on action by private sector, unless public agency owns relevant property

Source: ECONorthwest

Table 3-5: Economic development strategies: indirect business assistance: programs and policies

Programs and policies	Location Factor Addressed	Pros	Cons
• Regulatory relief	• Business climate	• Makes it easier for development to occur • Not necessary to lower standards; can lessen duplication and burden	• Can remove necessary regulatory oversight if not done properly
• Financial incentives: tax relief	• Business climate	• Decreases cost of doing business	• Costly; may take away necessary resources from other services. • Research shows that taxes are less important than quality of life, labor force, access to supplies.
• Education and workforce development	• Workforce	• Workforce skills are a key requirement for job growth	• Costly • Requires coordination among multiple groups
• Business recruitment and marketing	• Varies	• Not as costly as grants or tax relief; relies on relaying information on positive attributes	• Can be "zero-sum" when viewed regionally or nationally • May not address the needs of existing businesses
• Intra-regional coordination	• Varies	• Decreases wasteful competition • Focuses on cross-boundary benefits	• Requires coordination of multiple groups/interests

Source: ECONorthwest

What does an economic development strategy ultimately look like? Table 3-6 shows an excerpt of an economic development strategy formulated by Washington County, Utah to be consistent with its statement of core economic values (see below).

Table 3-6: Excerpt from Washington County, Utah Strategic Plan

1. Retain and Expand Business			
Goals:	**Measure of Success:**	**Critical Strategies:**	**Implementation Agent**
Retain and expand existing businesses with the County that are consistent with the core economic values.	Employment in existing County businesses will expand by 5% per year.	1.1 Facilitate incentive program for existing businesses equivalent to what is offered to new businesses.	Washington County Economic Development Council
		1.2 Increase the education and training opportunities of the existing workforce to prepare employees to better meet customer needs.	Custom Fit Program/Dixie State College/Washington Co. School District/DXATC
		1.3 Provide an outreach effort to directly contact and assist existing businesses.	Chamber of Commerce/Washington County Economic Development Corporation/DBA
		1.4 Develop and provide financing packages to assist in financing growth of existing businesses.	Dixie State College Small Business Dev. Center/Five County AOG Loan Fund/Local Financial Organizations
		1.5. Facilitate conflict resolution between businesses and government.	Washington County Economic Development Council

Source: Washington County, Utah, *A Vision for Tomorrow, A Strategic Plan for Economic Development* (2003, unpublished).

MONITORING IMPLEMENTATION

BENCHMARKING

A good economic development strategy will contain measurable benchmarks that allow the local government, to periodically evaluate success, and make mid-course corrections. Again, the Washington County, Utah, Strategic Economic Development Plan does a systematic job in establishing benchmarks. Table 3-7 shows how selected benchmarks are related to goals.

Table 3-7: Selected Goals and Benchmarks in the Washington County, Utah, Strategic Economic Development Plan

Goals:	Measure of Success:
Diversify and strengthen our economy and increase our wage scale by attracting value-added business.	Locate 750 new value-added jobs within the next 5 years. Increase the per capita wage of the county to the level of the Utah State average.
Develop improved industrial sites that are affordable and attractive to new and expanding value-added businesses. Encourage the construction of spec buildings for use by value-added companies.	Monitor the industrial market to ensure that at least 100,000 square feet of industrial high cube inventory is available. Maintain sufficient fully developed land and available building space to service existing and new value-added business.
Expand existing infrastructure to maintain and improve service levels.	Increase private and public funding for key infrastructure and services by 25% over the next 5 years.
Increase the county's economic development capability such that it fully utilizes the strengths and resources of both the public and private sectors.	Fully funded economic development organization with sufficient cash reserves.
Increase the advanced degree, technical and professional skills training provided within the county through Dixie State College of Utah and Dixie Applied Technology Center.	Annually increase the number of courses available for advanced technical skills training.

Source: Washington County, Utah, *A Vision for Tomorrow, A Strategic Plan for Economic Development* (2003, unpublished).

