EDJ
THE IEDC
# Economic Development Journal

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## Realizing the Inner City Retail Opportunity: Progress and New Directions
*An Analysis of Retail Markets in America's Inner Cities*

## Strategic Execution in Economic Development
*Getting the Results You Want*

## Can We Have a High-End Retail Department Store?
*How to Tell if Your Region Is Ready*

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## Building Innovative Communities
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*Preparing for an Industrial Location Project in Enterprise, Alabama*

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*Ronnie L Bryant, CEcD, FM*
*IEDC Chair*

# dear colleague

I am excited and honored to become IEDC's newly elected chair. This is a distinct privilege and opportunity to serve as chair of this great organization.

My responsibilities will be challenging and simultaneously rewarding in helping to maintain the organization as the premier association for economic developers. I am especially enthusiastic about working with IEDC's outstanding staff and all the Board members to further the goals of providing quality services to our members and advancing the profession of economic development.

Our new vice chairs of the Board's Governance Committee include *Robin Roberts, FM* (vice chair of the Board), Executive Vice President, Greater Oklahoma City Chamber of Commerce, Oklahoma City, OK and *Dennis G. Coleman, FM* (planning and business development), President & CEO, St. Louis County Economic Council, St. Louis, MO.

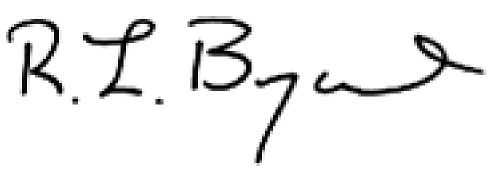
Other new vice chairs are *Michael K. Kirchhoff, CEcD* (performance oversight and monitoring), Vice President of Business Retention & Recruitment, EDC of Kansas City, Kansas City, MO and *Gail Lewis* (external/member relations), Assistant Director for Policy and Governmental Affairs, Arizona Department of Transportation, Phoenix, AZ. The new secretary/treasurer is *Ian Bromley*, Director, Infrastructure & Innovation Branch, Creative Sheffield, Sheffield, United Kingdom. Immediate Past Chair *Joseph A. Marinucci, FM*, President & CEO, Downtown Cleveland Alliance, also serves on the Governance Committee.

All of these individuals will be providing their special strengths to the Board in guiding IEDC into the future. The staff and Board are committed to maintaining the ongoing level of success that we have experienced. We hope these efforts are apparent to the membership.

I particularly want to call your attention to our new ED Research Partners Program, under the chairmanship of Kurt Chilcott and Rick Weddle. The program is designed to bring together the best minds in economic development to identify cutting-edge trends and emerging issues in ED. Twice a year, this group will meet to discuss, research, and develop existing and future IEDC programs. This forward-looking group will have an opportunity to participate in a think-tank environment that will enhance, develop, and fund a particular area of interest to it.

Be sure to mark your calendars for our 2007 Annual Conference on September 16-19 in Phoenix, Arizona. This year's conference will showcase the theme "Economic Development in the 21st Century: New Leadership, New Models." It promises to be the economic development event of 2007.

I look forward to seeing many of you in the coming months at IEDC events.



Ronnie L. Bryant, CEcD, FM
IEDC Chair

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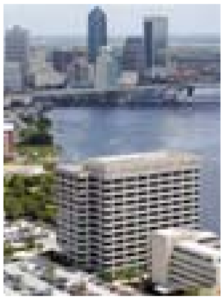

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# realizing the inner city

## RETAIL OPPORTUNITY: PROGRESS AND NEW DIRECTIONS

*By Deirdre M. Coyle, Jr.*

The Initiative for a Competitive Inner City (ICIC) was founded in 1994 by Harvard Business School Professor Michael Porter, an expert in international competition. The motivating idea behind ICIC was the recognition that the market economy had bypassed inner city neighborhoods. Bringing inner cities back into the economic mainstream would create jobs and other economic opportunities for inner city residents. Jobs and opportunities for wealth creation, in turn, would be more effective in improving the long-term quality of life of inner city residents than well-intended but short-term government welfare programs.


*Payless and Champs*

ICIC's approach has been to identify business opportunities in inner cities, particularly how certain types of businesses benefit from the competitive advantages that an inner city location affords. Certainly, not all businesses benefit from an inner city address. On the other hand, businesses that are strengthened by the inner city's competitive advantages – proximity to downtowns, a large, available workforce, ability to connect with dominant regional industry clusters, and an untapped consumer market – will prosper. ICIC's work has focused on researching inner city business opportunities, and then bringing attention to these opportunities through consulting activities with cities and focused conferences.

ICIC's most recent effort, the subject of this article, is a study of the large, underserved inner city retail market. As will be shown, the inner city retail market offers significant profit potential for retail companies now operating in the highly competitive, over-saturated suburban markets. While inner city markets hold extraordinary opportunities for retailers and retail real estate developers, making inner city retail markets more vibrant benefits the community more directly than perhaps any other segment of the inner city economy. In a competitive retail environment, goods and services are readily available at reasonable prices. Retail establishments provide jobs and economic opportunities for inner city residents, and by their investment in the community's physical environment, serve as catalysts for additional development and property improvements.

### DEFINITIONS AND RESEARCH APPROACH

***ICIC defines the inner city as follows:***

Inner cities are core urban areas with higher unemployment and poverty rates and lower median income levels than the surrounding

**Deirdre M. Coyle, Jr.** is the Senior Vice President of the Initiative for a Competitive Inner City. She has worked with ICIC for the past eight years and is an authority on market-led inner city economic development and marketing the inner city as a place to do business.

**AN ANALYSIS OF RETAIL MARKETS IN AMERICA'S INNER CITIES**

*Inner city retail markets in the 100 largest U.S. cities continue to be underserved. A supply gap of approximately $40 billion exists, a level that has remained approximately the same for the past decade. Yet, total numbers disguise the fact that national retailers during that period have begun to recognize and explore opportunities in inner city markets. Several cities have made considerable progress attracting retail establishments, while others have stagnated or regressed. Success has occurred where a close working relationship has developed among retailers, city officials and community leaders. Retailers have learned to adapt suburban operating models to accommodate an ethnically diverse inner city customer base.*

Metropolitan Statistical Area (MSA). To be classified as inner city, a census tract must have a 20 percent or higher poverty rate or meet two of the following three criteria:

- poverty rate of 1.5 times or more than its MSA,
- median household income of .5 or less than its MSA, and
- unemployment rate of 1.5 or more than its MSA.

ICIC conducted the study in partnership with The Boston Consulting Group, an international business-consulting firm. It includes a thorough review of the published literature on retail markets. ICIC and BCG also conducted extensive field research that included numerous interviews with retail executives, retail real estate developers, elected city officials, and directors of Community Development Corporations and other civic organizations.

The study focused on inner cities of the 100 largest cities in the U.S. Statistical information was derived, predominantly, from three sources: U.S. Census Bureau, Bureau of Labor Statistics, and ICIC's proprietary State of the Inner City Economies (SICE) database. SICE includes data on the economic health, performance, and assets of inner cities in the 100 largest U.S. central cities. It is based on census tract analysis to delineate inner city boundaries. Data are obtained from public sources such as the U.S. Census and government business, employment and wage data. Data also come from private, market-relevant sources on real estate, start-ups, and financial characteristics of inner city companies. SICE measures indicators of business vitality, resident prosperity, business confidence, and business environment for inner cities in relation to their MSAs.

