An Economic Development Toolbox:

Strategies and Methods

Terry Moore, Stuart Meck, and James Ebenhoh

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This report was originally prepared for Envision Utah, a public/private partnership dedicated to studying the long-term effects of growth for the Great Wasatch Area around Salt Lake City, Utah. The report grows out of Envision Utah's 2000 Quality Growth Strategy, intended to preserve the area's quality of life, natural resources, and economic vitality. Envision Utah commissioned this report in 2003 to round out its other publications on quality growth and to provide local governments in the region with an economic development toolbox that would help them implement the economic development aspects of the Quality Growth Strategy. (See www.envisionutah.org/resources.phtml; accessed October 2006). The purpose of the report is to be a basic and practical guide for local governments; more detailed and advanced information is referenced in the bibliography.

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CHAPTER 1

The Purpose and Organization of This Report

This report is a practical guide for local governments planning for economic development. Because of its practical (as opposed to theoretical) nature, we refer to it as an economic development *toolbox.* It aims to help local governments:

- incorporate economic development planning into local comprehensive plans (especially planning efforts for land use, transportation, and environmental protection);
- provide a framework for 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; and
- encourage increased cooperation and limited territoriality between local governments in the effort to plan for and create jobs.

There is a huge professional literature on economic development and related topics. Items covered in one page of this report are the sole subjects of numerous journal articles or entire books. We obviously cannot provide that detail and do not want to try. Our purpose is different. We are trying to consolidate ideas into a useable guidebook—something that a local planner in a small city or metropolitan region can turn to for practical advice when the assignment comes down: "we need to do an economic development plan." This report will get you started and help you finish.

This PAS Report has four chapters, supported by five appendices:

Chapter 2 provides a framework for thinking about local economic development. It describes what businesses look for when they make location and expansion decisions, and what local government can do to provide those things and, thus, make themselves more attractive to businesses and private investment.

Chapter 3 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.

This toolbox is for local government, including cities, counties, and regional planning or economic development agencies. Sometimes, however, we have contrasted the "local" economy to that of the wider region. This has two purposes: (1) to show how certain analytical tools treat city and county economies differently from a wider regional economy; and (2) to illustrate the difference in roles between, on one hand, city and county jurisdictions, and on the other, regional planning or economic development agencies. Most of the time, however, we use the term "local government" to include regional agencies as well as city and county governments. We also tend to use the term "region" when describing characteristics most easily measured at the regional level, but these characteristics may also apply across the city and county jurisdictions within that region. We have organized our description of these analytical techniques as follows.

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

- Economic base analysis
- Shift-share analysis
- Retail market analysis
- Market-share analysis

Evaluations of comparative advantages. Techniques that explain why an economy is what it is, and why it has changed over time. Specifically, we consider the following elements:

- 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

Chapter 4 describes and evaluates strategies and measures that local governments could employ to encourage economic development in the context of quality growth. It describes a process for selecting strategies for coordinated regional economic development, and provides guidance in how to monitor strategies. These strategies include the following:

- Coordinate economic development programs and support services
- Engage in business development
- Provide development incentives and financing
- Engage in business attraction and retention
- Educate the workforce
- Ensure an adequate land supply
- Provide adequate infrastructure
- Provide a quality of life conducive to business innovation

Appendices provide more detail about many of the topics covered in Chapters 2 through 4, as well as additional resources that local governments may want to employ.

- Appendix A. Using Economic Base and Shift-Share Analyses To Analyze the Regional Economy
- Appendix B. Model Economic Development Element From the American Planning Association's *Growing Smart℠ Legislative Guidebook*
- Appendix C. Economic Development Readiness Evaluation Tool and Feedback
- Appendix D. Bibliography and List of References
- Appendix E. Glossary

CHAPTER 2

A Definition of Economic Development, Important Factors, and the Role of Government

What is economic development? The definition of economic development, as used in this PAS Report, is:

> Economic development is the process of improving a community's well-being through job creation, business growth, and income growth (factors that are the typical and reasonable focus of economic development policy), as well as through improvements to the wider social and natural environment that strengthen the economy.

This is a broader view of economic development than was common as recently as 10 years ago, when the focus was almost exclusively on job growth and business development. Nonetheless, job and business development should still be the primary objective of local government economic development efforts, just as the performance of the transportation system (not land use or social equity) should be the primary focus of transportation planning. The broader definition of economic development simply acknowledges that (1) economic development can have effects on other desired public purposes (in the areas, for example, of land use, environmental quality, and social justice), and (2) economic development planning must pay attention to those effects and deal with the tradeoffs among competing public objectives.

FACTORS THAT MATTER TO FIRMS

Direct inputs

- Natural resources and supplies
- Built space (and land to put it on)
- Labor

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

- Location relative to supplies and markets
- Infrastructure and utilities (including transportation and telecommunications)
- Business clusters

Factors indirectly affecting the cost of inputs

- Amenity and other quality of life factors
- Government policies

THE MOST IMPORTANT FACTORS TO ECONOMIC DEVELOPMENT

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, the expansion of existing firms, and the attraction or retention of existing firms. Thus, a key question for public policy is, *What are the factors that influence business and job growth, and what is their relative importance?*

Some simple assumptions, grounded in basic economic principles, provide a point of departure for answering that question:

- Businesses want to be profitable.
- Profitability is the excess of revenues over costs. Thus, profitability can be achieved and increased by increasing revenues or reducing costs.
- In the jargon of economics, increasing revenues is primarily a function of the market for the goods and services a firm produces (the *demand* side of the equation), and deceasing costs is primarily a function of reducing the costs of producing and delivering goods and services (the *supply* side of the equation).
- Every good or service produced has multiple inputs. Thus, if one wants to influence the costs of production, one should focus on the costs of individual inputs. Some inputs are more important (as a percentage of total production costs) than others, and some are more amenable to the influence of public policy than others (e.g., the costs of infrastructure).
- There are a few things that local governments can do to influence the demand side of the equation (e.g., marketing of regional products, buying locally, assisting local producers in finding local supplier (import substitution)), but the majority and most significant ways that the public sector can influence business profitability are on the supply (cost) side of the equation.

The rest of this section focus on the supply (cost) side. It looks at three broad categories of the ways local government policies can influence cost factors (see sidebar).

Direct Inputs to the Production Process

Economic theory says that firms locate where they can reduce the costs of their factors of production (assuming demand for products and any other factors are held constant). Certain factors are direct inputs to the production process:

Natural resources and supplies. Firms producing goods, and even firms producing services, need various materials to develop products that they can sell. Some firms need natural resources: a manufacturing sector (e.g., lumber) needs trees. Farther down the line, other firms need intermediate materials (e.g., dimensioned lumber). The quality, quantity, and cost of the locally available natural resources and supplies are all relevant.

Land and buildings. Land is obviously important to businesses; it provides the physical foundation upon which buildings are constructed and the production process occurs. To be effective, communities must have an available supply of development-ready land—appropriately zoned and supplied with utilities and services—to accommodate the needs of business. Buildings are also important; the demand for land is essentially derived from the demand for the functional built space businesses actually inhabit. Existing buildings are useful for businesses that do not have the time or funding to pay for a purpose-built structure on previously vacant land. The use of older, historical buildings preserves a community's architectural and visual character and is

often popular with firms in creative industries (e.g., graphic design, computer software). 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 space also plays an important role in providing space ready for move-in, often with the modern facilities and suburban locations that suit some firms.

Labor. The relative productivity and cost of labor is often the single most important factor for businesses (especially service businesses). Other things being 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.

The importance of location with respect to supplies and markets clearly diminished in the last quarter of the twentieth century.

Factors Directly Affecting the Cost of Inputs and the Revenues from Outputs

Of the direct inputs above, land is usually the only factor 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 supplies shipped to them or that produce heavy products, such as heavy machinery or transportation equipment. Even service firms or manufacturers of lightweight products or services, however, often require proximity to their customer base for sales and service, and proximity to a labor pool is important for all labor-intensive firms.

The importance of location with respect to supplies and markets clearly diminished in the last quarter of the twentieth century. The move to a knowledge-based economy with high-speed communication infrastructure and improved transportation links has allowed firms to locate at a greater distance from their markets. An example is the software industry in Utah, which managed to build a software cluster despite its distance from major markets. In the new knowledge-based economy, transportation of ideas (communication) can substitute for some of the transportation of inputs and outputs (because ideas can be both).

Infrastructure and utilities. An important role of government is to increase economic capacity by improving the quality and efficiency of infrastructure (e.g., roads, bridges, water and sewer systems, airport and cargo facilities, energy systems, and telecommunications). In some cases, where the product is information that can be provided electronically, the telecommunications infrastructure actually brings the product to 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" (Porter 2004; Cortright 2006). Firms in a cluster can reduce their direct input costs by sharing a large labor pool and suppliers that have emerged to service the cluster. Clusters also have advantages beyond direct inputs. The interchange of ideas that occurs through proximity can benefit business innovation, creativity, and efficiency.

Well-known national examples of a cluster are the high-technology cluster in California's Silicon Valley and the Salt Lake City area's bioscience cluster,

which includes many medical device manufacturers as well as pharmaceutical companies and biotechnology firms. The success of the University of Utah's Huntsman Cancer Institute in mapping more than 30 genes related to cancer with the help of the genealogical databases of the locally based Church of Jesus Christ of Latter-day Saints is a perfect example of an advantage made possible by clustering.

Factors Indirectly Affecting the Cost of Inputs

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

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.

Amenity and other quality-of-life factors. A local jurisdiction with a high level of amenity and other quality-of-life factors (e.g., 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 direct public provision of infrastructure and services, public policy can affect the costs of doing business through regulation, taxes, and incentives.

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

Policies and Strategies

Even though government cannot affect all the factors important to economic development, it can have a significant impact through both its traditional role as public service provider and regulator, and 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.

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

- clearing and assembling adequate land for business (zoning, 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 (participation in chambers of commerce, economic development organizations, trade missions, other nonprofit groups);
- providing job training, or establishing or supporting institutions that provide job training (e.g., community colleges and technical schools);
- changing the tax structure to promote economic development; and
- modifying regulations that are seen as burdensome to business.

These are a mix of traditional and more entrepreneurial roles for local government. A local government's specific options for promoting economic development are listed in Chapter 4.

The Process for Making Decisions About What Policies and Strategies To Pursue

Chapter 4 describes the types of policies and strategies that government might pursue to further economic development. It also describes ways to evaluate and select from a range of possible policies and strategies. 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 planning process is similar to the standard planning model in many respects. It has direct relationships with land use, regional coordination, transportation, and other elements commonly addressed in a local comprehensive plan.

Like comprehensive planning, economic development planning typically begins by identifying a community vision, as well as goals and objectives for implementing that vision. An accurate factual base is essential and should cover 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 strategies or "action plan"

Steps 2 and 3 are described in Chapter 3; Steps 1, 4, and 5 are described in Chapter 4.

What's in a local economic development plan? Many local governments incorporate an economic development element as part of their comprehensive plan. We describe the analysis and strategies that make up such an element in next two chapters. In brief, an economic development plan will typically address these topics:

- Assessing the local government's strengths and weaknesses with respect to attracting and retaining business and industry
- Defining the local government's role in encouraging job retention and growth and economic prosperity
- 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 those of the state and regional initiatives.

CHAPTER 3

Evaluating a Local Economy

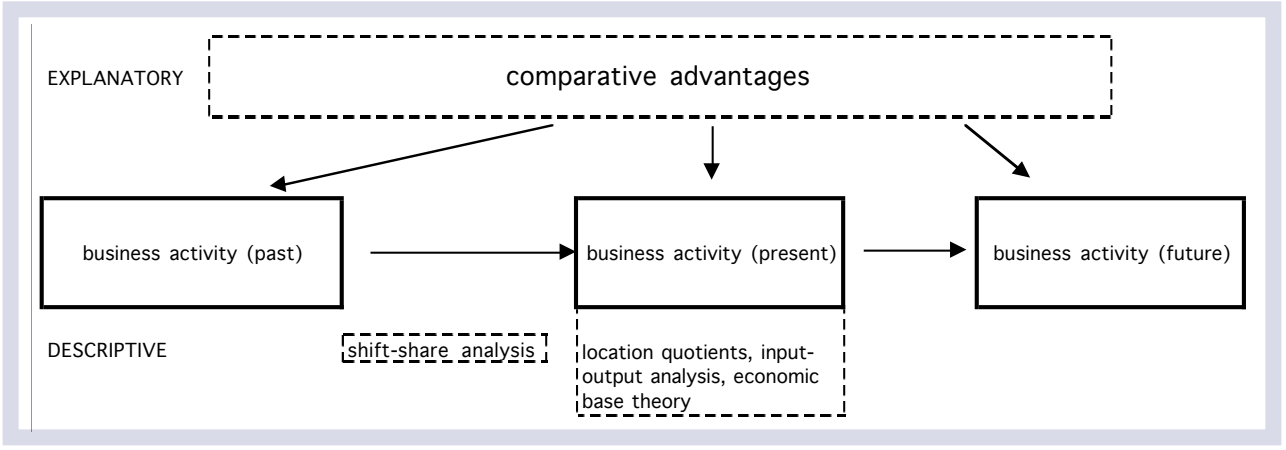
To help governments think about the future, a solid analysis of current conditions is necessary along with consideration of past trends that may continue into the future and alter current conditions.