NOTES AND REFERENCES:

(1) The classic text on cost-revenue analysis is Robert W. Burchell and David Listokin, *The Fiscal Impact Handbook* (New Brunswick, N.J.: Center for Urban Policy Research, 1979).

(2) For a discussion of visioning processes, see Jason Woodmansee, "Community Visioning: Citizen Participation on Strategic Planning," MIS Report 26, No.3 (Washington, DC: International City/County Management Association, March 1994); Steven C. Ames, "Community Visioning: A Tool for Managing Change," PAS Memo (American Planning Association, July 1992). Visioning processes frequently use public or town meetings, focus groups, questionnaires, newsletter, and computers to engage citizens in identifying problems and opportunities facing their community and depict a formal expression of what they want their community to be.

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Part IV
National Case Studies

By Erin Flynn: Futureworks, MA

Case 1: Northern California Bay Area

Overview

The Bay Area Alliance for Sustainable Communities is a multi-stakeholder coalition composed of 45 business, environmental, social equity, and government organizations working to implement a sustainability action for plan the for nine-county Bay Area.

Established in 1997, The Bay Area Alliance is committed to facilitating region wide dialogue on how the 9-county Bay Area can grow in a more sustainable manner. The Alliance is founded on the premise that the people of the Bay Area want to preserve the environmental, economic and social attributes of the region for generations to come. To this end, the work of the Alliance focuses on three interrelated goals: a prosperous economy; a sound environment; and social equity. The Alliance has dubbed these goals the "Three E's" of sustainable development.

Structure

The Alliance is a 'virtual" organization with only one part-time paid staff member who serves as executive director. The virtual quality of the Alliance was a conscious choice by steering committee members who insisted that founding organizations must be responsible for the work of the Alliance and support it through in-kind contributions such as staff time, office space, and administrative support. Founding organizations of the Alliance include Pacific Gas and Electric, the Sierra Club, the Association of Bay Area Governments, the Bay Area Council (a regional CEO public policy organization) and Urban Habitat (a non-profit organization focused on regional social equity). Co-management of the Alliance is ensured by making each partner organization a fiscal intermediary for different funding streams associated with the work of the Alliance.

Since the Alliance was established in 1997, the 5-member steering committee has met every two weeks to move the work of the Alliance forward. The full membership of the Alliance meets on a quarterly basis.

Accomplishments

The central accomplishment of the Bay Area Alliance has been developing and reaching regional consensus on a *Compact for a Sustainable Bay Area*. The *Compact* identifies key regional challenges and proposes a package of 10 strategic commitments to action meet those challenges to put the Bay Area on a more sustainable path.

The *Compact* is designed to serve as a framework for action that will guide, but not prescribe, both regional and local planning and decision-making and motivate government, employers, civic organizations and individuals in cooperative efforts that will lead to a more sustainable

region. By 2004, all nine counties had voted to support the Compact.

A *Draft Compact* was presented to county and city officials at the 1999 and 2000 General Assemblies of the Association of Bay Area Governments for review and input. City councils and county boards of supervisors reviewed and commented on the draft in 2001 and 2002. By 2003, 7 of 9 counties and 65 of 101 cities had endorsed the *Compact*. The final *Compact* was ratified in 2004.

> The 45 member organizations that compose the Bay Area Alliance are extremely diverse. Banks and homebuilders are members as are smart growth and environmental groups. Organized labor, manufacturing associations and local governments are part of the mix as are groups representing women, Latinos. and Asians. The development of the Compact for a Sustainable Bay Area was originally intended to be a one-year process. In the end, however, it took five years to secure buy-in from business, civic, community and government leaders throughout the Bay Area. Obtaining feedback and input on the Draft Compact from multiple stakeholders was a time consuming undertaking characterized by innumerable public meetings, workshops, forums etc.

Compact for a Sustainable Bay Area

Ten Commitments to Action form the centerpiece of the Compact for a Sustainable Bay Area. The Ten Commitments are:

1. Enable a diversified, sustainable and competitive economy to continue to prosper and provide jobs in order to achieve a high quality of life for all Bay Area residents.

2. Accommodate sufficient housing affordable to all income levels within the Bay Area to match population increases and job generation.