SICE findings indicate that inner cities in the 100 central cities are a substantial part of the U.S. economy:

- 8 percent of the U.S. population (22 million people), equal to the population of Texas;
- 8 percent of U.S. private employment (9 million);
- 850,000 establishments; and
- $120 billion in annual retail spending.

## THE INNER CITY RETAIL MARKET

The study found that densely populated inner city communities offer significant growth opportunities for retail companies. Current spending capacity within low-income urban neighborhoods in the 100 largest U.S. cities exceeds $120 billion, and one third of that total is now directed to retail establishments located outside the inner city communities. Stated another way, a retail supply gap of more than $40 billion exists in the nation's inner cities.

Although they share characteristics such as high density and low household incomes, all inner cities are not identical. The balance of positive and negative attributes varies significantly from one to another. Yet evidence suggests that retail establishments can prosper in a wide variety of urban conditions. Retail establishments that understand their inner city market and work closely with community leaders and residents have prospered in a broad range of environments. Indeed, detailed knowledge of the market and close community involvement are common elements of all the successful inner city retail operations examined. Research also found that for cities, attracting retail establishments to their urban core produces multiple benefits for neighborhood residents. Among them are easy access to reasonably priced goods, jobs and other economic opportunities, and environmental improvements.

Research also shows that opportunities exist in inner city markets for goods and services that span the spectrum of retail categories. While a significant gap in retail supply has persisted for years, a growing number of national retailers have begun to explore inner city market opportunities with positive results. They have succeeded by, among other things, adapting their standard (suburban) operating models to the unique conditions of urban markets. Several national retailers report that their inner city stores are the highest-grossing units in the company's chain.


*Retail development.*

## URBAN REALITY

Historically, low-income urban neighborhoods have had difficulty attracting national and large regional retail establishments. Retailers and retail real estate developers have viewed inner cities as fraught with physical, economic, and psychological barriers that are difficult to surmount. For example, the density of the urban built environment makes it difficult to assemble sites of sufficient size and accessibility. Strict urban building codes, aggressive community oversight, and high construction costs have also been major deterrents. Moreover, images of inner cities beset by crime, violence, and vandalism exert a powerful negative influence that deters investment. Finally, the low household incomes of urban residents raised questions about the size of the market opportunity.


*The first dealership to open in Harlem in 40 years, Chevrolet-Saturn of Harlem saw the vibrant community as an important diverse customer base with tremendous sales potential.*

Yet, over the past decade a shift has occurred in national retail markets. Traditional retail markets in suburban communities became saturated. Competition increased while profit margins declined. Entire malls failed. Some were converted to non-retail uses, while others were renovated (reformatted) to become a destination that included more than shopping opportunities. In many cases, old, walled-in malls surrounded by a sea of asphalt were opened up, with storefronts facing newly installed streets. More and more malls were redesigned to resemble center city retail villages of the past. Some rebuilt malls included municipal services such as city halls, libraries, and post offices. The implication of the design trends, retail developers contend, is a desire to recapture the diverse urban shopping experience that was lost in the homogeneous environment of earlier suburban malls.

In recent years, fierce competition in suburban areas caused retailers to seek new markets. Wal-Mart, among other large national retailers, began to explore emerging foreign markets. They also turned to long-overlooked inner city markets. And upon closer examination it became clear that shifting conditions in suburban and rural retail markets had combined to make inner cities more attractive, or at least, a less formidable site for expansion. In some respects, obstacles to development in suburban areas had become as difficult as those in inner cities.

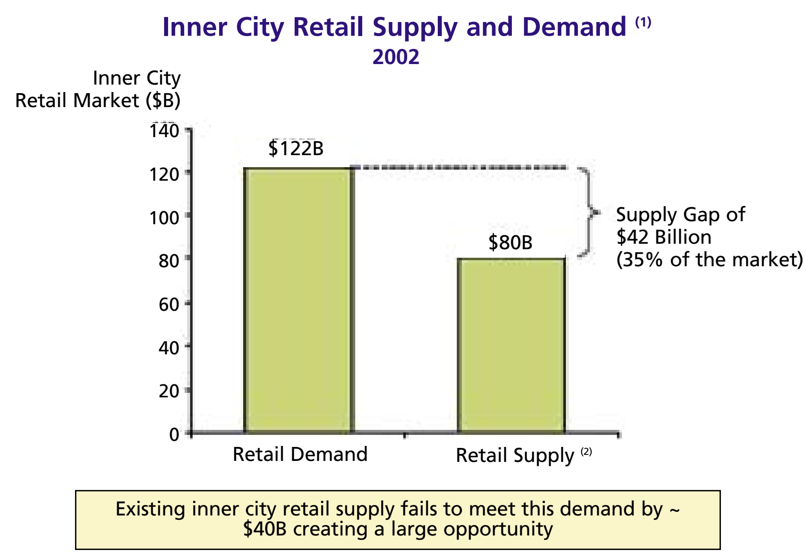
Multi-acre sites of undeveloped, inexpensive land at the base of highway exit ramps — long the target of suburban retail developers — are now difficult to find, especially in the closer-in suburbs. Shopping malls that were once on the fringe of metropolitan settlements are now surrounded by sprawling housing developments, making expansion difficult and costly. Building codes have tightened, impact fees have risen, and community opposition is more organized and aggressive. Added to this list is the fact that crime rates in suburban areas are increasing, sometimes exceeding the level in urban neighborhoods. The cumulative impact of the growing number of suburban negatives made inner city markets appear less daunting and potentially more profitable. Important questions remained: What is the size of the economic opportunity in inner city retail markets? Given the high barriers to entry and the operational challenges, is the inner city consumer spending capacity sufficient to support retailers' urban expansion strategy?

In 1997, ICIC and BCG conducted a comprehensive study of inner city retail markets in the 100 largest U.S. cities. It found that inner city households possess close to $85 billion in retail spending power, or approximately 7 percent of the total U.S. retail spending and far more than Mexico's entire retail market. Inner cities are large, contiguous, densely populated core urban areas. Resident incomes are low, but, because of population density, the spending capacity in a square mile in the inner city is often greater than in similarly sized areas in even the wealthiest suburbs. Moreover, the study revealed that in contrast to retail-saturated suburbia, inner cities were vastly underserved. According to the 1997 study, 35 percent of the consumer spending was directed toward retail establishments located outside the inner city.

## A SECOND LOOK

In 2006, ICIC and BCG conducted a follow-up study of the same 100 inner city retail markets. In aggregate terms, it appeared little had changed during the intervening 10 years. The market remained large ($122 billion) and significantly underserved, with more than a $40 billion supply gap. But the aggregate numbers obscured the fact that considerable retail activity had occurred in selected cities. (See Figure 1.)

**Figure 1**




(1) Based on inner cities with more than 10,000 households, represents 99.7% of population of 100 largest ICs

(2) Calculated by aggregating average sales buckets for each inner city zip; assumed stores in top bucket were the larger of the national average size or $1 million

Note: 2002 market in constant 2006 dollars. Does not include unrecorded economy.

Source: Census; Bureau of Labor Statistics; Claritas; ICIC; BCG Analysis

Several cities with aggressive, entrepreneurial mayors developed strategies for attracting retail establishments and made considerable progress executing them. Community Development Corporations (CDCs) added their support to the process. They solicited grants that funded market studies. In many instances, they identified sites and, working closely with city government officials, helped assemble them. Several CDCs carried the process to the next step, serving as project developers.