What is assessed in such 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 (e.g., 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:

1. **Descriptive:** Economic overviews that look at the current and past composition of an economy.
2. **Explanatory:** Evaluations 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 3-1. ORGANIZATION OF THE TECHNIQUES IN THIS CHAPTER

Figure 3-1 shows how these techniques relate to one another.



Source: ECONorthwest

Before discussing these evaluative techniques, we describe the data sources that they use.

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 "covered" by employment insurance. Please note, however, that a significant proportion of employment (perhaps 10 to 20 percent, 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. The industries are usually categorized according to the North American Industrial Classification System (NAICS).

Federal agencies also provide useful economic data.

- **The Bureau of Labor Statistics,** U.S. Department of Labor (www.stats.bls.gov). The Bureau of Labor Statistics (BLS) 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 Expenditure Survey, which measures the spending habits of U.S. consumers and includes data on their expenditures, income, and characteristics.

- **The Bureau of Economic Analysis,** U.S. Department of Commerce (www.bea.gov). The Bureau of Economic Analysis (BEA) 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 interrelated. These multipliers are used in input-output analysis, described below.
- **The U.S. Census Bureau** (www.census.gov). The Census Bureau 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 reports on the number of businesses, employees, and payroll by industry for all counties in the United States (www.census.gov/epcd/cbp/view/cbpview.html).

There are many other sources of qualitative and quantitative data about local and regional economies, including county assessors' offices, local real estate networks, and the records of other local organizations. The state and federal sources identified above, however, are a useful place to start.

TECHNIQUES FOR DESCRIBING THE STRENGTHS AND WEAKNESSES OF A LOCAL ECONOMY

The techniques described here work best at the county or regional level (both because a metropolitan region is the most logical way to describe and evaluate a local economy, and because many data sources are only available at the county level). But they can also be applied to smaller units of government. Appendix A provides some simple formulas and sample calculations for economic base and shift-share analysis. Sidebars illustrate some of the techniques and their use.

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

- Economic base analysis, including location quotients and input-output models
- Shift-share analysis
- Retail market analysis
- Market-share analysis

Evaluations of comparative advantages. Techniques that explain why an economy is what it is and why it has changed over time, looking at the following comparative advantages:

- 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

ECONOMIC OVERVIEWS

Economic Base Analysis

What: Measures the extent to which the local or regional economy is exporting goods and services to the rest of the world.

Why: The more goods and services are exported, the more the local or regional economy will grow.

The economic driver in metropolitan economies could be the services (e.g., legal, financial, management, technical support) that allow businesses to grow, enter, or adapt in changing markets as export industries wax and wane over time.

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). Nonbasic industries (e.g., 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" (Hoover and Giarratani 1984, 316-30).

The traditional view is that manufacturing is a traded, export-oriented, "basic" sector of the economy that supports the "nonbasic" service sector. In 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 besides manufacturing are equally "basic." Tourism is essentially an export, bringing nonlocal dollars into an economy. More importantly, the economic driver in metropolitan economies could be the services (e.g., 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 "traded" vs. "nontraded" 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 composed of businesses that compete with firms outside the local area. Those businesses bring wealth into a local economy by exporting goods and services, or they retain wealth within a local economy by substituting for goods and services that would otherwise have to be imported from elsewhere.

To identify whether an industry is basic or nonbasic (or traded or nontraded) in an area, one usually needs to look beyond broad industry classifications (manufacturing, services, etc.) to more specific industry classifications. Examples of basic industries include durable goods (e.g., fabricated metal products, electrical equipment and supplies, and transportation equipment) and nondurable goods (e.g., food products, textile mill products, and chemical products). Some services (e.g., child care or landscaping) may be nontraded inasmuch as they are not exported outside the region and are not competing with firms outside the region. Other services like investment banking, however, may be exported outside the region and provide for local needs.

In most cases, 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. The exceptions are in tourist-serving communities, and in cases of import substitution. Import substitution through retail might occur if a new retail outlet makes items available locally that people had previously traveled to other regions (or ordered by phone or Internet) to purchase.

Retail jobs are also 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 and create demand for local business services (e.g., printing, office supplies, and insurance). Local governments that attempt to attract retail businesses are likely to be competing for a limited share of an existing regional market—reallocating a portion of an existing pie rather than making the pie larger.

Technique: Location Quotients

What: Reveals concentration of specific industries in a local or regional economy.

Why: 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 A for more detail)**.** 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 (O'Sullivan 2003).

A location quotient is simply a ratio of ratios. The first ratio describes an area's employment in one industry as a share of its employment in all industries. The second ratio describes the same thing, but for a larger, reference area: the ratio of a larger area's employment in the same industry to that larger area's employment in all industries. The third ratio yields the location quotient: divide the first ratio by the second ratio (a ratio of ratios).

Location quotients greater than 1.0 indicate that an industry is more represented in the smaller area (e.g., the region) than in the larger area (e.g., the nation); location quotients less than 1.0 indicate that an industry is less represented in the smaller area than in the larger area. Putting that slightly differently, location quotients less than 1.0 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 under consideration.

The interpretation of location quotients in the context of economic development policy can be problematic, and practitioners often fail to recognize that problem. 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. Thus, a high location quotient, which shows a relative concentration of a certain industry in an area, is interpreted as a comparative advantage to be built on.

While this interpretation is probably correct in explaining the situation in the present, it is not clear that location quotients tell much about future trends. A high location quotient for a region's 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 3-1 gives an example of how location quotients and growth rates can be combined to classify industries.

EXAMPLES OF LOCATION QUOTIENTS

1. Furniture manufacturing accounts for 5 percent of employment in Region X, and also for 5 percent of employment in the nation. The location quotient is 5 percent divided by 5 percent, or 1. The region has the same amount of employment in furniture manufacturing that one would expect if the region's employment were distributed across industries in the same proportions as national employment.
2. Furniture manufacturing accounts for 10 percent of employment in Region X, but only 5 percent of employment in the nation. The location quotient is 10 percent divided by 5 percent, or 2. The region has twice the employment in furniture manufacturing that one would expect based on the national distribution of employment across industries. Region X has a relative concentration in furniture manufacturing.
3. Furniture manufacturing accounts for 2.5 percent of employment in Region X, but 5 percent of employment in the nation. The location quotient is 2.5 percent divided by 5 percent, or 0.5. The region has half the employment in furniture manufacturing that one would expect based on the national distribution of employment across industries.

TABLE 3-1. METHODS 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.

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 need to have only the same share of employment in that sector that the nation has; that is, the location quotient would be 1.0. If a location quotient is much greater than 1.0, the region is very likely to be net exporter of goods or services from 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 Region X are assumed to buy the same amount of shoes per capita as do people in Region Y. But if, for example, a region buys more shoes per capita than the national average, it could have more shoe employment per capita just to meet local needs. 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 Region X as in Region Y.

There are other important caveats. Even if the assumptions above are generally accurate, the location quotients give only an indication of *net* importing or exporting with respect to a sector. In other words, not every business in a sector with a location quotient greater than 1.0 is exporting, and not every business in a sector with a location quotient of 1.0 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.

For all these reasons, we recommend using location quotients as illustrative rather than definitive: they are an indicator for prompting discussion and deeper thinking.

Technique: Input-Output Analysis

What: Shows the overall effect on a local economy of a change in one local industrial sector.

Why: To evaluate the benefits of job creation efforts and highlight the importance of revenue or employment in one sector to the overall local economy.

Input-output analysis is related to economic base theory inasmuch as it estimates the importance of exports, which bring new dollars into the local economy (see generally Isard 1960, and Krueckerberg and Silvers 1974). Rather than using location quotients, however, input-output analysis directly measures the inter-relationships among 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 output, employment, or income in 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 (e.g., the creation of a new manufacturing plant). In the context of "traded-sector" evaluation, the multipliers can be interpreted as measures of how important one industry is to the rest of the regional economy, thereby helping to target economic development efforts (O'Sullivan 2003, 135-38).

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) occurs because the industry being studied uses some of its additional income to purchase inputs (goods and services) from other firms. These firms will then use some of their added income to purchase additional inputs from other firms, 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 an initial dollar has a flow-on effect is through the "induced" spending of households. When a person is hired or receives a pay increase as a result of the additional income received by 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 increased income, creating additional 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.

Table 3-2 shows an example of employment multipliers from IMPLAN, a popular input-output model. The multipliers in Table 3-2 allow an estimate of the number of direct, indirect, and induced jobs generated by $1 million of expenditures in particular industries. Table 3-2 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 affected businesses. Induced jobs refer to jobs created by subsequent expenditures of direct and indirect household income and wages.

TABLE 3-2. EXAMPLE OF 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.

*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.

Note: Multipliers for some industries are 0 because there are no businesses in these industries in the county used for this example.

The IMPLAN model reports multipliers for jobs, output (gross sales), wages, proprietors' income, and unearned 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.

Practitioners need to employ some cautions when using input-output analysis. First, note that the multipliers in Table 3.2 are generally in the range of 1.5

If a region is to export, what counts is its ability to make products that people want more efficiently; that is, to increase productivity.

to 2.0. Yet, in the past, it has been easy to find economic evaluations that assert multipliers of 3.0 or higher, which are highly unlikely. Second, there are clearly political incentives to use multipliers: whoever wants to build a stadium, attract an electronics firm, and give tax breaks to an existing manufacturer will want to show that such public investments have big returns. Multipliers help make that case. We find multipliers not very useful technically (we accept that they are useful politically) in that context for a number of reasons:

- The real issue is usually (or should be) one of direct benefits and costs. If an industry is going to employ 1,000 people and generate a payroll of $30 million per year, that's a big deal even without multipliers.
- People understand the direct impacts better, both because they are direct and because the numbers are smaller. Instead of trumpeting "$2.5 billion of present value" (which the public cannot understand intuitively) a more understandable analysis would be: "500 new jobs at an average wage of $35,000 per year, in an industry that [an input-output model shows] has a relatively high level of exports."
- 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.
- Multipliers generated through standard input-output software usually are based on wide industry categories and are not "fine-grained" enough to capture the linkages between more narrowly defined industries.

Despite these challenges in analyzing the results of input-output analysis, as well as the cost of doing the analysis for jurisdictions without the staff or software to do so, local and regional planners may find the input-output tool useful to illustrate cross-industry linkages, provided the skills are available to correctly run the models and interpret the results.

Limitations of Economic Base and Input-Output Analysis

Several limitations exist in relation to economic base analysis, including input-output analysis (this discussion draws significantly from O'Sullivan 2003, 138-41).

- *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 to an improved trade balance not only through more exports but through import substitution, as more things can be created for local consumption with the same amount of inputs. 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 below) is also an important technique for analyzing a regional economy.

- *Inability to model structural changes in the economy.* Economic base analysis assumes a static, nondynamic 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 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" (Thompson 1968, 53).

- *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. In fact, however, 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 resulting from the extent of the increases in new money in the local economy (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, moderating wage increases and leading to more employment. Increases in demand for labor (an outward shift in the labor demand curve) and increases in the supply of labor (an outward shift in the labor supply curve) will have counteracting influences on wages. The net effect in equilibrium is unclear. More employment will certainly occur, but wages might be higher or lower than before. It depends on how desperate employers are for workers compared to how determined incoming workers are to live in an area regardless of wages.

These limitations are not fatal, but an analyst must be aware of them to use and interpret the results of the techniques properly.

Shift-Share Analysis

What: Shows how a local or regional economy has changed over time relative to a larger area and breaks that change into various components.

Why: Can show how the overall national economy, the mix of industries in a local or regional area, and intrinsic local or regional conditions affect certain industries.

Shift-share analysis is a technique used to identify regional departures from national growth rates.

Shift-share analysis is a technique used to identify regional departures from national growth rates. It can also be used to project economic activity. In explaining differentials among regions, shift-share analysis breaks down the total amount of change, whether positive or negative, as measured either by an industry's income or employment, into three components (Hoover and Giarratani 1984; Tiebout 1962).

- ***National share*** represents the influence the overall growth or decline of the 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 sidebar for a general example and Appendix A for more detailed examples).