3. Target transportation investment to achieve a world-class comprehensive, integrated and balanced multi-modal system that supports efficient land use and decreases dependency on single-occupancy vehicle trips.

4. Preserve and restore the region's natural assets, including San Francisco Bay, farmland, open space, other habitats, and air and water quality.

5. Use resources efficiently, eliminate pollution and significantly reduce waste.

6. Focus investment to preserve and revitalize neighborhoods.

7. Provide all residents with the opportunity for quality education and lifelong learning to help them meet their highest aspirations.

8. Promote healthy and safe communities.

9. Implement local government fiscal reforms and revenue sharing.
10. Stimulate civic engagement.

The *Compact* sets forth an overview statement for each of the ten commitments to action and specifies action steps associated with each of the ten commitments.

Now that the Compact has been ratified, the Alliance is turning its attention to implementation. Several large-scale implementation efforts that correspond to commitments articulated in the Compact are currently underway in the Bay Area.

Case 2: St. Louis Metropolitan Forum

The St. Louis Metropolitan Forum (the Forum) is a new multi-sector partnership established by three regional institutions representing government, civil society, and the business community. The founding partners are East West Gateway Coordinating Council, FOCUS St. Louis, and the St. Louis Regional Chamber and Growth Association.

The Forum was established to maintain an ongoing process for government, civic and business leaders to address regional concerns and undertake bold initiatives. The Forum is designed to provide a vehicle by which government, civic and business interests can deliberate, forge consensus, foster actions and speak with a "unified voice" in support of the region.

Origins

Like many industrialized regions of the country, St. Louis suffered in the post-manufacturing economy. Employment and new business growth were weak in the 1980's and 1990's, and economic and spatial segregation among residents accelerated. Yet despite widespread recognition of the social and economic challenges facing the region, cultural myths about St. Louis' inability to change and a history of non-collaboration between government, business and civic partners prevented leaders from coalescing around a regional problem-solving strategy for years.

Institutional dynamics began to shift in 2000 following a fall Leadership Exchange Trip to Toronto. This trip, led by the Regional Growth and Chamber Association, exposed 125 government, civic and business leaders to Toronto's regional governance approach. According to Dick Fleming, CEO of the RCGA, the trip made a big impression on the St. Louis delegation. Following the Toronto trip, the group reconvened and determined that a new vehicle was necessary to assess and develop regional governance and funding models for St. Louis.

RCGA and FOCUS St. Louis stepped forward to provide leadership and staff support to launch a regional initiative. The two organizations convened 40 leaders over a 9-month period in a Regional Governance Policy Group (RCGP). The group studied and made recommendations on a series of regional issues from tax policy and government structure to health care and transportation. The RCGP issued a report of its finding and recommendations in November, 2001. A key recommendation of the report was the creation of a virtual multi-sector vehicle to address the region's systemic social and economic challenges.

A 2002 report entitled "Where We Stand: The Strategic Assessment of the St. Louis Region," issued by the region's Council of Governments underscored the importance of regional collaboration. The report benchmarked St. Louis against 35 peer metropolitan regions on key indicators of regional health and prosperity. The report found that the St. Louis region trailed in many key performance areas relative to peer regions including economic growth, socio-

economic disparity, out-migration of population, and political fragmentation.

An overnight retreat of regional leaders in January 2003 put the idea of the Metropolitan Forum to the test. Forty-nine leaders representing the three sectors met for two days to discuss the findings of the RGPG and *Where We Stand*. According to retreat organizers job growth, racial and economic disparity, and tax policy quickly emerged as key issues that required regional commitment and collaboration.

Following over two years of planning and negotiation, the Charter of the Metropolitan Forum was approved in October of 2003. The Metropolitan Forum is not a formal organization; rather, it is a virtual organization that utilizes staff of the three founding organizations to support the ongoing work of the collaboration. The Forum consists of a maximum of thirty-six representatives, including twelve members representing business, twelve members representing local government and twelve members representing civic interests plus the staff directors of East-West Gateway Coordinating Council, FOCUS St. Louis and RCGA. The Forum leaders meet at least twice a month.