Simultaneously, retail real estate developers, sensing the market opportunity, began to play a catalytic role. They entered into close working relationships with community organizations and city officials and together moved toward site identification, acquisition and, when required, remediation. The myriad financing options were investigated and accessed. Credit tenants in the form of national retailers were recruited and their presence leveraged to provide a level of comfort to lenders. National retailers, impressed with market data and the absence of competition, moved more confidently to open branches in select cities. The influx of large national and regional retail establishments to inner cities resulted in measurable consolidation. As community organizers had predicted, many small retailers were forced to close. Yet, the study showed that in the largest 50 cities while consolidation caused the total number of retail establishments in inner cities to decrease during the decade, the number of retail jobs actually increased. (See Figure 2.)

According to the study, inner cities in Boston; San Diego; Denver; Oakland; Columbus, Ohio; and Harlem have significantly increased both retail businesses and retail jobs. In cities at the other end of the spectrum – Buffalo, Louisville, Jacksonville, Detroit, Memphis, and St. Louis, among others – the retail gap has actually widened.

In Boston, for example, beginning in the late 1990s, 23 supermarkets either opened or expanded in the city bringing total retail grocery space to more than 900,000 square feet. The total number of large grocery stores reached 35, of which 19 are located in inner city communities.

The same pattern holds true with regard to retail job growth. While average growth in retail jobs for the 50 largest inner cities [50 largest cities hold 80 percent of

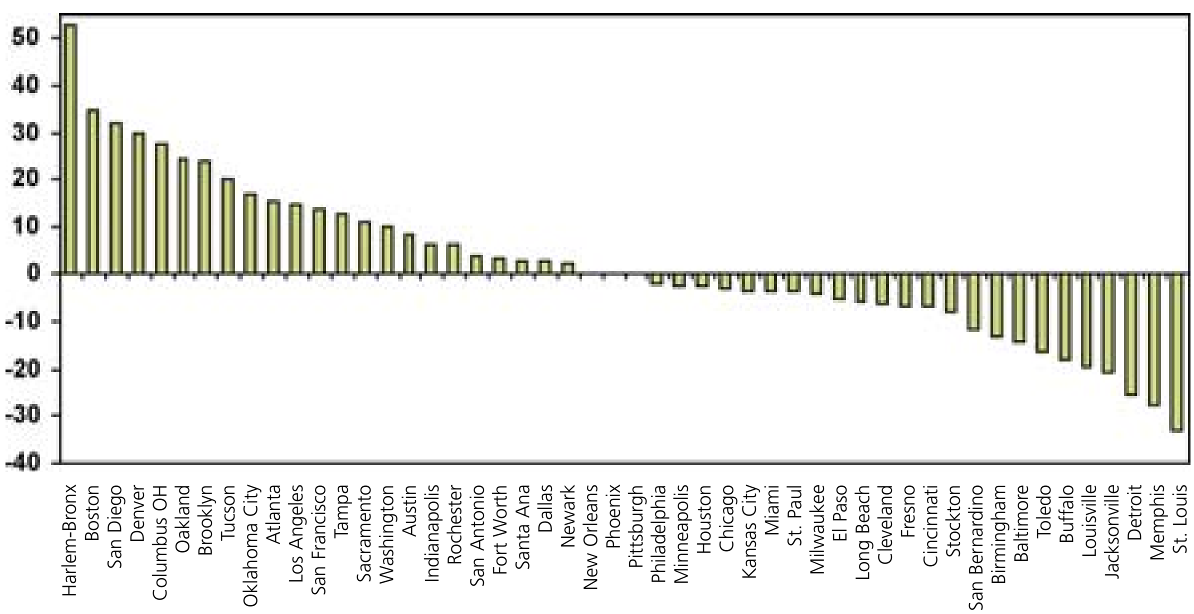
**Figure 2**

**Bigger Stores Are Replacing Smaller Stores in Growing Inner City Markets**


(1) Growth was defined as a change in total jobs in inner city retail

Source: Zip code Based Business Patterns, Economic Census, SICE, BCG Analysis

**Figure 3** **Inner City Retail Job Growth: Top 50 Inner Cities 1992-2003 (1)**




(1) Top 50 population cities represent ~ 80% of inner city retail market both by number of jobs and number of establishments

Source: Census 2003 Zip Code Business Patterns; ICIC Inner City Zip Code Definitions retail establishments and retail jobs] was only 2.3 percent, the performance varied significantly by city – from more than 50 percent job growth in Harlem to more than 30 percent job loss in St. Louis. (See Figure 3.)

Several factors contributed to the widely varying outcomes. Inner cities with declining populations and struggling regional economies experienced difficulties attracting retail establishments, although there were some exceptions. Columbus, Ohio, for example, experienced a slight population decline between 1998 and 2003, but inner city retail jobs grew by 14 percent during that period. One explanation is the aggressive work of city officials to develop the Four Corners mall in the inner city.

The research indicated that successful cities, without exception, benefited from the work of motivated individuals and organizations that made it their mission to attract retail establishments. Generally, cities with well-informed government officials and motivated community development corporations that understood the market needs of the inner city succeeded even when faced with such negative indicators as declining population and a struggling MSA economy.

There are three factors that exist with inner city retail job growth, including: population growth, population density, and average metropolitan statistical area (MSA) retail job growth. In the top 25 inner cities that experienced retail job growth, the average population growth was 6.7 percent, the average population density was 11,600 people per square mile, and the average MSA retail job growth was 32 percent. In the bottom 25 inner cities that experienced retail job decline, the average population growth was negative 4.2 percent, the average population density was 7,020 people per square mile, and the average MSA retail job growth was only 21 percent.

## PUSH AND PULL

ICIC's research showed that inner city retail development can be located on a push-pull continuum. A push development is one driven almost entirely by city government and community organizations. In these cases, cities will often commission market studies and then identify and assemble sites. Requests for proposals, which include financial assistance options, are then issued to prospective developers. With a developer designated, tenants are recruited, the site is designed, financing is secured, and construction begins.

On the other end of the continuum is a pull development, which is driven substantially by a retail developer. In these instances, market fundamentals are sufficiently robust to attract a developer who becomes the project's prime mover. Less frequently, large retailers such as Wal-Mart with in-house real estate divisions have served as development catalysts. In practice, virtually no development is either entirely a push or entirely a pull. Most inner city retail project developments receive impetus from a combination of sources – public, private, and community – working in unison.

The study examined successful inner city retail projects from the perspectives of the various parties involved. These include:

- **Large retailers:** How they adapted suburban models to urban conditions.
- **Indigenous retailers:** How they achieved substantial scale by deftly targeting the unique preferences of inner city residents. Also, how successful indigenous retailers are beginning to transport the inner city operating model to suburban markets where the population is becoming more diverse.
- **Retail real estate developers:** How they build a case in the community for retail development, recruit tenants, locate financing, recognize the importance of architectural design in urban settings, and proceed to construction.
- **City governments:** How entrepreneurial mayors have used government resources – tax incentives, financing options, and eminent domain, among others – to move retail projects to completion. Also, how successful inner city retail projects acquire and maintain the direct participation of community residents.