- ***The industrial mix effect,*** which is also known as the "proportionality shift," identifies the influence an industry's national growth rate has on a region's economy. For example, an analysis of a region's economy may disclose that a major portion of its growth is attributable to a concentration in industries growing rapidly at the national level. 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 quantifies the difference between the industry's national growth rate and the national growth rate for the whole economy.
- ***Regional share***, also called "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 a nationally growing industry 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 of this employment if it becomes host to a new plant. 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 potential advantages are described below in this chapter.

Shift-share analysis is therefore helpful in showing 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 forecasting 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; see sidebar, "The Use of ES-202 Data" on the next page), 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 *amount* of current local employment 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).

Retail Market Analysis

What: Projects the amount and type of retail activity required to meet local demand.

Why: Informs business location decisions and planning decisions, such as zoning and downtown 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 (see generally, England 2000; Barrett and Blair 1982; Lemmon 1981; Nelson 1958; Wiewel and Mier 1981; and Brossard 1993).

EXAMPLES OF SHIFT-SHARE ANALYSIS

Here is an example that uses all the growth components of a shift-share analysis:

- **National Share:** National employment grows 1 percent. All else being equal, the region's employment grows 1 percent as well.
- **Industry Mix:** The region's employment is completely based in the sock and shoe industries, which grow at 5 percent nationally. All else being equal, the region's employment grows at 5 percent—the result of the especially high growth of the sock and shoe industries.
- **Regional Share:** Employment in the region's sock and shoe industries does not grow as fast as those same industries do nationally; it grows at 4 percent instead of 5 percent. Modest overall national employment growth and a favorable industry mix are moderated by local factors that result in a decreased share for the region of national employment in the sock and shoe industries.

The overall effect is one of growth, primarily due to industry mix, partially due to national share, and *in spite of* negative local factors that decrease regional share.

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 for a local community to retain dollars that might otherwise have been spent elsewhere through import substitution. 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 (McClure 2001):

- The total amount of retail spending by residents of an area (determined primarily by the average household income and the size of the population)
- The portion of that spending that is done locally (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 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 provide only information on total spending within a given area, not the spending by residents of that community. Consequently, they omit expenditures local residents make outside the area and include local spending by people who live outside the area. In other words, "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. The Census Bureau's website provides historical data on sales per establishment, sales per square foot, and other factors.

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

- Define the type of retail activity for which the analysis is being conducted; namely, define whether the activity is for an individual business or for a retail center.
- Determine the trade area (the area from 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.
- Calculate the total demand, which depends on the household size, incomes, and relevant expenditures of the people living in the trade area.

THE USE OF ES–202 DATA

Economic analysts often use state employment data referred to as 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.

Please note that a significant proportion of employment (perhaps 10 to 20 percent, 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, understimates the amount of total employment.

- Estimate 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 the present and the future to reflect changes that can be expected to take place over time.
- Calculate, given the expected sales volume, the potential size of the project based on the available data about sales per square foot for different types of stores. The analysis can be concluded by estimating the project's income and expenses and evaluating its financial feasibility (Wiewel and Mier 1981, 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. Consider these two examples:

- Local retail sales may have increased, but the amount of retail floor space may have also increased, thus keeping the sales-per-square-foot ratio fairly constant (or even decreasing it).
- 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 some "leakage" of residents' increased spending power to other communities occurred.

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 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, local space is competitive but there needs to be more of it. If the sales-per-square-foot ratio has decreased, 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 are decreasing to unsustainable levels, an oversupply of retail space exists 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. 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.

EXAMPLE CALCULATIONS FOR RETAIL MARKET ANALYSIS

A retail market analysis is to be conducted to determine whether 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 percent 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 percent. 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.

Source: Wiewel and Mier 1981, p. 3

Market-Share Analysis

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

Why: Provides context for deciding on target sectors and policies.

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 the share of that market the local economy is capturing. Changes in the area's market over time are especially important in quantifying changes in a local economy's competitiveness.

The first challenge is identifying the market. The market of competition for a local economy will vary, depending on the good or service considered. For example, most retail activities compete only within their metropolitan region, while manufacturing and some specialized service firms can compete in national or even international markets.

Once the market area has been identified, the next step is to gather data to provide a measurement of the local economy's share of that market. Sales or receipts are the most common factor 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, conducted every five years.

In comparison with location quotients, which measure the relative concentration of a local economy in one industry vis-à-vis all industries, market share looks at only 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 all business sectors.

An evaluation of comparative advantages (and disadvantages) is essential to get at the reasons for a city's or region's economic situation, and to identify opportunities and constraints for future economic development.

EVALUATIONS OF COMPARATIVE ADVANTAGES

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

The production factors described in Chapter 2 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* (O'Sullivan 2003, 20-22).

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 competitors, it is important to choose cities or regions 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 factors like land supply or infrastructure.

The factors on which comparative advantage can be evaluated are the same factors listed in Chapter 2, in the same order.

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.

Infrastructure constraints include streets not up to urban standards, high levels of traffic congestion on nearby arterial streets, and inadequate sewer, water, power, or telecommunication systems.

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 all the following:

- 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) (Landis 2001)

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

Vacant land is not useful for development if it cannot be economically used because of 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 (Hall 2001):

1. *Lack of urban services and infrastructure*. Infrastructure constraints include streets not up to urban standards, high levels of traffic congestion on nearby arterial streets, and inadequate sewer, water, power, or telecommunication systems. These constraints are not specific to individual properties, but to the area as a whole, and they can be remedied by capital investment.

2. *Environmental issues and land-use regulations*:

- Natural geologic hazards (e.g., seismic instability)
- Steep topography
- Wetlands, floodplains, and riparian buffer setbacks
- The presence of hazardous waste materials

- Regulations limiting 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 (e.g., 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 (e.g., 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).

3. *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 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 being withheld from development is 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 evaluation of existing data (e.g., planning or assessment data sets, including GIS data), aerial photo interpretation, or field work.

Potential for infill and redevelopment. The next step is to identify parcels with 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 reused 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 (Moudon 2001).

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, some quantitative rules-of-thumb can be applied. On the supply side, they often rely on the 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 (e.g., old and abandoned storage space) will generate a lower improvement-to-land ratio (and thus a higher likelihood of redevelopment) if it is located in a high-demand area (e.g., 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 a typical rule of thumb is a ratio of 1.0: when the improvement value is no greater than the land value, redevelopment starts to look feasible.

Also on the supply side, the presence of large areas of vacant land within one particular tax lot may be an indication of redevelopment potential. For

example, a 20-acre parcel may have a multimillion-dollar home on it. The improvement-to-land value would probably be high because of the value of the home. Still, the homeowner 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 nonvacant sections for their analysis, rather than categorizing an entire large parcel as "developed" because of the existence of one building.

Estimating land demand involves converting projected population and employment growth into demand for vacant or redevelopable land.

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

Land supply compared to 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 (Waddell and Moore 2001).

Forecasted employment or population can be converted to land demand by making assumptions about the amount of space 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 an 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 (36.7 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 growth. 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 jurisdictions trying to attract them. If land is not affordable, the amount of land available doesn't really matter. Generally, though, land markets operate to find the equilibrium for demand and supply—for price and quantity. The more land 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; land-intensive firms (e.g., 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 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 ready for move-in is a plus in attracting service firms.

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The Labor Market

The availability, quality, and cost of labor are all important to businesses. Cities and regions that have a large labor pool are more attractive than those with a small labor pool, all else being equal. 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 (O'Sullivan 2003, 76-79; Galambos and Shreiber 1978, ch. 3; McLean and Voytek 1992, ch. 6).

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 costs of housing and other household needs are 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 most sensitive to the price of labor are labor intensive (e.g., some types of nonautomated 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.

If the skills of the current workforce do not match those required for the growing, high-wage occupations that an area wants to attract, workforce training efforts will be critical.

Because employers are concerned about the quality of employees, they may be willing to pay increasingly higher wages for increasingly skilled workers. 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 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. Information on average wages can be garnered from "covered employment" data from state employment departments or from the BLS website.

The next step is to compare the characteristics of the current workforce with the opportunities likely to arise in the future. The BLS publishes an *Occupational Outlook Handbook* every two years, as well as a quarterly report, providing 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, workforce training efforts will be critical.

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 (McLean and Voytek 1992, ch. 7). To measure a city or region's comparative advantage, analysts can use techniques such as analyzing the amount of population within a 100-mile radius. These simple measures of "market area" illuminate differences between regions surrounded by vast rural areas (e.g., Salt Lake City) and regions surrounded by other urban regions (e.g., 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. Travel times are also a consideration. Because of this, transportation (described below) is often as important a factor as the location itself (O'Sullivan 2003, 66-70).

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 customers' increasing expectation that they will receive what they buy in swift fashion.

Infrastructure and Utilities

Different places have different infrastructure capacities, 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 (O'Sullivan 2003, 39-58).

Transportation remains very important in bridging the gap between local businesses and their supplying and receiving markets. The availability of a variety of modes of transportation (air, rail, road, water) and the quality, frequency, and price of these modes are important factors in evaluating comparative advantage. Sewer and water infrastructure also remains important in providing inputs and dealing with byproducts of the production process.

As the "information age" has arrived, 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 they perceive as being a 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.

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." Joseph Cortright

(2006) says clusters are the key organizational unit for understanding and improving the performance of regional economies.

Firms form clusters 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.

Joseph Cortright (2006) says clusters are the key organizational unit for understanding and improving the performance of regional economies.

These cluster factors work similarly to "economies of scale" within a firm, and they improve the odds of attracting similar firms in the future (O'Sullivan 2003, 39-58).

The benefits of clustering vary across industries. Manufacturing and other "traded-sector" industries generally benefit from clustering. Services 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 2, 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 with concentrations of firms in industries are generally more attractive to other firms in those industries 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. Cortright (2006) highlights the need to build on the unique strengths of regions, rather than trying to replicate other region's clusters, and the benefits of creating an environment for new clusters to emerge rather than trying to "pick winners."

Quantitative techniques (e.g., 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 on its way out. Finally, qualitative analysis, such as interviews and focus groups, can provide insight into the extent of formal and informal linkages and support between firms in a potential cluster. Cortright (2006) points out the importance of engaging in dialogue with cluster members to identify a cluster's strengths and needs. The value of "cluster thinking" is that it orients policymakers and practitioners towards working with groups of firms on their common issues rather than working with individual firms in a diffuse, uncoordinated manner.

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" of a relatively high quality of life.

These broad dimensions of quality of life are determined in part by: factors outside the control of cities and regions (e.g., climate); factors outside of the

control of government (e.g., cultural opportunities); and factors government can influence (e.g., public services). These public services (e.g., education, public safety, parks and open space, and environmental management) are all key factors for employees and firms seeking a location (Segedy 1997).

Housing Costs

Affordable housing policies are an important economic development tool as well as a route to social inclusion.

Housing opportunities are also important to workers. If a range of housing types is available at a range of prices 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 made it increasingly 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 (e.g., 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.

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 (Cohen 2000; Buss 2001; Peters and Fisher 2004).

- **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 selected 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. For manufacturing industries with significant equipment costs, however, 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 at providing a competitive advantage between regions.

To evaluate the comparative advantages a local economy has with respect to government policies and incentives, 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 businesses

need to thrive. All else being equal, however, a business 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 a government can provide by ensuring that its regulatory system is logical, straightforward, and predictable, as well as any assistance government can offer in negotiating the regulatory process.

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 businesses need to thrive.

COMPETITIVE EVALUATION

Appendix C contains a competitive evaluation checklist to help a local government assess its strengths and weaknesses in engaging in economic development. The checklist is organized, as is the discussion in Chapter 2, into factors that directly and indirectly affect inputs. In the category of directly affecting inputs are land and buildings, labor, and natural resources, as well as location relative to supplies and markets, and infrastructure and utilities. In the category of indirectly affecting inputs are amenities and quality-of-life factors, governmental policies and regulations, and organization for economic development.

An automated version of the checklist, in a Microsoft Excel spreadsheet, is available at www.envisionutah.org/plans.phtml?type=toolboxes under:

Local Government Economic Development Toolboxes

Filename: Community Readiness Survey (Interactive Excel Sheet).xls

CHAPTER 4

Selecting and Implementing Local Economic Development Strategies

Chapters 2 and 3 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 how local governments can select economic development strategies that work.

AN ECONOMIC DEVELOPMENT VISION

A standard planning process starts with goals (values, principles, a vision) and then looks at actions (strategies, policies, investments, initiatives) that seem to increase the odds of achieving that vision and do so in an affordable and cost-effective way. An *economic vision* is the formal expression of what the local government and its citizens want to be at some point in the future. Visioning processes frequently use public or town meetings, focus groups, questionnaires, newsletters, and computers to engage citizens in identifying problems and opportunities facing their community, and to depict a formal expression of what citizens want their community to be. Two good resources about the visioning process are Woodmansee (1994) and Ames (1992). Specifically, the economic vision is the opening statement and objective of an *economic development strategy*: a list of actions a local jurisdiction will take to achieve its economic vision.