"More for Our Money"

As its first major undertaking, the Forum is undertaking a large-scale project focused on public spending and accountability. The focus on coordinated spending and investment stems from recognition among Forum participants that the ability to strengthen the regional economy and close racial and economic divides within the population hinges in large measure on the quality and quantity of public services that local units of government provide. With 750 units of local government, there is growing awareness that the decisions and investments made on a daily basis by municipalities and special purpose governments do not serve the regional interest.

As a first step, the project is addressing the following three questions honestly and comprehensively through research and dialogue :

Where does our public money come from? Where does it go? Who pays and who benefits? Are the costs and benefits distributed fairly across the regional landscape and among different racial and ethnic groups?

How do we measure the performance of our investments? Is anyone responsible for regional outcomes? Are local investments producing net new jobs and wealth for the region? How can this be documented?

Can we develop a strategy to do better? How will this help increase our regional competitiveness?

In fall of 2004, the Metropolitan Forum launched a Web site for researching government finances. This is the first time in the St. Louis region that comprehensive financial information for each level of local government in the bi-state region is available for the entire community.

For more information on the Forum, visit www.metro-forum.org.

Case 3: Chicago Metropolitan Mayors Caucus

I. Regional Context

The Chicago metropolitan area is one of the largest in the nation with just over eight million people. It is composed of six counties: Cook (home to the City of Chicago), Dupage, McHenry, Will, Kane and Lake. The Chicago metro region has a remarkably diversified economy which has helped it avoid the lows other regions have suffered in recent years from industrial competition to the south and abroad. The city got its start in fur-trading, meat-processing and railroads and has grown into a national center of industry, manufacturing, transportation, commerce, finance, education and the arts. It is also America's largest center for conventions and conferences.

Manufacturing accounts for about one quarter of the region's employment. Steel, chemicals, petroleum refining, electronics, machinery, metal products, medical and scientific equipment are all important components of the region's manufacturing base. Food processing is also prominent within Chicago's manufacturing economy. Chicago is home to many Fortune 1000 companies. McDonald's, Sara Lee, Boeing, Motorola and Wrigley are all headquartered in Chicago.

The Chicago region is a major transportation hub for North America. O'Hare, the region's airport, is the world's busiest international airport, while Midway Airport, due to get a new terminal in 2004, is the fastest-growing in North America. The Chicago region is the main terminal of an inland and international shipping route, the Great Lakes-St Lawrence Seaway, and a center of rail and road freight. Chicago boasts the 3rd largest container port in the world, trailing only Hong Kong and Singapore.

II. Regional Challenges

The Chicago metropolitan region has been sprawling dramatically for the past several decades. Between 1950 and 1980, the City lost 800,000 residents while surrounding counties grew precipitously both in terms of population and business activity. Rapid decentralization of residents and business continued through 2000 though the city experienced resurgence in the 1990's, gaining over 100,000 residents and reversing 50 years of continuous population decline.

Several challenges have emerged in relationship to the region's sprawling growth. In recent years, the lack of affordable workforce housing located near employment centers has become a key regional issue. As companies have moved further away from the city center to suburban locations, a mismatch has developed between where jobs are created and where affordable workforce housing is located. The jobs-housing mismatch is particularly acute for low-income workers in the region. Many low-income workers live in South Chicago suburbs where there are few job opportunities. Meanwhile, employers in the northern suburbs cannot fill entry-level positions.

In addition to the housing challenge, the region's growth has led to increasing traffic that frus-

trates motorists, saps worker productivity, and raises pressure to build in open spaces. Metropolitan Chicago is the third worst region for traffic congestion in the country. The business-civic organization Chicago Metropolis 2020 recently estimated that if current policies continue, the average Chicago resident will spend 80 more hours per year in his/her car than is now the case.

Chicago also has the dubious distinction of being one of the most racially segregated regions in the country. For the past half century the region has ranked among the five worst regions in terms of segregation by income, race, and ethnicity. Tension regarding segregation of residents has intensified in recent years as job opportunities have moved further and further away from historically African American and Latino neighborhoods.