*Sneaker Villa saw opportunity to market to urban youths and harness the growing hip-hop culture and has focused on high-traffic inner city locations.*

## LARGE RETAILERS

***"The growth is there [in inner cities], not in the suburban strip centers. Five of Sears' 10 stores with the highest sales volume are located in city cores."***

***- Arthur Martinez, CEO Sears Stores (2001)***

A significant number of large, national retailers are beginning to expand operations into inner cities. Included in this group are Wal-Mart, Family Dollar, H.E.B., Chili's, McDonalds, Starbucks, Yum Brands, CVS, Staples, and Target, among others.

Interviews with corporate executives reveal a changing attitude toward inner city markets. There is a shift from making a theoretical case for inner city markets to an understanding of how to optimize the store format and operations for the inner city environment. Many companies compare penetrating the inner city to expanding into a new market. They know the market exists, they just don't know how profitable it is.

The example of Payless shoe stores is indicative of the national store experience. Payless's corporate vision is to "democratize shoe fashion and design," which means reaching out to lower income consumers. Payless's urban stores represent a key part of their business because until recently competition in inner cities in the mass discounter category has been minimal.

Over the last five decades, Payless has refined its model for the inner city market in the following manner:

- Layout and location
  - Developed plans for most types of inner city configurations including vertically on two floors.
  - Reduced parking requirements because of added foot traffic.
- Product Mix
  - Product mix is determined at each location based on the demographics of the community. Performance at stores with similar demographics is compared to see if item sales differ. The expectation is that a product that sells well at one will likely sell well at the other.
- Security
  - Tagging and cameras are effective.
- Employee retention
  - Here, the inner city offers a clear competitive advantage. The available workforce is large and employee retention rates are high.

In sum, for Payless the demographics of the inner city fit its product and national strategy. The company has modified its standard format to suit urban conditions, and each inner city store reflects the preferences of local customers.

## INDIGENOUS RETAILERS

Indigenous retailers are companies that originated in inner cities, prospered, and eventually expanded regionally, or, in some cases, nationally. H.E.B. is a San Antonio, Tex.-based grocery store chain that has grown into a large regional retailer. Ashley Stewart is a Harlem-based women's apparel company that today has outlets across the country

H.E.B.'s first store is located in inner city San Antonio, a low-income Hispanic market. There, it developed customer-centric techniques that it later transferred to branches in other inner city neighborhoods. The company realized that in inner city markets success is predicated on a thorough understanding of customer preferences and purchasing patterns. Each store is customized to its market. H.E.B. officials say that non-standardized operations are more expensive, but the practice results in higher sales volume and profitability. For market research, the company relies heavily on feedback from its employees, 80 percent to 100 percent of whom live in the market area and reflect the community's diversity.

Ashley Stewart is a women's apparel retail company that opened its first store on 125th St. in Harlem in the early 1990s. Founder Joe Sitt recognized two unmet needs in the Harlem community. First, apparel stores in the area were not supplying the fashionable clothing neighborhood women wanted, and, second, existing stores did not recognize the predominance of plus-size women among African-Americans and Hispanics, the ethnic groups that comprised the vast majority of the population in the community. Fifty percent of African American women and 40 percent of Hispanic women wear plus sizes, compared with 30 percent of Caucasian women. Ashley Stewart stores address both conditions, supplying high-fashion plus-size women's apparel.

The store proved successful from the start. Today, the Ashley Stewart chain operates 200 stores located in cities across the country. Ashley Stewart's experience is testament to the formula used by most successful inner city retail stores. The fundamental principles for success in inner city retail are recognizing the demand and understanding the unique preferences of customers in the market area. It is a formula that is spreading from the inner city into suburban markets where competition is fierce and the search for a competitive advantage is ongoing.

## RETAIL REAL ESTATE DEVELOPERS

### Harlem USA – A "Pull" model

Today, Harlem has revitalized to such an extent that some urban economic development practitioners are reluctant to classify it in the same category as depressed inner cities around the country. But in 1992, when developer Drew Greenwald, president of New York City-based Grid Properties, began to look at Harlem for retail development no one questioned its designation as a depressed urban neighborhood. "In 1992, people were saying that the South Bronx and Harlem were the worst places in the country, far worse than Detroit and Philly are now," said Greenwald.


*Ashley Stewart is a Harlem-based women's apparel company that has outlets across the country.*

Greenwald's work in Harlem, transforming 125th St. from a derelict thoroughfare into a retail shopping destination, is an example of a private-sector, or "pull," catalyst. According to Greenwald, Harlem was an untapped market with strong potential for retailers. "Within a square mile [in Harlem] you don't have people making a fortune, but what you have is a lot of people in that square mile. And people have to buy certain types of items, regardless of their incomes."

As a native of New York City and a trained architect who understood commercial real estate, Greenwald sensed the potential. "I had an intuitive feel for Harlem," he explained. "It used to be a great neighborhood and as low as it went, it was never abandoned. The great brownstone houses were still there. They were boarded up, but they were still there."

Planning for Harlem USA, a three-story, 250,000-square-foot retail center on 125th St., began in 1992. It opened eight years later in 2000. "The whole concept here from the beginning was to convince major retailers [to locate in Harlem]," said Greenwald. "If we didn't have national retailers with credit, we could never have financed the project."

Retailers had several concerns. For one thing, they did not want to be alone. They wanted to see enough square footage to allow for a density of retailers. And then the architecture needed to be both strategic and distinctive. A high level of transparency (i.e., windows) in the design bolstered a sense of security. Distinctive architecture not only attracted retail tenants, but it also sent a message to the community that the project was of the highest quality. Disney Corporation signed on to the project, followed by Magic Johnson Theaters. (Today, retailers in the complex include Old Navy, Chase Manhattan Bank, New York Sports Club, Modell's Sporting Goods, Nine West, K & G Fashion Superstore, Hue-Man Bookstore and Café, among others. Disney did not renew its lease because of corporation-wide downsizing.)

In 1997, "the government began to believe in the project," said Greenwald. Agencies such as the Upper Manhattan Empowerment Zone provided financing at critical stages that enabled the project to go forward to completion. "These projects don't yet work without some public involvement," said Greenwald. "Retailers need [help with] rents that are more doable. Because even though stores can work at market rents, not everybody's convinced yet. These are the first projects. Five more projects into it, subsidies may disappear."

*Harlem USA.*

## Grove Hall Mecca Mall

### A "Push" model

Late into the 1990s, Grove Hall in Roxbury, Mass., a core section of Boston, was the stereotypical image of an inner city neighborhood: vacant lots, boarded up commercial buildings, and rundown housing. What it had going for it was an aggressive CDC, a savvy community bank (the Boston Bank of Commerce), and a population of more than 90,000 within a 2.5 square mile radius. It also had the strong support of Mayor Tom Menino, who, when he took office in 1993, made neighborhood improvement the theme of his administration.

The Boston Bank of Commerce and the CDC raised funds for a market study that showed the neighborhood was a high-potential location for a grocery store. It also identified a need for a pharmacy and a restaurant. The CDC then worked closely with the city to assemble a five-acre site. A portion of the site was contaminated, and the city paid for the remediation. The city also invested approximately $500,000 to improve the appearance of the surrounding three blocks. All together, reports Steven Rumpler, project manager at Boston's Office of Business Development, "It was a $14 million project and the city made available $6.8 million."