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 also possible given the factors that constrain it.

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 also possible given the factors that constrain it. Thus, a vision for the future economy of any jurisdiction should meet four important criteria:

1. *Balance what the jurisdiction would like to achieve with what resources and public support the jurisdiction can realistically expect to muster in support of that vision*. For example, if the vision involves large expenditures for public infrastructure, such as water and sewer, the local government must be willing to find a way of paying for that.
2. *Be consistent with the role of the jurisdiction's economy in the larger regional and state economies*. Regional employment patterns influence the direction the local government can take, although it may find a way to carve a special 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.
3. *Be understandable to citizens without technical training or experience with economic development*. 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.
4. *Be produced in a way that makes it possible to incorporate it in the jurisdiction's comprehensive plan*. The economic development strategy must be integrated with other actions affecting land use, transportation, community facilities, and environmental quality. Thus, some actions may take the form of land-use measures, while others may take the form of proposals for infrastructure improvements.

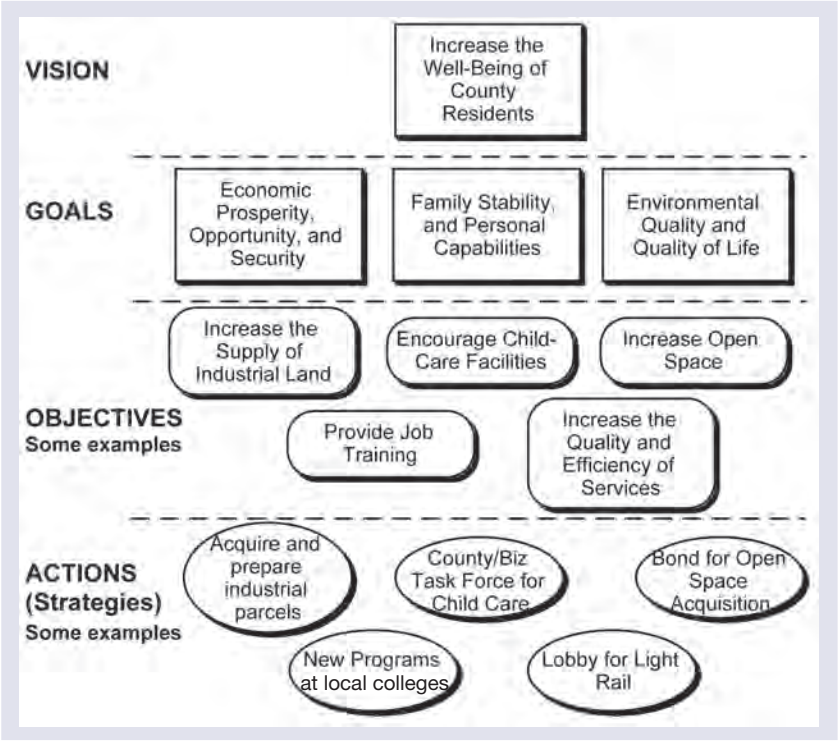
A visioning process yields the statement of what the local government hopes to become. The technical analyses describe in Chapter 3 help: (1) set a context for the visioning process (by putting some realistic boundaries for the vision statement); and (2) determine which actions will most effectively move a jurisdiction toward its vision. Here are some examples of how the analyses will help create the economic development strategy:

- 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 the level of diversification in local employment and whether residents are going elsewhere for their daily shopping needs, the government 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 additional retail opportunities exist.

- The local government hopes to capitalize on its inherent location- 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-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 trends in the regional share of employment growth are positive, and consistently so, factors in the regional economy are probably at work and causing that growth. The local government then decides to further investigate the requirements and characteristics of growing industries because of positive changes in the regional share. This analysis will help refine its vision and corresponding strategies.
- 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 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 the supply of certain types of workers is sufficient to meet demand. It may decide that, as part of its vision, it needs to work more closely with local schools and universities to make sure they have or are developing curricula and programs to produce the skills and knowledge the labor market needs, as indicated by the analysis of trends. It may also decide that the community lacks the cultural and lifestyle amenities prospective employees are seeking.

FIGURE 4-1. EXAMPLE OF TRANSLATING VISIONS TO ACTIONS



Source: ECONorthwest, Clackamas County Economic Development Strategy

WASHINGTON COUNTY, UTAH'S "CORE VALUES"

These "core values" arise from 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 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, supports and cultivates the arts and culture, and encourages 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.

- 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 economic benefit-cost analysis, an input-output analysis, and a fiscal analysis of the two alternatives to help government leaders understand the impacts of each on the local economy.

General goals for growth, development, and livability are very similar across jurisdictions. The sidebar shows typical high-level goal statements. Figure 4-1 shows a typical example of how broad goals get increasingly more detailed, ultimately leading to specific short-run actions or strategies. And the sidebar shows an example of an economic vision statement from Washington County, Utah.

POTENTIAL STRATEGIES

A strategy is a "collection of actions and activities that help achieve a predetermined goal" (Blakely and Bradshaw 2002, 167). This section describes some potential strategies local governments can use, either alone or with other institutions, to carry out their economic development vision. Such strategies are not neutral in terms of economic, political, or social consequences: Some communities accept low-wage jobs others shun; some jurisdictions place a high priority on maintaining the natural beauty of the environment and impose the costs of maintaining those standards on new development; and yet others give incentives to attract that same development. Elected officials shape the economic direction of the community by actively pursuing strategies to retain, attract, or create jobs, or by imposing regulations that enhance quality of life by requiring private and public spending (which may have different impacts on economic development in the short and long run). Development choices—even a do-nothing strategy is a choice—will influence the long-term economic health of a community (Koven and Lyons 2003, xiii).

We organize our discussion of economic development strategies into the following categories:

1. Coordinate economic development programs and support services
2. Business development
3. Development incentives and financing
4. Business attraction and retention
5. Workforce education and training
6. Land supply
7. Infrastructure
8. Quality of life conducive to business innovation

These categories are comprehensive: they are capable of covering everything that we have ever seen addressed in an economic

development plan. But each plan seems to have its own variations on the organization. The logic of the one we propose is:

A. *First, make sure whatever it is you are doing now is coordinated.* In other words, make sure that your current policies are not inadvertently stifling economic development without creating offsetting benefits.

Then simultaneously…

B. *Do the things that economic development agencies typically focus on:*

- Business development (helping existing firms grow)
- Retaining and attracting businesses
- Incentives and financing (a key tool for retaining, attracting, creating, and growing local businesses)
- Workforce education and training (since labor is on the order of half of the costs of doing business on average, and as much as 85 percent of the costs for some firms).

C. *Look at all those things that some other government agency or department is probably in charge of, but that has a big impact on economic growth*:

- Land
- Infrastructure
- Aspects of quality of life (urban amenity and environmental protection).

Each section that follows describes the strategy and its subsets, and assesses the strategy's strengths and weaknesses.

STRATEGY 1. COORDINATION OF ECONOMIC DEVELOPMENT PROGRAMS AND SUPPORT SERVICES

Method 1.1: Intraregional Coordination

Intraregional coordination, which works at the very broadest level of coordination, 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 to perform an economic development planning, financing, recruitment, and retention function. At the other end 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.

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 through a formal organization. Providing funding for transportation infrastructure (e.g., 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 a central city, for example, 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 within the region.

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 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.

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.

In 1971, the Minnesota legislature created a tax-base sharing program to allocate 40 percent 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, taking 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. One of the coauthors of this PAS Report has overseen the drafting of a model regional tax-base sharing statute that uses the Twin Cities legislation as a basis (Meck 2002, 14-4 to 14-25). He also discusses tax-base sharing systems in other regions in that same work.

For an intraregional coordination 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 make a stronger impression on potential businesses outside the region, especially important when the region sees 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 (e.g., education and parks) important for economic and community development. Tax-base sharing, in addition to reducing the incentives for intraregional competition, can directly reduce some of the inequities in public funding for key services in a region.

Method 1.2: Economic Development 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 (e.g., 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 economic development projects arise. This person may be the single contact point in the organization for handling requests for information about the community, undertaking staff work about 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, as opposed to combining it with community development.

There is no ideal organizational form for economic development.

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 have that name). They are not part of the local government but coordinate with it. They will tend to serve as a voice for the private business and nonprofit sectors rather than the public sector. Such entities will typically have a staff that responds to an executive director (WEDI 2003).

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. Contributions from business, industry, and private individuals are used to support such an organizatin, 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 (WEDI 2003).

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, situations in which a business will have to provide financial information (WEDI 2003). 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 in a community. Over time, however, development review processes and regulations may present a series of lengthy and uncertain

procedural hurdles for business. This is due to several factors common to many jurisdictions:

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

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.

- 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 too wide and too costly to maintain. Over time, the patchwork amendment of the local regulations may have created a system that even staff find difficult to understand, much less the average citizen or business.

- There may be turf problems in the permit processing system. For example, perhaps the chief building official differs with the zoning administrator, and the city engineer is in dispute with the planning director. When these disputes arise, 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 (Arimes 2003; Vranicar, Sanders, and Mosena 1980). 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 it is a major commitment of time (much of it volunteer time) and money (for outside assistance, if necessary).

STRATEGY 2. BUSINESS DEVELOPMENT

Method 2.1 Business Skills and Management Training for Small Businesses

Small business assistance centers provide accessible management training, counseling, consulting, and research services for small firms. Programs respond to the needs that individual businesses identify in the areas of technology transfer, management, financing, marketing, and workforce

training. A variant on small business centers is **entrepreneurship training** in which high schools and community colleges establish business programs. Another component is an annual or semi-annual **business start-up fair** where prospective entrepreneurs can meet with those who have experience launching a business or who can offer useful support services. At a start-up fair, 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 small businesses in the area of management, marketing, accounting, financing, and other skills.

An economic development agency can take a less direct coordinating role in small business assistance, such as getting a small business assistance 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 organized in close association with, rather than within, university business schools and technical colleges (Blakely and Bradshaw 2002, 26).

Compared to general commercial or industrial space, incubators offer an opportunity to target industries with identified growth potential, high wages, compatibility with local skills, or unique themes (like "green" or "high-tech" businesses).

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 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 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, incubators offer an opportunity to target industries with identified growth potential, high wages, compatibility with local skills, or unique themes (like "green" 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 efforts of an incubator take more time to mature than those of a large existing employer. Another potential limitation to the effectiveness of an incubator is the need for growth opportunities 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 nonprofit organizations, able to access multiple grant sources to subsidize the capital and operating costs. However, incubators operated on a for-profit or self-sufficient basis—taking a stake in the success of the firms that "graduate" from the incubator—are becoming more popular over time.

Targeting usually focuses on sectors with growth potential, linkages to existing businesses in the area, and reasons to be attracted to the particular region or local government setting because of particular competitive factors.

STRATEGY 3. BUSINESS ATTRACTION AND RETENTION

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

Method 3.1 Marketing to Attract Businesses

Before an economic development agency or local government undertakes a program to attract a business, the objective of the program should be clear. That is why many marketing strategies employ the technique of **targeting**, identifying a group of firms the development organization wants to reach. Targeting usually focuses on sectors with growth potential, linkages to existing businesses in the area, and reasons to be attracted to the particular region or local government setting because of particular competitive factors (Canada 1995, 59). As noted above, linkages can be identified through industrial cluster analysis (Bergman and Fesser, ch. 3).

An examination of groups included in the North American Industrial Classification System (NAICS) will provide those involved in formulating a business attraction strategy with a starting point. NAICS divides firms into categories that can be broken up into market segments on the basis of products or services. This approach, although relatively simple and using easily accessible data, 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—an important issue if the objective is to raise the level of wages in a community. Unless such an analysis is done, economic development "recruiters" might identify firms without a full appreciation of their locational requirements with respect to the region or local government's attractions. While it is possible to segment markets using the categories employed by the older Standard Industrial Classification (SIC) system, the system has limits that should make the planner wary (Canada 1995, 59-62).

The direct marketing techniques employed as part of a business attraction strategy can take many forms:

- Brochures or pamphlets, either general in nature or targeted to a specific industrial classification, about the region's or local government's attractions to business and industry
- 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 the section on land market monitoring below)

Assessment. Marketing 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, no matter how elegant or refined the targeting strategy, few local governments will turn down a business prospect that does not fit the profile of a particular targeted industry.