All of these regional challenges are made more difficult in Chicago due to a deep city-suburban divide and a highly fragmented political system. Historically, the City of Chicago has been a democratic stronghold while the suburbs have been steadfastly republican. As the suburbs have grown in population and political strength, this tension has increased. The presence of over 1200 units of government¾including 272 incorporated municipalities and 113 townships¾serves to complicate matters even further.

In the past few years, several Chicago-based organizations¾both public and private¾have been instrumental in drawing attention to these regional challenges. The business-led advocacy organization Chicago Metropolis 2020 whose motto is "One region, one future," for example, has launched an aggressive research and communications campaign that stresses why current regional growth patterns are inefficient for business and inequitable for residents. The Metropolitan Planning Council, a prominent nonprofit group of business and civic leaders promoting planning and development policies for greater Chicago, is similarly focused on issues related to housing, transportation, urban development and smart growth. These organizations and others have consistently emphasized the importance of jurisdictional cooperation and coordination in maintaining the region's competitiveness and quality of life.

The Metropolitan Mayors Caucus is both a response to and product of this new regional perspective. In a break with the past, the region's Mayors have accepted the idea that in a global economy municipal cooperation is required to develop and promote the region as a whole.

III. Regional Mechanism for Coordination and Collaboration: Metropolitan Mayors Caucus

Overview

The Metropolitan Mayors Caucus is a network of mayors from communities in the six-county Chicago region. It was formed in 1997 as a partnership between the City of Chicago and nine suburban municipal associations. The Caucus provides a forum through which the

chief elected officials of the region cooperatively reach consensus on common public policy issues and multi-jurisdictional challenges.

Origins

The Metropolitan Mayors Caucus grew out of discussions that Chicago Mayor Richard Daley initiated with Mayors across the six-county region. Daley had a vision of pushing past geographic boundaries to work collectively on public policy and economic issues that impact the region's overall competitiveness and quality of life.

According to Rita Athas, Daley's Chief of Staff and liason to the Caucus, Mayor Daley recognized that in order for Chicago to be a globally competitive city, city-suburban cooperation had to increase significantly. "Mayor Daley knew that employers didn't view Chicago through the lens of city-suburban divide," said Athas. "Employers viewed Chicago as a region. The Metropolitan Mayors Caucus was formed out of discussions Mayor Daley had with Mayors about these issues."

In December of 1997, Mayor Daley convened a meeting of leaders from the region's nine suburban municipal associations representing 272 Mayors. According to Athas, the Mayors were initially skeptical. "They thought it was a meeting called by Mayor Daley to get them to approve the expansion of O'Hare Airport." That skepticism quickly gave way to common ground and consensus, however, as the Mayors learned of Daley's vision of regional cooperation. Daley and the Mayors emerged from the 5-hour meeting with a strategy to establish the Metropolitan Mayors Caucus. The event made history. It was the first time that Mayors from all over the Chicago area had ever met together to share concerns and work toward resolution of common challenges.

Structure

With 272 municipalities, the Caucus required a structure that could streamline decision-making. To this end, Caucus membership is organized through nine pre-existing Councils of Government and the City of Chicago. Each COG selects 10-12 Mayors to serve on the Caucus annually. Accordingly, the Caucus is composed of 65-70 Mayors with authority to represent all 272 municipalities and the City of Chicago on issues of regional importance.

Each of the nine suburban municipal associations (COG's) and the City of Chicago appoint one director and one alternate to serve on the Executive Board of the Caucus. The Board meets every other month and is charged with responsibility for overseeing the general operations of the Caucus.

The Caucus meets quarterly. Participation in quarterly meetings is restricted to Mayors¾no staff are allowed to substitute for Mayors. Consensus is the basis for Caucus decision-making and for positions taken by the Caucus as a whole. Quarterly meetings of the Caucus are closed to the media in order to allow more candid and open dialogue between Mayors.

Caucus positions on issues of critical municipal and regional importance are developed

through a Task Force structure. The Caucus is currently organized around the following issues: Clean Air, Water Resources, Critical Infrastructure, Economic Development, State and Federal Legislation, Emergency Preparedness, Housing, Ground Transportation, and Education Funding. Each Task Force is charged with studying the issues and developing a strategy.