Opened in 2000, the mall contains a Super Stop & Shop grocery store, a CVS pharmacy, and a retail bank branch. Although tenants still receive rent subsidies, Rumpler says all are meeting their revenue projections. "The project created 450 jobs – in the mall and in new businesses that opened in proximity to the mall – and most of the jobs went to city residents," said Rumpler.

## CITY GOVERNMENTS

Figure 4 plots inner city population growth against inner city population density. The ideal conditions for attracting and sustaining retail establishments in inner cities is to have a growing population and high density (upper right quadrant). Indeed, cities that have had the most success attracting retail are located in that quadrant. But as the chart shows, success has also been achieved in cities where conditions are not ideal. Harlem and Boston have characteristics that should lead to retail job growth, and in fact job growth occurred. By contrast, Columbus, with a declining population and relatively low population density increased retail jobs by 28 percent, the fifth highest increase in the country.

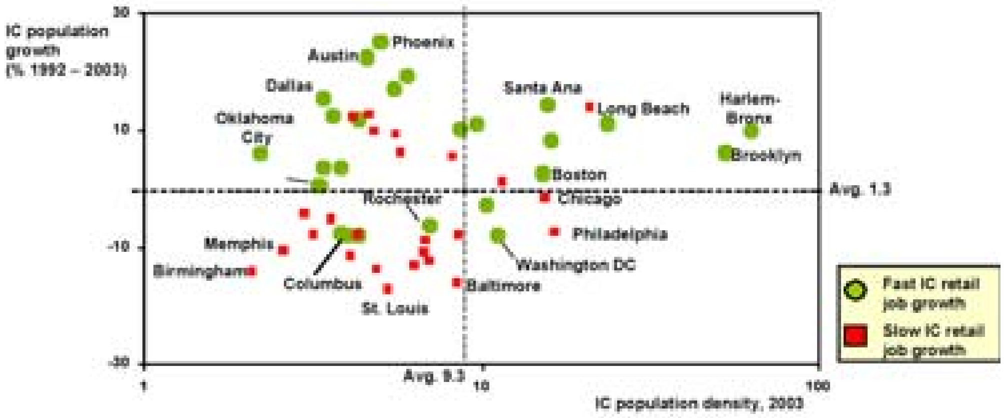
An explanation for this performance can be found in the city's effort, beginning in 1996, to develop the Four Corners shopping center. (See Figure 5.) The Columbus city government worked closely with an inner city CDC to bring the Four Corners Development to completion. First, the city identified a city-owned site near a transportation center with frequent bus service. It committed to locating a new government building – the Housing Authority – at the site. Second, the city aggressively assembled parcels, some through eminent domain, from 43 owners. Third, the city offered a combination of local transit funds and federal tax credits to make the financing work for the developers and retailers. Finally, it cleared the regulatory path to expedite the permitting and zoning process.

The lesson from the Columbus experience is that an underserved retail market, even one located in the inner city, is an opportunity that retailers will seize given enough support. The city's aggressive initiative to build a retail destination and attract retailers resulted in the creation of jobs for inner city residents and physical improvements to the neighborhood. While time will tell if Four Corners was a watershed in the inner city's return to health or simply a delaying action, the immediate benefits to community residents are measurable.

In interviews, developers who have worked on inner city projects were in agreement on the advice they would offer to city governments and economic development

**Figure 4**

**City Performance Varies Greatly in Spite of These Factors**



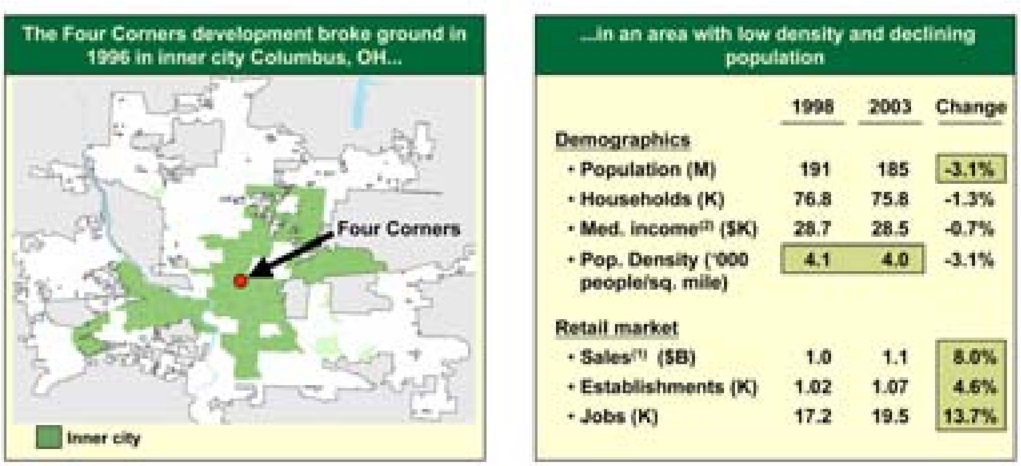

Cities can achieve or fail to achieve retail job growth despite initial circumstances

Source: US Census Bureau, Economic Census, Claritas

**Figure 5**

**Retail Success in Shrinking Cities**

**Columbus Ohio**




| | 1998 | 2003 | Change |
|---|---|---|---|
| Demographics | | | |
| • Population (M) | 191 | 185 | -3.1% |
| • Households (K) | 76.8 | 75.8 | -1.3% |
| • Med. income(2) ($K) | 28.7 | 28.5 | -0.7% |
| • Pop. Density ('000 people/sq. mile) | 4.1 | 4.0 | -3.1% |
| Retail market | | | |
| • Sales(1) ($B) | 1.0 | 1.1 | 8.0% |
| • Establishments (K) | 1.02 | 1.07 | 4.6% |
| • Jobs (K) | 17.2 | 19.5 | 13.7% |

(1) Retail sales data is for 1997 and 2002 in 2006 dollars

(2) Median income from 2000 and 2005, and are both quoted in 2005 dollars

Source: Census 2003 Zip Code Business Patterns; ICIC Inner City Zip Code Definitions; Claritas, US Dept of Labor BLS, BCG analysis practitioners who are working to attract retailers to inner city neighborhoods. They suggested that the city should do the following:

- Invest in infrastructure and crime reduction in targeted underdeveloped areas.
- Believe inner city retail can succeed and then recruit an equally convinced developer.
- Help developers form mutually beneficial relationships with leading community groups.
- Leverage market successes to attract other developers.

## CONCLUSION

ICIC's study of inner city retail markets delineates the size of the opportunity and provides examples of the companies that have operated successfully in that location. Successful retailers understand the idiosyncrasies of the inner city's densely populated, demographically diverse areas and adapt accordingly. While the benefits for retail businesses are readily apparent, so too are the benefits to the inner city community of attracting retail establishments.

"We know that improving inner city retail penetration of world class retailers is very important to improve the quality of life in inner cities," notes Professor Porter. "They provide reasonably priced goods and services for residents. Their presence makes it unnecessary for residents to travel outside the neighborhood, which is expensive. New retail projects have a significant impact on the look and feel of the neighborhood, the sense of the quality of life in the community. Retail is a source of jobs and career development that is accessible to inner city residents. Almost every single retailer hires almost exclusively from the neighborhood. There's no risk here that you create a business that doesn't connect with the residents in terms of jobs. Large retailers – multi-unit retailers – create career opportunities. They offer a career ladder for people, as well as serving as a place to get entry-level work training. They also provide training for entrepreneurship. Residents can take what they learn and build their own businesses."