Method 3.2 Business Retention

Everything we have said about attracting new business applies to retaining existing businesses. We have made the point several times that most economic development policies are aimed, in one way or another, at reducing the costs to businesses of development or operation. Thus, local governments can help retain businesses by reducing those costs with financial incentives, waivers of fees or taxes, or in-kind services. We discuss all those techniques in other sections of this PAS Report.

In this section we talk about one other, related action a local government can take to retain existing businesses: make sure that it knows what those businesses value, and that the local government cares. Most of the techniques here are common sense:

- 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 the 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 local businesses identify are routine: problems with getting a sign permit; difficulties in obtaining a variance to expand a building or parking lot; or

lack of responsiveness by a utility department to a stormwater problem. Constant contact between the local government and businesses can help rectify these problems.

The communication between local government and local businesses may also identify longer-term problems, such as infrastructure needs in a certain section of the community or difficulties with current development codes. This communication can also serve as an early warning system for government so that it can plan to address major internal problems facing local businesses (e.g., a distant parent company may be planning to close a local plant) or other issues that suggest an at-risk firm. This communication can also help businesses better understand and even express support for regulations that citizens and government officials believe to be good for quality of life in the community. Finally, good relations with existing businesses may lead to other prospects for new businesses and get the participation of existing businesses in the courting of potential new ones.

The communication between local government and local businesses may also identify longer-term problems, such as infrastructure needs in a certain section of the community or difficulties with current development codes.

STRATEGY 4. DEVELOPMENT INCENTIVES AND FINANCING

Method 4.1 Financial Incentives

States and local governments offer incentives to attract or retain businesses on the theory that the incentives will lead to business investment and thus to new jobs. Those investments and jobs in turn will produce an increase in demand for goods and services. In turn, that demand will result, through a multiplier effect, in demand for an additional round of services. Economic development resulting from incentives should also increase the tax base, allowing either expanded public services or lower taxes on residents (Peters and Fisher 2004, 28).

Local governments can offer a variety of financial incentives, either through the state or directly. The best known is **tax-increment financing** (TIF). TIF is a method of financing redevelopment activities directly tied to the success of those activities. The local government conducts a study of 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 collected in that area before redevelopment occurs. The local government then borrows money, by getting loans or selling bonds. The borrowed funds are used in various ways to improve the development prospects of the area:

- Construction or improvement of any publicly owned building, facility, structure, landscaping, or other improvement within the project area from which the tax increment funds were collected
- Paying for the installation of publicly owned utilities in the project area
- Meeting 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 pays off the loans or bonds and finances further redevelopment activities. That excess is the "tax increment" in TIF.

Another incentive is the tax-exempt **private activity bond**, also known as an 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).

These examples are only two of the many ways local governments have available to them to provide incentives for the kind of economic development it wants. Any financial technique that raises money a local government can use to contribute to any of the multiple costs of development can have a

similar effect. Ultimately, all these financial incentives are ways to *reduce the development costs* for the private sector. Those costs can be reduced by:

1. giving money directly as a grant or loan to the development;
2. providing in-kind services or resources (e.g., environmental impact statements, infrastructure, land); and
3. reducing or waiving fees or tax (e.g., reduction of impact fees, property tax abatement).

The first and third techniques are commonly considered "financial incentives."

A review of incentives in the Journal of the American Planning Association *in Winter 2004 declared that the literature on incentives is simply inconclusive.*

Assessment. There is a large body of empirical research on whether traditional economic development incentives of the types described above have any impact on job growth. A review of incentives 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. (Peters and Fisher 2004, 28)

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" (Peters and Fisher 2004, 28).

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 a government uses TIF where it is not needed to encourage development—where development would have occurred in the absence of TIF—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 the government would have otherwise received. If the government structures TIF in this manner and imposes it 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.

Man (2001), in a comprehensive review of the empirical research literature evaluating the impact of TIFs on economic development, found conflicting evidence 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 values 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 TIFs to 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 TIFs stimulate the growth of blighted areas at the expense of non-target areas.

Some states permit enterprise zones to be established. Enterprise zones were the subject of a great deal of discussion and debate in the late 1970s and early 1980s. The original concept of the enterprise zone came out of Great Britain. The enterprise zone approach in Britain sought to stimulate local projects by removing financial and regulatory obstacles. Some of the characteristics of enterprise zones are: (a) focus on 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.

The first major study on enterprise zones was conducted on Evansville, Indiana, in the late 1980s. Using shift-share analysis, it found substantial growth in employment in the Evansville enterprise zone 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 (Rubin and Wilder 1989).

Subsequent research on enterprise zones in other states (Greenbaum and Engberg 1998; Rubin and Wilder 1996) has shown mixed results, depending on the state and particularly the analytical technique employed. Greenbaum and Engberg (1998, 26-27) cite studies concluding that enterprise zones lead to a "churning" of economic activity. In other words, enterprise zones did have an impact on employment growth among new establishments, but that growth was offset by employment losses among ongoing establishments. Findings for changes in shipments, payroll, capital spending, and number of establishments were similar. The research suggested possible explanations:

- New businesses may merely be displacing previously existing businesses.
- Local politicians and policy professionals were eager to publicize new jobs and activity in the enterprise zones as evidence of their success. Evidence of "success" thus served to help continue or expand the programs. Jobs lost in the zones were often unlikely to be attributed to the zone policies.
- The enterprise zone programs may have replaced economic development initiatives that were better suited for existing establishments.

One literature review on the impact of industrial revenue bonds concluded that the growth effects of these instruments are ambiguous as best (Fisher and Peters 1997). As a practical matter, because of changes in federal tax laws in 1986, which imposed a loan-volume cap on states, private activity bonds or industrial development bonds are used less in economic development than they used to be (Zimmerman 1991). States are exhausting their cap for all types of tax-exempt financing and resorting to taxable bonds (GFOA 2002).

Method 4.2. Venture Capital Networks and Revolving Loan Funds

Access to capital is a special problem 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 (State and Science Technology Institute 1999, 31).

Venture capital refers to capital invested or available for investment in the ownership element of a new enterprise. 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 of business. 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. (Venture Net Partners n.d.).

Revolving loan funds are a useful way of inducing small to medium firms to locate or expand when private financing is insufficient and bridge between the owner's equity and bank loans is needed.

A **revolving loan fund** (RLF) gets established by a state or local government with public money and gets lent to the private sector for certain purposes or with certain conditions. The fund "revolves" because as the private sector pays back the loan, the fund has money it can then lend to the next business. A RLF could be 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 (including private financing) and the owner's needs. Standard uses of such funds include real estate, machinery, permanent working capital, and business improvements. Such funds may require that a certain number of jobs be created per dollar of RLF contribution (e.g., one job per $20,000 of the loan) and may also require a certain proportion of jobs be set aside for low- and moderate-income persons. Principal and interest payments from loans are returned to the fund for investment in future projects.

Assessment. As a practical matter, operating a venture capital fund is beyond the authority and technical competence of most 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 banks and other sources, such as venture capital networks. 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 firms to locate or expand when private financing is insufficient and a bridge between the owner's equity and bank loans is needed. 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 they will finance.

An RLF still 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 5. WORK FORCE EDUCATION AND TRAINING

Workforce training programs include customized instructional approaches based on firms' requirements. A program can be part of a financial assistance package, where benefiting firms are obliged to give preference to qualified local personnel when seeking employees. Local employment programs can provide training and personal skills development programs to help especially disadvantaged social groups gain employment or acquire necessary skills. Cities can also provide online systems to 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 other groups

can also play important roles, particularly for workforce training. The local community college system, local businesses, nonprofit workforce training groups, and economic development agencies can all use their resources to address workforce-training issues.

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. 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 difficult to quantify.

Without an accurate land inventory, public policies affecting the amount of land available for development may regulate growth too rigidly.

STRATEGY 6. LAND SUPPLY

Method 6.1 Monitoring Land Markets and Providing Adequate Buildable Land*

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 adapt land-use designations in the face of increased demand. (For additional discussion of land market monitoring, see Bollens 1998.)

Without an accurate land inventory, public policies affecting the amount of land available for development may regulate growth too rigidly. Consequently, 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. Also, 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 (GIS) 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 (Knaap 2001; Mouton 2000). GIS software is used in the tracking process.

A land market monitoring system focuses on the availability of "buildable land" and the rate such land is being consumed for urban development. Buildable land supply can be measured according to several factors described in Chapter 3 of this PAS Report.

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 not available for purchase at a price that made its development economically feasible. It is possible to gauge whether land is on the market by interviewing landowners, identifying large blocks of land under similar ownership, and tracking real estate sales through Multiple Listing Service data maintained by Realtors. Comparing the sale prices of housing and nonresidential structures 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

*This discussion is adapted in part from Scott Bollens, "Land Supply Monitoring Systems" in *Modernizing State Planning Statutes: The Growing Smart℠ Working Papers, Volume 2*, Planning Advisory Service Report 480/481 (Chicago: American Planning Association 1998), 133-41.

based on density (housing units/net acre), employment intensity (employees per net acre, which will differ for the type of business or industry), and public service standards that affect the amount of public land new development consumes (e.g., so many acres of parks for certain levels of population).

A subset of land market monitoring is ensuring that sufficient buildable land is available for development of 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 workers in local businesses can 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 its employees in the community.

A subset of land market monitoring is ensuring that sufficient buildable land is available for development of various types of housing units at differing price and rental ranges.

A simple, though not conclusive, indicator used 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 level, where it would take into account a larger number of jobs and units. (For a more extensive discussion of jobs/housing balance, see Weitz 2003.)

A high ratio, say 2:1, indicates job growth is accompanied by insufficient housing production levels, resulting in a scarcity of workers living in the same region (or local government) in which the jobs are created. There will therefore be a housing shortfall and 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, are another example.

A lower ratio, between, say 1.25: 1 to 1.5:1 indicates housing is favored over jobs, 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, a healthy and diverse market probably exists (Meck, Schwab, and Retzlaff 2003).

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 for those expected to reside there. Then, determine whether a shortfall exists in any particular segment of the market. A local government may decide 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 50 and 80 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 and could suggest a change in the local government's housing strategy.

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 that would push up land prices for certain categories while underused land would lie 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 a particularly appropriate vehicle for a regional planning agency 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 by individual small local governments.

CHARACTERISTICS OF TECHNOLOGY AND BUSINESS PARKS

- A campus-style physical environment
- Mixture of ownership and management, ranging from government to private sector
- A frequent association with some form of university- or science-oriented establishment
- Low-density development with high-quality buildings
- Specific criteria for the eligibility of prospective tenants to ensure that all the activities within the park are compatible with each other

Source: Blakely and Bradshaw 2002, 233.

Method 6.2 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** to meet the specific needs of sought-after industries (ULI 1988, ch.7). 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 in some states, 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 risky. If the community fails to attract firms to the park, the land remains vacant and underused. The park could be locking up land more attractive as smaller parcels for various other uses. As with land and building purchase, site selection is very important. Furthermore, if an industrial park development merely pulls existing jobs from another part of the community or region, it will be ineffective in *creating* job growth.

The design and character of industrial and business parks can affect economic development by affecting quality of life. Industrial or business park development that is not mixed use goes against current planning goals of decreasing motor vehicle trips by increasing proximity among working, living, and shopping/entertainment options (ULI 1987). On the other hand, sometimes mixed-use development is not practical: for example, if tenant companies as a group have too many negative external impacts (e.g., noise, odors, etc.) or if the government deliberately wants to group similar enterprises together to create market efficiencies.

Method 6.3 Brownfields

A **brownfield** is an abandoned, idled, or underused industrial and commercial facility where expansion or redevelopment is complicated by 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).

The brownfield problem—a reluctance to purchase and develop already-developed sites due to the perception they may be polluted—exists to the degree 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., Sections 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 culpability in actually polluting it.

Nonetheless, brownfield sites are often located in areas 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.

Assessment. Brownfield redevelopment usually costs more than greenfield development 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, the government must conduct an environmental assessment. Until the assessment is completed, the full cost of making the site suitable for redevelopment may not be known. All these additional costs and delays have made brownfield redevelopment difficult.

Method 6.4 Land Assembly

Land assembly means the public sector acquires land and/or buildings, either on the open market or through eminent domain, or it makes use of land already under public ownership to promote economic development. 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.

If a public entity acquires a vacant building or one threatened with demolition, it can prevent the loss of economic momentum that results from seeing landmark buildings sit vacant or become vacant lots.

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, attracting employers who need large parcels of vacant land is difficult, 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 because 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 are important to the image of the city or a commercial area. If a public entity acquires a vacant building or one 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 rehabilitate 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 are even more so. The government must use discretion when choosing to acquire a property to not waste public investment on land or buildings employers will never want. On the other hand, the payoff can be significant if an employer is able to move to the city simply because a large piece of assembled property is made available.

STRATEGY 7. INFRASTRUCTURE PROVISION

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.