Funding and Staff

In 2003, the MacArthur Foundation made a 4-year, $1.3 million grant of support to further the development of the Caucus and solutions to regional challenges including transportation and education reform. Support from MacArthur enabled the Caucus to hire a full time Executive Director, David Bennett, and 2 staff people.

The City of Chicago also provides significant staff support to the Mayors Caucus through Rita Athas. Athas was Director of the suburban Northwest Municipal Conference prior to her appointment by Daley to serve as the city's liason to the suburbs. Athas works extensively with the Mayors Caucus and represents the City on all regional issues.

Bennett noted that the need for new staff stems from the increasing workload taken on by the Caucus. However, he and Athas stress that the Caucus is a member-driven (as opposed to staff-driven) organization.

IV. Accomplishments

According to Bennett and Athas, the Caucus focused on "low-hanging fruit" in its first years and avoided more controversial regional issues. This approach enabled Caucus members to learn how to work together, develop consensus, and have some early "wins." The first issues the Caucus tackled were clean air and electric deregulation. Eventually the Caucus moved onto to the more sensitive issues of economic development, affordable housing and education funding reform.

Two examples of how Mayors are working together through the Caucus to promote regional solutions are described below.

Clean Air Counts

One of the first issues the Caucus tackled was Clean Air. Under federal air quality standards, the Chicago region was designated as a severe non-attainment area for ozone levels. According to MMC, only ten regions in the country have earned this unflattering distinction.

Shortly after the Caucus formed, Mayor Daley invited municipal Mayors to work with him to develop a non-regulatory approach to smog reduction. Daley and the Mayors recognized that "severe non-attainment status" threatened not only the health of the region's residents

but economic competitiveness and the ability of cities and suburbs to secure federal support for highways and mass transit. The Mayors agreed that clean air was an issue that clearly transcended jurisdictional boundaries and required a regional approach.

The Caucus formed a Task Force with representatives from nine regional COG's to study the issue and identify best practices for addressing air quality in the Chicago region. In 1999, the Caucus unveiled the 'Clean Air Counts' Campaign¾a region wide program of action and evaluation designed to reduce ozone-causing emissions and improve air quality. The Campaign reflects a coalition composed of the Caucus, the Delta Institute, the Chicagoland Chamber of Commerce, the Illinois Department of Environmental Protection, and the United States EPA among others.

The multi-year implementation phase of the Clean Air Counts Campaign began in 1999. The campaign is aimed at 5 different constituencies: communities, business and industry, households, the state of Illinois and the economic development community. Clean Air Counts has spun out of the Caucus and is now organized as a voluntary public/private initiative to improve air quality in the Chicago metropolitan region. (To learn more about the campaign visit www.cleanaircounts.org).

Economic Development

Fierce municipal competition for business activity and the tax revenue it generates was something that many Mayors took for granted prior to the formation of the Caucus. Over the course of the last few years, however, the perspective of Mayors across the region has changed. Largely due to the Caucus, Mayors throughout the Chicago area now recognize that municipalities must work together to market the region as a whole.

This change in perspective began in 1998 when the Caucus formed an Economic Development Committee to develop a strategy that would guide municipalities on how they could cooperate to promote economic development opportunities throughout the region. The Caucus adopted the strategy in spring 1999.

The regional nature of economic competition was the driving issue that prompted Mayor Daley to initiate closer working relationships among municipal Mayors and the City. According to the MMC, adoption of the economic development strategy by the Caucus represented a significant breakthrough and marked a turning point in the Mayors' orientation to economic development.

In the past, municipalities competed with each other in an effort to attract business. The Caucus recognized that this view was outdated and limited. Today's interconnected world demands a global view – even between municipalities existing only a few miles apart. This is precisely what transpired: the Caucus accepted the idea that to be part of the global economy, our municipalities needed to work together to market the region as a whole. Real competitors were other states and other major metropolitan areas in the country and the world – not each other. The major shift not only decreased factionalism and friction; it in-

creased prospects for success since one municipality would no longer undermine the promotional efforts of another and energy would be focused rather than dissipated.