*(The complete ICIC study, REALIZING THE INNER CITY RETAIL OPPORTUNITY: PROGRESS AND NEW DIRECTIONS, is available at www.icic.org.)*

ICIC's study of inner city retail markets delineates the size of the opportunity and provides examples of the companies that have operated successfully in that location. Successful retailers understand the idiosyncrasies of the inner city's densely populated, demographically diverse areas and adapt accordingly. While the benefits for retail businesses are readily apparent, so too are the benefits to the inner city community of attracting retail establishments.

# strategic execution

## IN ECONOMIC DEVELOPMENT

*By Jerry Mallot*

*Fortune 500 company Fidelity National Financial relocated its headquarters to downtown Jacksonville during the Cornerstone III era, creating more than 2,000 jobs.*

Economic development's primary goal has traditionally been the creation of jobs, although today we often broadly define economic development to include other elements.

The Jacksonville and Northeast Florida region has always experienced strong annual job growth, but the history of the region is also one of low per-capita income, with many of the job opportunities lacking in quality.

As Northeast Florida's economic development organization, the Cornerstone Regional Development Partnership, contemplated its vision of Jacksonville's future development in the late 1990s, it began to see troubling patterns in its study of other communities. Cornerstone noted that many cities highly touted for their success reflected results that were not nearly as attractive as initially perceived. Rapid job growth often resulted in a diminished quality of life. Alternatively, some regions utilized their assets and resources in focused recruitment of quality jobs to achieve significant growth in income, thus attaining much greater prosperity and wealth with a seemingly similar commitment of resources.

A new vision began to emerge that ultimately changed Jacksonville in both its perception and its reality of quality job growth. Led by a strategic proposal from then Mayor John Delaney and committed involvement by business leaders, the vision revolved primarily around the notion that bigger is not better – only better is better. To Cornerstone that meant that all growth should no longer be seen as positive – only growth

**Jerry Mallot** is the executive director of the Cornerstone Regional Development Partnership, the organization that facilitates the creation and retention of quality jobs and significant capital investment, resulting in a higher standard of living and a better quality of life in Northeast Florida.


### GETTING THE RESULTS YOU WANT

*All job growth is not created equal. This lesson was put into practice with much success by the Northeast Florida economic development agency, Cornerstone Regional Development Partnership, winner of the IEDC 2006 award for a multi-year economic development program for populations over 200,000. By concentrating on targeted industry, high-wage job growth, quality of life and prosperity would increase for the entire region. First implemented during Cornerstone III, a five-year funding campaign between 2001 and 2005, economic development practitioners utilized many tactics including regional collaboration, a research-based approach, a dynamic marketing plan, and high-wage focused incentives.*

*Cornerstone works to retain 80 percent of the technically trained workforce that comes from the annual separation of 3,000 Navy members from regional bases.*

The necessary buy-in to achieve these results came easily with the top levels of government and business agreeing on the quality versus quantity approach. The city, Cornerstone, and its partners concurred on this longer-term strategy and committed the various investments that were required. With funding in place, Cornerstone took the next steps in executing the tactical elements of the new approach.

that brings greater benefits, prosperity, and quality of life.

The effect of this strategic positioning took many forms. Mayor Delaney observed that growth in some cities destroyed natural resources that could never be replaced. By putting a priority on protecting natural resources and preserving them for current and future generations, the quality of life for Northeast Florida residents could be permanently impacted. This is especially relevant to a community like Jacksonville whose assets include an ocean, a major river, the Intracoastal Waterway, beautiful marsh lands, and pine forests.

In partnership with federal, state, and local agencies, the Jacksonville Preservation Project was introduced as a way to secure land for conservation. This plan was collectively funded and resulted in 60 square miles of property being permanently reserved for parks and greenspace. The plan set aside opportunities for citizens to appreciate and utilize enormous amounts of land, ensuring a strong sense of engagement with nature and pristine properties to enjoy recreationally.

Within the consolidated city of Jacksonville, this preservation of nearly 10 percent of all available land created a new direction for the development of the city. Urban sprawl would be limited because the method of land purchase created a ring around the central population core, which encouraged better utilization of roads, utilities, and infrastructure, thereby lowering development costs and increasing efficiency. It also meant that neighboring counties would more quickly qualify for new business opportunities and development growth, which traditionally had focused on the urban county of Duval.

A critical infrastructure investment of more than $2.2 billion followed in the form of The Better Jacksonville Plan. With the leadership of the mayor and support of the local business community, this initiative passed a public vote that increased the local sales tax by a half cent. Once the additional sales tax revenues were bonded in 2001, Jacksonville's quality of life was elevated quickly. Two-thirds of the new revenue was directed towards enhancements to the transportation infrastructure. Rather than building new roads, the quality and capacity of existing roads were improved to move traffic efficiently while providing a more pleasant driving experience with major new landscaping enhancements.

The balance of funds was designated for community facilities that would impact everyday life for many citizens. These included a new arena to bring in sports and entertainment events, a new baseball park, a new state-of-the-art main public library and significant enhancements in the library's community branches, an equestrian center and associated services.

## HIGH-WAGE JOBS

Last, but certainly not least, was the direct benefit to economic development. The concept was to focus on higher-wage economic base jobs – those that export products and services outside the region and import dollars to increase prosperity and provide opportunities for all citizens. Recruiting high-wage jobs meant that economic developers needed to rework incentives at both the state and local levels. This evolving process produced the desired result and ultimately became a matrix of evaluation to determine 'how' and 'to what extent' the return on investment was being achieved if incentives were included.

The necessary buy-in to achieve these results came easily with the top levels of government and business agreeing on the quality versus quantity approach. The city, Cornerstone, and its partners concurred on this longer-term strategy and committed the various investments that were required. With funding in place, Cornerstone took the next steps in executing the tactical elements of the new approach.

## CORNERSTONE III

Cornerstone's economic development efforts are funded through a series of five-year campaigns, with Cornerstone III spanning the years 2001 through 2005. Cornerstone was formally established in 1991, with planned five-year commitment terms from investors, allowing for consistency in budgeting and staffing the economic development effort. Cornerstone I represents the five-year campaign between 1991 and 1996, and Cornerstone II represents the five-year campaign between 1996 and 2000. This article focuses on Cornerstone III. Cornerstone III is significant as it marked the start of the new strategy. Employers were targeted that offered higher than average wages and capital investments that increase prosperity and wealth of the Northeast Florida region.

The Cornerstone III strategy encompassed six tactics:

- A more complete public/private partnership,
- Regional collaboration,
- A research-based approach to economic development,
- A dynamic marketing plan,
- Aggressive outreach to achieve results, and
- High-wage focused incentives.

## PUBLIC/PRIVATE PARTNERSHIP

Cornerstone III focused primarily on raising private sector funds with an expected involvement of the public sector based on the private commitments achieved. A total funding commitment of more than $16 million was achieved with two-thirds of the funds coming from the private sector and the balance from the public sector. Leadership from both business and government assisted in developing strategies included in the Cornerstone III economic development agenda. This team approach was critical for securing each project announcement and achieving the desired goals.