In their study of the Bellingham, Tacoma, Spokane, the Tri-Cities, and Wenatchee regions in Washington State, which have chosen a technology focus for their economic development efforts, Sommers and Heg (2003) 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.

The capital improvement program (CIP)—a five- to six-year schedule of capital improvement projects—is one of local government's most powerful tools for implementing a local comprehensive plan and supporting both commercial/industrial and residential growth.

Method 7.1 Capital Improvement Programming and Funding

The capital improvement program (CIP)—a five- to six-year schedule of capital improvement projects—is one of 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 along with schedules and tables showing revenue sources and expenditures by year. Capital improvements include major nonrecurring 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.

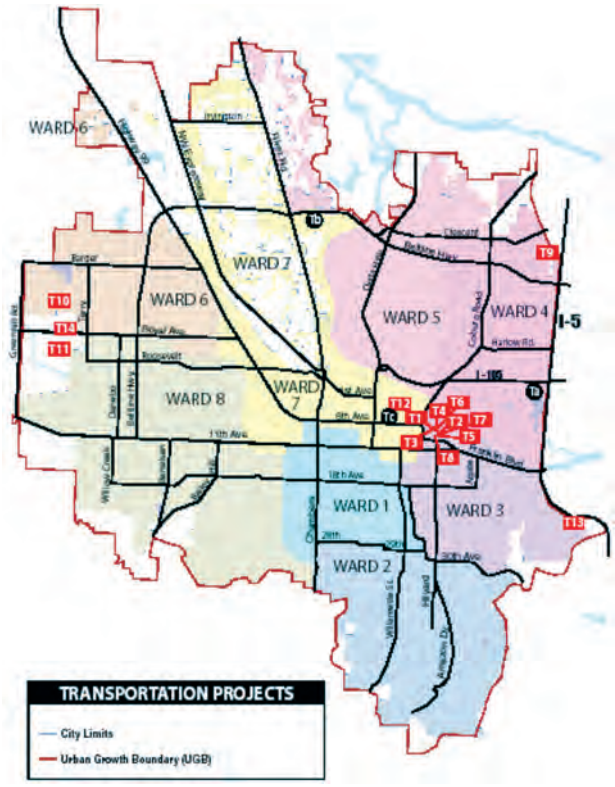
The local government's chief administrative officer (mayor or city manager) or another designated official begins the CIP process about six months before the document needs to be adopted. The budget office prepares a revenue forecast, and municipal departments are asked to submit projects to be evaluated, 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 the capital budget when it is adopted by ordinance, along with the operating budget by the legislative body. Once the capital budget has been adopted, 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 4-2 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.

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

FIGURE 4-2: TRANSPORTATION PROJECTS, 2004-2009, EUGENE, OREGON



City of Eugene, Oregon, Capital Improvements Plan

Transportation

Table of Funded Projects
(Figures in $1000s)

	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	8575	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							
3rd-4th Connector	120	1,451					1,571
5th Avenue, Mill Street Intersection Improvements				1,810			1,810
Broadway, Mill to Hilyard Modifications					1,190		1,190
Perry Street, 5th to Broadway					400	400	
Judidra Point Interchange/Glenwood Avenue	250						250
Neighborhood Traffic Calming	30	30	30	30	30	30	180
Priority Bikeways	300	300	300	300	300	300	1,800
Royal Avenue, 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 and Collectors)	60	60	60	60	60	60	360
Street Lighting (Residential)	30	30	30	30	30	30	180
Street Tree Stocking and 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
5th Avenue, Perry to Hilyard				1,215			1,215
5th Avenue, Mill to Perry	810						810
Subtotal	**2,265**	**2,536**	**3,295**	**4,110**	**2,675**	**1,085**	**15,956**
New Capital Facilities							
5th Avenue, Perry to Broadway	1,318				1,318		
5th Avenue, High to Perry	437						437
Chad Drive to Extension	1,112						1,112
Perry Street, 6th to 8th	400						400
Legacy Extension, Avalon to Royal Avenue		262	263	823	824		2,172
Roosevel 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**	**12,040**	**14,680**	**14,174**	**12,718**	**11,120**	**78,205**

is likely to be more effective in influencing an *intraregional* location decision or a specific site decision—that is, in steering development within a region or city—than in affecting *interregional* 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 CIP 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 give strong notice to the private market about the local government's commitment and competence.

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

"Quality of life" is a term used to describe various, sometimes intangible factors that make a community attractive to live. A quality-of-life strategy assumes government or some type of public/ private partnership is able to have a significant influence on these factors and improve them over time. In theory then, new businesses will be attracted to communities with the most appropriate combination of factors, and existing businesses will expand for the same reason. Figure 4-3 provides a summary of these factors, as suggested by readers of *Money* magazine.

Yet despite the availability of easily identified factors, no universal agreement exists about which factors are important, 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 (Myers 1998). The first, a **livability comparison**, emphasizes ranking places based upon composites of objective indicators. The definition focuses on "urban livability," the quality of

FIGURE 4-3. 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: Smith and Nance–Nash 1993, cited in Segedy 1997.

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 Myers describes is measuring **wage differentials**. Places with a less favorable quality of life or higher cost of living will have to offer higher wages to attract workers.

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 largely beyond governmental control.

Of the three approaches, the one that is best known is the livability approach, which is featured in such publications as *The Places Rated Almanac*. Myers observes that livability measurements allow users to make comparisons between cities, particularly for the purpose of competing for new firms, but these measurements 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." He 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, regional growth, and appropriate economic development strategies would be complete without mentioning Richard Florida's theory of economic development. This theory bears directly on a community's desire to see growth in higher-than-average paying jobs, especially in high-technology sectors. He argues that regional economic growth is linked to the presence of creative people who prefer places that are diverse, tolerant, and open to new ideas:

> 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. (Florida 2004, 249)

No contemporary discussion of the relationship between quality of life, regional growth, and appropriate economic development strategies would be complete without mentioning Richard Florida's theory of economic development.

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 their Brookings Institution monograph on the relationship between diversity and high-technology growth, which summarizes the research work, Florida and Gates (2001) use statistical analysis to show the relationship between diversity and high-technology growth. The study looked at the top 50 metropolitan areas.

Florida and Gates constructed three indices and a composite index to determine this relationship:

1. A gay index, which measures the over- or under-representation of gay male couples in a metropolitan area relative to the population

2. A "bohemian" index, which measures the over- or under-representation of artists (writers, designers, actors, directors, painters, sculptors, photographers, and dancers) and musicians in the metropolitan area

3. A foreign-born index, which is the percentage of those within a metropolitan area who were not born in the United States or its territories

4. A composite diversity index, which is the sum of the rankings of the individual diversity measures.

Using regression analysis, the Florida/Gates study found that the leading indicator of a metropolitan area's high-technology business success is a large gay population. Similarly, large concentrations of bohemians and the foreign born are also related to high-technology business success. Indeed, 11 metropolitan areas with the highest levels of overall diversity (based on gays, bohemians, and foreign-born people) were among the top 15 high-technology areas. San Francisco, Boston, Seattle, and Washington, D.C., were the top four high-tech regions and ranked in the top six regions on the composite diversity index.

"The bottom line of our analysis," Florida and Gates (2001, 8) wrote, "is basic: tolerance and diversity clearly matter to high-technology concentration and growth." Anticipating the obvious criticism that the presence of gays and bohemians cause regions to grow, they state: "We do not mean to imply that these results prove that a large gay population or concentration of bohemians causes the development of a technology industry; the theory is that people in the technology businesses are drawn to places known for diversity of thought and open-mindedness, and that our measures potentially get at a broader concept of diversity and inclusiveness."

Still, while problems of distinction exist, the livability comparison Myers identifies, which highlights the shared objective characteristics of communities using secondary data is probably the most popular and can be applied for attracting firms and workers.

Assessment. 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 the factors government can address from those arising from an individual's satisfaction with his/her situation in life. Still, while problems of distinction exist, the livability comparison Myers identifies, which highlights the shared objective characteristics of communities by using secondary data is probably the most popular and can be applied for attracting firms and workers. The livability comparison approach allows local governments to look at what other communities are doing that lead to seeing them ranked "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 (2004, 293), 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."

This concept does not fit easily into conventional economic development or city planning. It does imply, however, that such planning should work to create vibrant communities with rich ethnic, educational, cultural, and lifestyle environments, and opportunities for human interaction. "Cities and regions," Florida (2004, 302) 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."

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 organizational capacity of the local government and potential partners. Here are some questions that local 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?
- How stable or accessible is the funding?
- Who is to implement the strategy?
- 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 (e.g., 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 are mutually exclusive, duplicative, or negating?
- What strategies clearly have lower priorities? (WEDI 2003, 20)

This chapter has discussed eight categories of strategies. There are several different ways the strategies could be categorized. Tables 4-1 and 4-2 give an example of one alternative. For these summary tables, the strategies are grouped into not only "direct" vs. "indirect" assistance, but also "projects" vs. "programs and policies." The tables are illustrative, not comprehensive.

TABLE 4-1. DIRECT ECONOMIC DEVELOPMENT STRATEGIES

1. Direct Business Assistance

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-creation 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 underused 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 or provide technical assistance • Small businesses do not lead to employment and tax base growth immediately

2. Direct Business Programs and Policies

Programs and Policies	Location Factor Addressed	Pros	Cons

• Financial incentives; grants and loals, 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 capitalize 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, knowledgable staff

Source: ECONorthwest

TABLE 4-2 . INDIRECT ECONOMIC DEVELOPMENT STRATEGIES

1. Indirect Business Assistance

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

2. Indirect Business Programs and Policies

Projects	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 work-force 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 4-3 shows an excerpt of an economic development strategy formulated by Washington County, Utah, to be consistent with its statement of core economic values (see above, p. 38).

TABLE 4-3 . EXCERPT FROM WASHINGTON COUNTY, UTAH, STRATEGIC PLAN

1. Retain and Expand Business

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

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

APPENDIX A

Using Economic Base and Shift-Share Analyses to Analyze the Regional Economy

This appendix describes simple methods for analyzing the regional economy with economic base analysis and shift-and-share analysis.

Economic Base Analysis

Economic base analysis measures the extent to which the local or regional economy is exporting goods and services to the rest of the world. The underlying theory is that the more goods and services are exported, the more the local or regional economy will grow.

A simple way of analyzing the economic base is to use location quotients. The formula below shows what a location quotient looks like.

Regional location quotient for an employment sector =
(*Regional* employment in the sector ÷ Total regional employment in *all sectors*) ÷
(*National* employment in the sector ÷ Total national employment in *all sectors*)

Example:
Assume the following data for a hypothetical region:

(a) Total national employment = 66,713,000

(b) Total national employment for electrical equipment manufacturing = 1,943,300

(c) Total local employment = 328,580

(d) Total local employment for electrical equipment manufacturing = 28,080.

Insert the data above into the equation above:
(28,080 ÷ 328,580) ÷ (1,943,300 ÷ 66,713,000) = 2.9338

A number of 1.0 or greater suggests the particular industrial category is an export or basic industry. Here the calculations would indicate electrical equipment manufacturing is a very strong exporter in this particular region; its location quotient is 2.9. An analyst should track the changes in the ratio over time. If the ratio drops, it indicates some type of weakness in the export-oriented nature of the business within the region.

An alternative way of using a location quotient gives actual numbers of basic and non-basic industries using the following formula:

X_i ÷Total local employment =
National employment in industry *i* ÷ Total national employment

This assumes the relationship of national employment in an industry to total national employment is the same as the relationship of local employment in an industry (X_i) to total local employment.

Solving for X_i identifies the number of employees that industry i would need in order to serve local needs. Assuming that local residents have the same demand patterns that prevail at the national level, any employment in excess of X_i is assigned to the export sectors.

X_i ÷ 328,580 = 1,943,300 ÷ 66,713,000

Solve for X_i as follows:

$66{,}713{,}000 \times X_i = 1{,}943{,}300 \times 328{,}580 = 638{,}548{,}514{,}000$

$X_i = 638{,}548{,}514{,}000 \div 66{,}713{,}000 = 9{,}571$

which is the theoretical number of employees who are engaged in local-serving activity.

To determine the amount of employment in electrical equipment and supplies that is basic or export-oriented:

28,080 - 9,571 = 18,509

Thus, of the jobs in the electrical equipment category (28,080), 65.9 percent are export-oriented, and the remainder, 34.1 percent, are local-serving, or at least in proportion to national ratios.

Shift- Share Analysis

Shift-share analysis (or shift-and-share analysis) is a technique used to identify and explain regional departures from national growth rates by comparing regional and national growth rates among specific industrial sectors. It may also be used to project economic activity. In explaining differentials among regions, shift-share analysis breaks down the total amount of change, whether positive or negative, as measured either by an industry's income or employment, into three components, which, when added together, represent the total change in a particular industry (industry *i*) for a region.