Another breakthrough in the economic development realm came in September 2000 when Mayor Daley announced a merger between the Chicago Partnership for Economic Development and World Business Chicago. The Partnership for Economic Development was created in 1999 to coordinate the city's efforts to attract and retain business. World Business Chicago was created in 1998 to attract international investment to the nine counties that make up the Chicago metropolitan area. The merger created a single business-driven organization that could raise the profile of the Chicago region and market the entire nine-county region to international business.

In his remarks at the announcement of the merger Daley acknowledged the Mayors Caucus and the important role it played in developing a more cooperative approach to regional economic development:

International business executives don't draw distinctions between Chicago and its suburbs, any more than an American company distinguishes between London and its suburbs. They look at the Chicago area as a unit, and that's how we should market ourselves. This has been a major objective of our Metropolitan Mayors Caucus: to work together to attract business to the Chicago area.

According to David Bennett, this new cooperative approach was one of the keys to recruiting Boeing headquarters to Chicago. Throughout the recruitment process, the Mayors Caucus worked closely with World Business Chicago on a unified regional presentation to Boeing that highlighted 3 factors: 1) the region's diversity; 2) its cooperative approach to economic development; and 3) its central location for air travel. According to Bennett, Chicago was the only metro area Boeing was considering that presented itself as a unified region. "Our presentation excited Boeing," said Bennett. "They liked our cooperative approach and the fact that our region is so diverse. This is very important to them as a global competitor."

V. Challenges

Finding common ground with regional players

Across the Chicago metropolitan area, the concept of regionalism is gaining traction. Business groups, environmentalists, smart growth and housing advocates, faith-based organizations and organized labor have rallied around the notion of sustainable regional development that reduces regional disparity, provides economic opportunity and increases efficiency.

Perhaps the greatest challenge the Caucus has faced is learning how to work constructively with other regional players. As the "regional agenda" has picked up steam across Chicago,

Mayors have often felt in the hot-seat. For example, when the Commercial Club of Chicago (a prominent organization of business leaders) issued its *Metropolis Report* in 1999, the Mayors Caucus felt that business was pointing a finger at municipalities and blaming them for many of the region's ills. The Metropolis report was the culmination of two years of research and analysis by Commercial Club members. The premise of the report was that economic and quality of life issues facing Cook, DuPage, Lake, McHenry, Kane and Will counties are interdependent. The report examined regional issues in six areas (education, economic development, taxation, governance, transportation and land use, and housing) and called for the creation of a new business-led advocacy organization to raise awareness about regional challenges and foster collaborative action. The organization Chicago Metropolis 2020 was created in 2000 to implement the recommendations of the report.

According to Athas and Bennett, tensions were high between the Caucus and Metropolis 2020 when the organization first came on the scene. "The Caucus was somewhat resentful of the business community because it is not accountable to any one on these regional issues," said Athas. "Mayors, on the other hand, have a responsibility to work for their municipalities."

In the four years since Chicago Metropolis 2020 was created, however, a tremendous amount of progress has been made. Bennett said that Chicago Metropolis 2020 forced the Mayors Caucus to think about many regional issues that otherwise would not have come to the fore¾especially the relationship between housing, transportation and land use.

Today, the Caucus and Chicago Metropolis 2020 work hand-in-hand on several regional issues and several Caucus representatives sit on Metropolis' Board. While a minority of Mayors still suspect Chicago Metropolis 2020 has an agenda of regional governance, most recognize the important role it is playing in addressing critical regional challenges that cut across municipalities.

Don Turner, former President of the Chicago Federation of Labor and a leading smart growth advocate said the shift in awareness about regional issues and the need for more coordinated planning efforts among Mayors is striking. "I was talking to one of the Mayors the other day about the need for density and low-income housing," said Turner. "And the Mayor said, 'there are all these widows in my town who want to stay but they can't keep up their houses and there are no condominiums or townhouses for them to live in here. What we need' the Mayor said, 'is multi-family housing near the train station.' That," said Turner, "shows you have far we've come on these issues."

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