Cornerstone is the lead organization for marketing and prospect development in Northeast Florida. Within the city of Jacksonville, the primary partner is the Jacksonville Economic Development Commission that represents the mayor and engages the City Council in decisions about public support or actions needed on a project. Many other partners, including the electric authority, the marine port, the airport, and the transportation authority are also part of the Cornerstone economic development team. Within the region, each of the economic development organizations that make up the seven-county Cornerstone Partnership agreed to the approach along with WorkSource, the regional workforce board.

The funding campaign developed around a series of aggressive priorities that aimed at quality as the theme. The priorities included:

- Attracting 25 national headquarters to the area,
- Developing 20,000 direct, targeted, high-wage jobs that would impact the direction and quality of the region and the economy,

*Cornerstone conducted a Megasite study to identify larger sites for major projects and has assisted in moving them to a shovel-ready status. Cecil Commerce Center on the Westside of Jacksonville is one of those sites ready for development.*

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### CORNERSTONE III STRATEGIES

- Public/Private Partnership
- Regional Collaboration
- Research-Based Approach
- Dynamic Marketing Plan
- Aggressive Outreach
- High-wage Focused Incentives

### SELECT GOALS FROM CORNERSTONE III

- Attract 25 new national or regional headquarters to the Jacksonville area.
- Develop 20,000 direct, targeted, high-wage jobs that will impact the direction and quality of the regional economy.
- Add $2 billion in capital investment in buildings and equipment bringing $400 million in local tax revenue over 10 years.
- Retain 80% of 3,000 technically trained persons leaving the Navy each year.
- Recruit a fair share percentage (8%) of Florida college graduates to work in the Jacksonville area.

- Adding $2 billion in capital investment in buildings and equipment aimed at dramatically increasing the tax revenues during the next 10 years,
- Retaining 80 percent of the technically trained workforce that comes from the annual separation of 3,000 Navy members from regional bases, and
- Recruiting a higher percentage of Florida college graduates to work in the Jacksonville area.

## REGIONAL COLLABORATION

Regional collaboration was achieved because the needs addressed were consistent with the strategies of the partnership. The economic development practitioners from the seven-county Northeast Florida region meet twice monthly to consider both prospects and strategy, making it easy to achieve a consensus on issues. Shared research, prospect management information, and real estate databases, along with regular issues forums, developed a high level of trust and engagement to make the partnership function at a high level. Other partners including WorkSource, regional universities and community colleges, as well as the Jacksonville authorities, came together because of common interests and a history of collaboration. Working together allowed for streamlined information and use of common technology to provide immediate response capacity for regional recruitment and retention activities.

### TARGETED INDUSTRIES

- Headquarters
- Finance and Insurance Services
- Aviation and Aerospace
- Medical Products, Services, and Research
- Information Technology
- Distribution and Logistics
- Specialized Manufacturing
- Electronics and Semiconductors

## RESEARCH-BASED APPROACH

Cornerstone utilizes research as a primary tool in business recruitment as it demonstrates value and a competitive advantage. Research began with a targeted industry study to better identify companies that would meet the higher-wage interests of the Jacksonville region. Developing a new targeted industry approach was most critical to ensure the campaign focused on the kinds of industries that would achieve the desired results. In addition, greater use of research with industry-specific companies most likely to be in an expansion mode was another step needed to narrow the focus and gain greater success.

Much more research was needed in other areas in order to be successful when competing for the best business opportunities.

- A commute zone analysis undertaken by an outside research company determined the level of workforce available in 20-, 40- and 60-minute travel increments from many sites within the region. This allowed potential companies to assess the total available workforce for their chosen location, including data about the quality of the workforce such as educational attainment and the expected income requirements. This quality data helped the region stand out from its competition.
- A megasites program identified larger sites for major projects and assisted in moving them to a shovel-ready status.
- The real estate inventory database was expanded to include photography and more in-depth information.
- For a more accurate comparison with other cities, a thorough analysis of the regional and private educational system was broadened to include the entire region instead of only the city of Jacksonville's public education program.
- The Cornerstone website, www.expandinjax.com, provided more in-depth county demographic analyses to showcase the region more fully.

A commitment to specialized research for individual prospects with an accompanying budget allowed us to be even more methodical to win major projects.

*Preservation Project Jacksonville ensures Northeast Florida residents will always enjoy the recreational benefits of parks and greenspace nestled on the St. Johns River and Intracoastal Waterway.*

## DYNAMIC MARKETING PLAN

With a budget commitment of $1 million per year, funds were available to effectively market the region through the Cornerstone program. More than ever before, this program executed the strategy of research and targeting, as well as more personal engagements with clients and site consultants. It included a variety of elements with a particular emphasis on direct contact through special marketing programs, e-mail, and personal visits.

Public relations also played an important role in telling the Jacksonville story in both targeted and mainstream media outlets. Efforts to attract broader national attention also took shape through events like hosting a Super Bowl in Jacksonville.

In the ensuing years, the campaign invested in major Web site enhancements, new branding, and execution of advertising in industry-specific publications along with an expanded approach in the public relations arena. Focus groups with site consultants and industry executives helped develop elements like a regular newsletter to site consultants and the formatting of information to help increase the likelihood that it would be read.

## AGGRESSIVE OUTREACH

Long-time memberships in organizations such as CoreNet Global and IAMC became more strategic during Cornerstone III. The commitment to engage staff members in more events with a focus on the targeted industries and key site consultants accelerated the interaction with clients over the five-year period. Regular missions to New York, Atlanta, and other locations resulted in the region becoming better and more widely known and helped build relationships that resulted in substantial projects.

An important part of this new equation consisted of international recruitment which significantly enhanced efforts in Europe and Asia. Cornerstone's International Department concentrated more on business recruitment than on trade development to take advantage of the substantially greater return on investment.

In Jacksonville, most clients welcomed an opportunity to see a Florida city firsthand by making site visits. But Cornerstone and its partners renewed the commitment to go anywhere, anytime to advance or make a deal. And it paid off.

Cornerstone expanded showcase events and increased the frequency and size of familiarization tours for corporate decision makers and site consultants. These included visits to attend Jacksonville Jaguars games and opportunities to capitalize on the excitement of The Players' Championship golf tournament that is held annually in the region. The designation of Jacksonville as the host site for Super Bowl XXXIX set the community on fire with determination to make the best of this unique opportunity to showcase the Northeast Florida region. Super Bowl XXXIX brought more attention to the market than any other single event. Cornerstone had learned 10 years earlier when Jacksonville was selected as the home for the 30th NFL franchise that the NFL brought an amazing spotlight to a mid-size market and knew that a Super Bowl would bring even more.

## HIGH-WAGE FOCUSED INCENTIVES

Working with the state of Florida, Cornerstone reworked incentive programs to make high wages the primary factor by which incentives could be gained. This meant the qualifying wage would increase each year and that it must be $40,000 or more in order for a company to qualify for significant incentives. Capital investment played an important role that utilized different incentives and virtually all of them moved to a performance-based approach rather than cash up front for a project.

The strategy on incentives was competitive, but not excessive. Seldom was Jacksonville the highest bidder, but combined with an engaging and attractive business environment, a very low tax burden, and a quality workforce, it was positioned to achieve success. As the Cornerstone III timetable unfolded between 2001-2005, a more complex matrix was developed by the city of Jacksonville to guide the incentive evaluation and ultimate award.