The first component is the *national share*, which reflects the influence that the overall growth or decline of the national economy has on a region's industry.

The second component is *the industrial mix*. Also known as the "proportionality shift," this component identifies the influence an industry's national growth rate has on a region's economy.

The third component is the *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.

Here are the equations for shift-and-share analysis:

National share of an industry *i*'s employment in region at time t = ((Change in total national employment between time t and time t–n) ÷ (National employment time t-n)) × (Employment in industry *i* for region at time t-n.)

Industrial mix component for industry *i* in region at time t = (((Change in total national employment for industry *i* between time t and time t–n) ÷ (National employment for industry *i* at time t-n)) – ((Change in total national employment between time t and time t-n) ÷ (Total national employment at time t-n))) × (Employment in industry *i* for the region at time t-n)

Regional share of industry *i* at time t = (((Change in total regional employment for industry *i* between time t and time t-n) ÷ (Employment in industry *i* for region at time t-n)) – ((Change in total national employment for industry *i* between time t and time t – n) ÷ (National employment for industry *i* time t-n))) × (Employment in industry *i* for region at time t-n)

Example:

Assume the following hypothetical region:

Total national employment in 1000s for year t = 74,224

Total national employment in 1000s for year t-n = 66,713

Total national employment in 1000s in trucking and warehousing for year t = 1,126.4

Total national employment in trucking and warehousing for year t-n (in thousands) = 1,020.4

Total regional employment in trucking and warehousing for year t = 3,621

Total regional employment in trucking and warehousing for the region for year t-n = 2,976

Place the figures in the formula

National share = ((74,225 – 66,713) ÷ (66,713)) × (2,976) = 335

Industrial mix = (((1,126.4 – 1,020.4) ÷ (1,020.4)) – ((74,225 – 66,713) ÷ (66,713))) × (2,976) = –26

Regional share = (((3,621 – 2,976) ÷ (2,976)) – ((1,126.4 – 1,020.4) ÷ (1,020.4))) × (2,976) = 336

Total change = 335 + (-26) + 336 = 645

These data indicate, of the total change of 645 employees, 335 changed due to the overall growth in the national economy and 336 due to a set of unique regional factors. However, the particular industrial sector, trucking and warehousing, was not growing nationally during the analysis period; hence, the negative (-26) number. Again, these figures could be tracked over time to determine how the various shares are changing proportionally.

Sources: The examples in this appendix have been adapted, in part, from Meck 1976; Klosterman 1990, chaps. 9-13; and Krueckeberg and Silvers 1974, chap. 12.

APPENDIX B

Model Economic Development Element From the American Planning Association's *Growing Smart℠ Legislative Guidebook*

[*Editor's Note*: Bracketed citations refer to other parts of the *Legislative Guidebook*.]

7-208 ECONOMIC DEVELOPMENT ELEMENT

(1) An economic development element shall be included in the local comprehensive plan, except as provided in Section [7-202(5)] above.

(2) The purposes of the economic development element are to:

(a) coordinate local economic development initiatives with those of the state through its state economic development plan prepared pursuant to Section [4-206] and other state initiatives;

(b) ensure that adequate economic development opportunities are available in order to provide a heightened quality of life and to enhance prosperity;

(c) relate 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, including its historic, cultural, and scenic resources;

(d) assess the local government's strengths and weaknesses with respect to attracting and retaining business and industry; and

(e) define the local government's role in encouraging job retention and growth and economic prosperity, particularly in relation to the availability of adequate housing for employees of existing and potential future businesses, industries, and institutions within its jurisdiction, transportation, broadening of job opportunities, stimulating private investment, and balancing regional economies.

(3) In preparing the economic development element, the local planning agency shall undertake supporting studies. In undertaking these studies, the local planning agency may use studies conducted by others, such as those conducted in preparation of the state economic development plan or any regional plan. The supporting studies may concern, but shall not be limited to, the following:

(a) job composition and growth or decline by industry sector on a national, statewide, or regional basis, including an identification of categories of commercial, industrial and institutional activities that could reasonably be expected to locate within the local government's jurisdiction. This shall include any studies and analyses of trends and projections of economic activity made as part of the land-use element pursuant to Section [7-204(5)(b)];

(b) existing labor force characteristics and future labor force requirements of existing and potential commercial and industrial enterprises and institutions in the state and the region in which the local government is located;

(c) assessments of the locational characteristics of the local government and the region in which it is located with respect to access to transportation to markets for its goods and services, and its natural, technological, educational, and human resources;

(d) assessments of relevant historic, cultural, and scenic resources and their relation to economic development;

(e) patterns of private investment or disinvestment in plants and capital equipment within the jurisdiction of the local government;

(f) patterns of unemployment in the local government and the region in which it is located;

(g) surveys of owners or operators of commercial and industrial enterprises and institutions within the local government's jurisdiction with respect to factors listed in subparagraphs (a) to (e) above. This shall also include an identification of the types of sites and supporting services for such sites that are likely to be needed by such enterprises and institutions that might locate or expand within the local government's jurisdiction;

(h) inventories of commercial, industrial, and institutional lands within the local government that are vacant or significantly underused. Such inventories may identify the size of such sites, public services and facilities available to it, and any site constraints, such as floodplains, steep slopes, or weak foundation soils. In conducting such an inventory, the local government shall utilize the existing land-use inventory prepared pursuant to Section [7-204(5)(f)] above. This inventory shall also identify any environmentally contaminated sites that have the potential for redevelopment for commercial and industrial uses once such contamination has been removed;

(i) assessments of organizational issues within the local government for encouraging economic development and the roles and responsibilities of other organizations that are involved in economic development efforts within the local government's jurisdiction and/or the region in which it is located, including the potential for cooperative efforts with other local governments;

(j) the adequacy of the existing and projected housing stock within the local government's jurisdiction for employees of existing and potential future commercial and industrial enterprises and institutions within its jurisdiction;

(k) assessments of regulations and permitting procedures imposed by the local government on commercial and industrial enterprises and institutions and their effects on the costs of doing business as well as their effect on the attraction and retention of jobs and firms; and

(l) opinions of the public, through surveys, public hearings, and other means, as to the appropriate role of the local government in economic development and desired types of economic development. Such opinions may also be obtained through the process of preparing the issues and opportunities element pursuant to Section [7-203] above.

(4) Based on the studies undertaken pursuant to paragraph (3) above, the economic development element shall contain a statement, with supporting analysis, of the economic development goals, policies, and guidelines of the local government. This shall include:

(a) a definition of the local government's role and responsibilities as a participant in the development of its region's economy;

(b) an identification of categories or particular types of commercial, industrial, and institutional uses desired by the local government; and

(c) a commitment to designate an adequate number of sites of suitable sizes, types, and locations and to ensure necessary community facilities through the community facilities element of the local comprehensive plan.

The economic development element may also include goals, policies, and guidelines to maintain existing categories, types, or levels of commercial, industrial, and institutional uses.

(5) The economic development element shall contain actions to be incorporated into the long-range program of implementation required by Section [7-211] below. These actions may include, but shall not be limited to, proposals for:

(a) rezoning of an adequate number of sites for commercial, industrial, and institutional uses during the 20-year planning period;

(b) reuse of environmentally contaminated sites for commercial and industrial activities through [*cite to state statute authorizing brownfields redevelopment*];

(c) capital projects of transportation and community facilities to service designated sites for commercial, industrial, and institutional activities;

(d) creation of or changes in job training programs;

(e) use of economic development incentives authorized by state law such as [tax abatement, industrial development bonds, tax increment financing, and urban renewal] and grant and loan programs that use local, state, or federal monies;

(f) creation of a joint economic development zone pursuant to Section [14-201] below;

(g) amendments to land development regulations that affect commercial, industrial, and institutional uses and other changes in administrative and permitting processes of the local government to facilitate economic development;

(h) programs of monitoring the needs of existing businesses and institutions to ensure their retention;

(i) design guidelines for commercial, industrial, and institutional areas;

(j) creation of new or continuation and enhancement of existing economic development organization(s), such as a chamber of commerce, community development corporation, tourism bureau, or community improvement corporation; and

(k) public information programs to market the economic development potential of the local government.

Source: Meck 2002, pp. 131-34.

APPENDIX C

An Economic Development Checklist

This *PAS Report* builds from work done by the authors to develop a guidebook for Envision Utah. The full guidebook can be found at:

www.envisionutah.org/plans.phtml?type=toolboxes
(accessed October 6, 2006).

Appendix E of that guidebook is called "Economic Development Readiness Evaluation Tool and Feedback." The tool was designed by Barry L. Bartlett, Director, Best Practices Institute of Utah. It is based on the structure for thinking about economic development that is developed in this *PAS Report*. The evaluation tool is also contained, in a slightly different version, in:

www.envisionutah.org/projectsfiles/24/PART%201%20-%20Executive%20Summary.pdf

Those two documents describe the tool, but we think that the spreadsheet that implements the tool is easier to understand. We show an example of the spreadsheet on the next three pages. In summary, it:

- Asks local planners 15 questions about their jurisdiction. The questions are in the three major categories of development factors that this *PAS Report* uses: (1) direct input factors; (2) factors directly affecting input costs and output revenues; and (3) factors indirectly affecting input costs. For each of the 15 factors, a local planner must score from poor/little to perfect/a lot (1 to 9). Filling out those 15 scores is all a local planner has to do; everything else is mechanical and done by the spreadsheet.

- Consolidates those scores into three summary reports: (1) Job and Firm General Factors; (2) System Inventory: Resources, People, Organizations, and Capabilities; and (3) Regional Planning and Governance Issues. The summaries use different combinations of the scores on the 15 questions (previous bullet) to give a numeric assessment of performance in several categories of concerns for each summary report. The first summary report (Job and Firm) is just a straight compilation of the 15 questions under the three factor headings. The other two reports use different measures. The following table shows how the 15 questions are used to create measures in the three reports (shaded cells show which of the 15 questions were used to create each of the 11 report categories (3 + 5 + 3 = 11).

Report Title & Sub-Category Titles *Item#:*	1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	Totals	/ #	Avg. Scores
Jobs & Firms General Factors																		
1-Direct input factors																	5	
2-Factors directly affecting input costs, revs.																	4	
3-Indirect input cost factors																	6	
Number of times item used:	1	1	1	1	1	1	1	1	1	1	1	1	1	1	1		3	
System Inventory: Resources, People, Organizations & Capabilities																		
1-Baseline Economic Resources																	5	
2-Community & Civic Organizations																	5	
3-Economic Development Capacity																	6	
4-Environmental Issues, Plans & Vision																	6	
5-Human Resources & Leadership																	8	
Number of times item used:	2	2	2	2	3	2	2	2	2	1	1	2	2	2	3		5	
Regional Planning & Governance Issues																		
1-Building sense, scope & need for region idea																	8	
2-Creating regional vision																	5	
3-Developing preservation, restoration, change																	6	
Number of times item used:	1	1	1	1	1	1	3	2	1	1	1	1	1	2	1		3	

Envision Utah: Economic Development Readiness Assessment Survey

Instructions: For each item, please indicate the *level of capacity and capability* you feel your community/area has in place right now to meet the standard indicated. Use the numerical indicators at the right (you can think of the numbers as percentages, **1**=11%, **2**=22%, etc):	Answers can range from **1-3** (low), **4-6** (medium), to **7-9** (high). Select one answer per each item.

Land and Buildings

1. **We have sufficient and appropriate types of land, buildings, and capital available to sustain the level of increased economic development we desire over the next 10 years.**	8-High, very well develo
2. **There are programs and services now in place appropriate to incent/support the rezoning, sale, and development of land tracts and buildings in our area to reach our economic development goals.**	7-High, pretty good sha

Labor

3. **There are sufficient amounts of (and incentives for) available labor, training mechanisms for, and data on workforce needs to meet current and future labor force requirements.**	6-Med., over half of nee
4. **There is a regional workforce plan available to coordinate available resources and help develop additional resources to ensure adequate worker availability to reach our goals.**	5-Med., about half of ne

Natural Resources

5. **Our community is actively engaged in preserving and regulating its critical natural resources.**	9-High, top 10% nation

Location Relative to Supplies and Markets

6. **Transportation systems are adequate to meet current and expected future growth.**	3-Low, some, very basic
7. **There is a comprehensive transportation plan available to coordinate future development.**	4-Med., under half of ne

Infrastructure and Utilities

8. **The community has enough critical infrastructure systems and services for existing and near-term future development requirements, as well as the means to develop expansion.**	5-Med., about half of ne
9. **There are comprehensive, up-to-date infrastructure development plans in place.**	2-Low, a little, not much

Amenity and Other Quality-of-Life Factors

10. **Our area has an adequate supply of housing and personal lifestyle support services.**	7-High, pretty good sha
11. **Our area has high-quality education, cultural, recreation, and business services.**	4-Med., under half of ne

Government Policies, Regulation, and Leadership

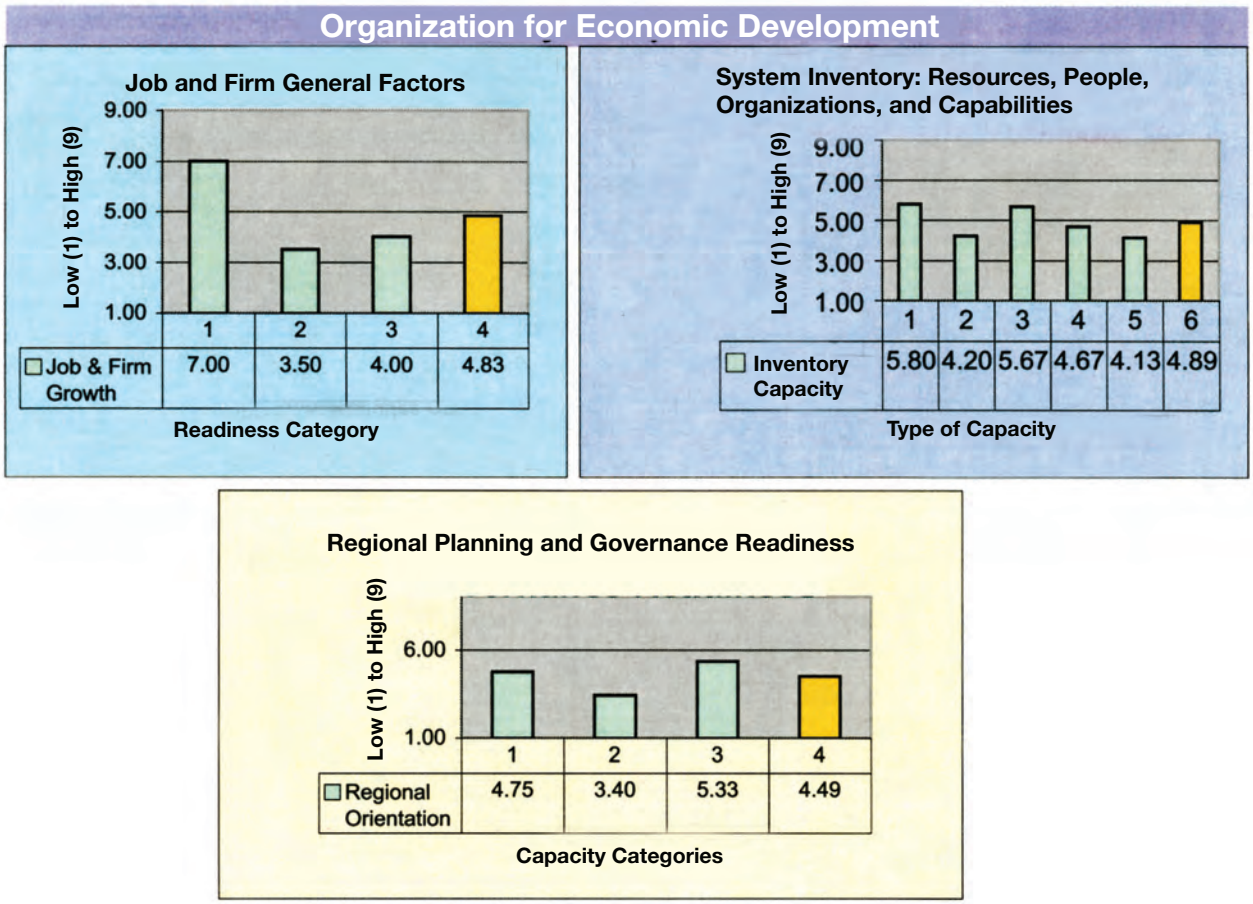
12. **Local governments have updated comprehensive plans integrated to our development goals.**	5-Med., about half of ne
13. **Our government institutions have the professional staff, local ordinances, administrative procedures, and political ability in place to support land development to reach our goals.**	5-Med., about half of ne

Organization for Economic Development

14. **Our area has highly qualified economic development professionals, programs, and agencies.** — 2-Low, a little, not much

15. **We have completely integrated economic development plans for business retention, targeted attraction, cluster and local growth, and effective plan monitoring and implementation.** — 1-Low, almost none, litt

Analysis Reports	Average Score	Percentage	Comments and Recommendations
1 Direct input factors	7.00	77.8%	Excellent. Work to sustain and increase those capabilities and programs now in place.
2 Factors directly affecting input costs and output revenues	3.50	38.9%	Consider additional factor improvement strategies. Focus on planning issues for fastest improvement.
3 Indirect input cost factors	4.00	44.4%	Good progress. Consider programs, ordinances, and planning strategies for sustained progress.
TOTAL AVERAGE SCORE	**4.83**	**53.7%**	Good progress. Consider additional long-term plans and resource development for sustained progress.
System Inventory: Resources, People, Organizations, and Capabilities			
1 Baseline Economic Resources	5.80	64.4%	Good progress. Review other long-term baseline strategies and programs for further improvement.
2 Community and Civic Organizations	4.20	46.7%	Good progress. Consider additional long-term people and civic program development options.
3 Economic Development Capacity	5.67	63.0%	Good progress. Consider more long-term strategies for further economic development growth, progress.
4 Environmental Issues, Plans and Vision	4.67	51.9%	Good progress. Additional planning, program development will usually help make improvements.
5 Human Resources and Leadership	4.13	45.8%	Making progress. Consider leadership recruitment, development and training for further improvement.
TOTAL AVERAGE SCORE	**4.89**	**54.4%**	Inventory looks fairly good. Review several more strategies for further progress. Focus on planning.
Regional Planning and Governance Issues			
1 Building sense, scope and need for regional area concept	4.75	52.8%	Good progress. Consider additional long-term, area-wide plans and programs for more improvement.
2 Creating regional vision	3.40	37.8%	Regional vision is very challenging. Look at area-wide needs, benefits, possibilities, and strategies.
3 Developing preservation, restoration and change strategies	5.33	59.3%	Good work so far. Regional strategies are often hard to develop, but worth the effort. Keep going.
TOTAL AVERAGE SCORE	**4.49**	**49.9%**	Regional economic development requires lots of cooperation. Keep building on your successes.


Organization for Economic Development
Job and Firm General Factors
Low (1) to High (9)
9.00
7.00
5.00
3.00
1.00
1
2
3
4
Job & Firm Growth
7.00
3.50
4.00
4.83
Readiness Category
System Inventory: Resources, People, Organizations, and Capabilities
Low (1) to High (9)
9.00
7.00
5.00
3.00
1.00
1
2
3
4
5
6
Inventory Capacity
5.80
4.20
5.67
4.67
4.13
4.89
Type of Capacity
Regional Planning and Governance Readiness
Low (1) to High (9)
6.00
1.00
1
2
3
4
Regional Orientation
4.75
3.40
5.33
4.49
Capacity Categories

APPENDIX D

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APPENDIX E

Glossary

[*Editor's note:* The following definitions are taken from *A Planners Dictionary*, PAS Report Nos. 521/522, edited by Michael Davidson and Fay Dolnick. Please consult that resource for other planning- and economic development-related terms and definitions. If the dictionary based its definition on a government document, the jurisdiction that was the source of the definition is shown in parentheses at the end of the definition.]

basic activities (*see* ***economic base theory***)

benefit-cost analysis: A form of project analysis in which the future benefits and the future costs of alternative projects in economic terms are discounted to a present value and ratios computed in order to compare different alternatives.

brownfield: A site which has remained un- or underused due to real or perceived environmental contamination; often a site of previous industrial use. (Washtenaw County, Mich.)

business improvement district: A special assessment district in which property owners agree to have an additional charge placed on their tax bill in order to fund special activities such as capital improvements or business promotion. (Milwaukee, Wisc.)

business incubator: A facility dedicated to the start-up and growth of small businesses, accomplished through management and facility support systems. For purposes of this definition, management support systems include access to professional advice, information on small business regulations, management, advertising, promotion, marketing, sales, inventory, employees, labor relations, and financial counseling. Facility support systems include clerical and reception staff, cleaning and building security, and access to copy and facsimile machines, computers, faxes, and other electronic equipment. (Galesburg, Ill.)

cluster: A geographically critical mass of companies that have some type of relationship to each other—generally in product, process, or resource. Such a critical mass attracts supportive suppliers and services. (National Governors Association)

comprehensive plan: The adopted official statement of a legislative body of a local government that sets forth (in words, maps, illustrations, and/or tables) goals policies, and guidelines intended to direct the present and future physical, social, and economic development that occurs within its planning jurisdiction and that includes a unified physical design for the public and private development of land and water. (American Planning Association)

cost-revenue analysis: Also known as fiscal impact analysis, a form of analysis used to determine whether developments will generate enough taxes and other related general revenues to pay for the added public services they require.

economic base theory: A theory holding that the structure of the economy is made up of two broad classes of productive effort: basic activities that produce and distribute goods and services for export to firms and individuals outside a defined localized economic area, and nonbasic activities whose goods and services are consumed at home within the boundaries of the local economic area. Basic activity exports goods and services and brings new dollars into the area; nonbasic activity recirculates dollars within the area.

goal: A desired state of affairs to which planned effort is directed. (American Planning Association)

guideline: An agency statement or a declaration of policy that the agency intends to follow, which does not have the force or effect of law and that binds the agency but does not bind any other person. (American Planning Association)

infrastructure: Those facilities and services needed to sustain industry, residential, commercial, and all other land-use activities, including water, sewer lines, and other utilities, streets and roads, communications, and public facilities such as fire stations, parks, schools, etc. (Redmond, Wash.)

input-output analysis: A form of analysis that 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 of a dollar of new spending within one industry on the income (or employment) of other industries with which it trades goods and services.

jobs/housing balance: A ratio between the expected creation of jobs in a region or local government and the need for housing. The higher the jobs/housing ratio, the more the region or local government is generating jobs in comparison with housing, and is thereby exporting the need to create new housing units to other regions or other local governments. (American Planning Association)

linkage (*see also* ***jobs/housing balance***): With respect to jobs/housing balance, a program designed to offset the impact of employment on housing need within a community, whereby project approval is conditioned on the provision of housing units or the payment of an equivalent in lieu fee. The linkage program must establish the cause-and-effect relationship between a new commercial or industrial development and the increased demand for housing. (California Planning Roundtable)

location quotient: A technique used in economic base analysis that measures the concentration of industry in a geographic area relative to a larger area. 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 simply a ratio of ratios: 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 1.0 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 1.0 indicate that the industry is less represented in the smaller area than it is in the larger area.

market-share analysis: A type of analysis in which the local government's share of a larger regional market for certain goods and services is tracked over time to determine whether it is growing, declining, or remaining stable.

multiplier: The effect of a dollar of new spending within one industry on the income (or employment) of other industries with which it trades goods and services.

non-basic activity (*see* ***economic base theory***)

policy: A general rule for action focused on a specific issues, derived from more general goals. (American Planning Association)

retail market analysis: A technique for 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 and identifying which types of retail are likely to be most in demand or least in demand.

shift-share analysis: An analytical technique used to identify regional departures from national industrial growth rates and to compare and contrast growth rates among industrial sectors.

tax increment financing (TIF): A tool used by local governments to finance certain types of public improvements. The public purposes of TIF are the redevelopment of blighted areas, construction of low- and moderate-income housing, provision of employment opportunities, and improvement of the tax base. With TIF, a local government captures the additional property taxes generated by the development that would have gone to other taxing jurisdictions and uses the "tax increments" to finance the public improvements related to the development project.

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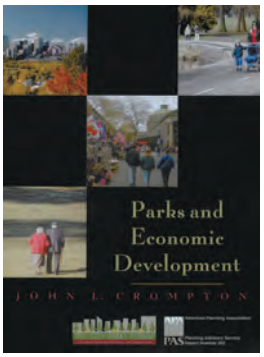

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PAS 516. Jerry Weitz. 2003. 41 pp.

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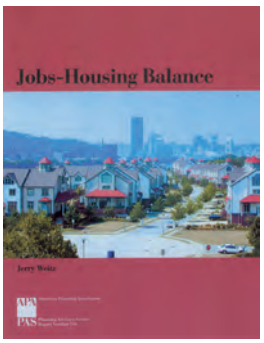

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Matthew R. Cuddy and Douglas R. Porter. 2006. (APA Planning Advisory Service.) 48 pp.

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