## CORNERSTONE III PERFORMANCE

The years 2001-2005 were not stellar in the economy of the United States. This made the economic development process more difficult and the focus on high-wage jobs seemed almost impractical. Nevertheless, by working as a partnership with an aggressive program, Cornerstone and its partners announced more than 24,000 total jobs with more than 20,500 reaching the high-wage standard. The actual average wage topped the $45,000 mark with an average closer to $50,000 the last two years. Capital investment fell short of the goal during the period when companies were pulling back on constructing new buildings and expending capital.

*The Better Jacksonville Plan, a voter-approved $2.25 billion comprehensive growth management strategy, helps fund both infrastructure upgrades and the construction of new public facilities such as the Baseball Grounds of Jacksonville ballpark.*

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The headquarters program proved exceptional with the recruitment of 30 new regional and national corporate headquarters, including two new Fortune 500 headquarters locations – something no other city had accomplished. Ultimately, 85 percent of all jobs gained through Cornerstone and its partners were high-wage and more than 91 percent fell into one of the targeted industries.

Top-tier corporate names entered the Jacksonville regional market including the headquarters of Fidelity National Financial with 2,000 new jobs, 1,000 new jobs with Merrill Lynch, a 550,000-square-ft. Citibank campus which netted more than 900 new jobs, and two Wal-Mart distribution center projects that are creating more than 1,500 new jobs. Announcements in all the targeted industries, which included financial services, logistics, aviation, and life sciences, produced thousands more jobs.

**Cornerstone III Performance**

| | 2001 – 2005 |
|---|---|
| New Targeted Jobs | 24,178 |
| High-wage jobs created | 20,544 |
| Average Wage | $45,070 |
| Capital Investment | $1.19 billion |
| New Headquarters | 30 |
| Percent jobs high-wage | 84.9% |
| Percent jobs in targeted industries | 91.3% |

Third party endorsements poured in from reports like Expansion Management's "Hottest Cities for Expansion and Relocation," Good Morning America's list of the top five "Up and Coming Cities," Best Cities for Favorable Tax Climate, and, of course, the NFL selection of Jacksonville as one of only 12 cities to ever host a Super Bowl. The marketing programs under Cornerstone won many honors including the top honors from IEDC for a multi-year economic development program, "Deal of the Year" award at the Florida Economic Development Council, and several other annual Florida awards. Based on this success, CoreNet Global selected the Cornerstone III program for the Leadership and Innovation Award in 2006. The Cornerstone partnership's decision to strive for quality and excellence energized all facets of our economic development process.

More importantly, Jacksonville and Northeast Florida found itself ahead of the curve on this issue of growth, recognizing that not all growth is good. Building a quality region with visionary planning and recruitment of high-wage jobs is now the guiding principle for development. Communities making smart choices will receive more opportunities to create a better future.

**IEDC would like to give special thanks to sponsors of the 2007 Leadership Summit in San Diego, CA.** Your generous support enabled IEDC to bring economic development leaders together for peer-networking, informative sessions, and valuable insight into "The Power of Collaboration". The 2007 Leadership Summit was a tremendous success that would not have been possible without the contributions of our valued sponsors.

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# can we have a

## HIGH-END RETAIL DEPARTMENT STORE?

*By Christina M.L. Kelton, Ph.D. and Robert P. Rebelein, Ph.D.*

### THE QUESTION

Several years ago, we were asked by some economic development planners in the greater Cincinnati area what the "odds were" for attracting a high-end department store, particularly a Nordstrom branch, to the area. At the time, there was a rather small Saks Fifth Avenue store in downtown Cincinnati, yet no other high-end department store had a branch in the region. We are now able to answer this question and indeed can answer it more generally for any metropolitan area in the country. It is interesting that we can answer it at all, since individual stores make their own expansion plans across the country. Yet, the results of those individual decisions can be captured rather well by a relatively simple statistical model that we describe in this article.

There are two distinct perspectives on the value of high-end department stores to a community. On the one hand, it is possible that such stores contribute to economic development by either bringing in outside monies, by being part of the community's economic base, or preventing leakage of local shopping dollars. Attracting such stores would be part of the community's development strategy. On the other hand, the stores may be viewed as desirable because they represent successful economic development and validate the past efforts of community developers. These past


Photograph by Dennis J. Ulm.

*Nordstrom store in San Francisco. Nordstrom was founded in 1901 in Seattle, Washington, by John W. Nordstrom. Nordstrom sold only shoes until 1963 but now sells a full line of retail products.*

efforts may or may not have included a retail strategy in particular.

Pittman and Culp (1995) argued that, in order to meet a rigorous definition of economic development, a new store, outlet, or shopping mall would have to create permanent new (net) jobs and income in the community, that is, increase permanently the amount of money available in the area. When retail brings outside expenditures into an area or becomes part of the basic sector of the economy, it counts as economic development. According to Pittman and Culp, it also counts when it entices residents not to leak their spending outside the community. However, if the new estab-

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Special thanks to **Matt Blevins**, **Danny Fore**, and **Tom Zinn** for contributions and encouragement in the early stages of this work. Professor Rebelein gratefully acknowledges the generous financial support of the Ford Foundation and the Jane Heimerdinger Fund.

### HOW TO TELL IF YOUR REGION IS READY

*High-end retail department stores are attractive targets for regional economic development. They bring in high-income shoppers from outside the region, and they prevent leakages by encouraging similarly mobile shoppers who live in the area to spend within the region. Because of their substantial fixed costs, high-end department stores generally locate in urban areas with relatively large populations. This article explains how metropolitan-area data are used to determine just how large the population must be and to identify additional attributes of the population and area that are correlated with, and potentially necessary for, development of a successful high-end retail sector. Population size, land area, and the percentage of households with at least $150,000 of income per year are strongly correlated with the presence of high-end retail department stores. A statistical model with these three variables can be used to estimate various population thresholds, depending on land area and income level, for high-end retail department stores; these threshold values can greatly inform economic development efforts.*

lishment neither brings in outsiders to shop nor prevents spending leakage, then it would not contribute directly to economic development; current expenditures in the community would simply be redistributed among existing establishments to accommodate the new retail entrant.

In the extreme, a large retail-entertainment complex has the potential of drawing visitors nationwide. In May 1996, the *New York Times* reported that the Mall of America attracted more visitors than Disney World, the Grand Canyon and Graceland combined (McDowell, 1996). Over two and a half million international visitors visited the Mall that year. Economic impact for the state of Minnesota was estimated at \$1.4 billion in 1996. Approximately 10,000 new jobs in the Minneapolis – St. Paul metropolitan area were attributed to the Mall (555 Group website). Contributing substantially to the Mall's success are three high-end department stores: Macy's, Bloomingdale's, and Nordstrom. The fiscal impact of the Mall has been substantial as well.


Courtesy of Mall of America®.

*Mall of America is the nation's largest retail and entertainment complex with 520 stores, 50 restaurants, a family amusement park, a 1.2 million gallon aquarium, and 14 movie screens. It has three high-end retail department stores including Bloomingdale's, Macy's, and Nordstrom. (See http://www.mallofamerica.com/)*

The retail sector has evolved over time such that retail's leakage-prevention role has become almost as important as its role in attracting outside monies. Shoppers have many alternatives including discount centers, outlet malls, mail order, and the Home Shopping Network. Lackey and Eckenstahler (1995) reported on the results of a consulting project for a Michigan community, where it was found that nearly \$300 million was being spent annually outside the area, equating to approximately 3,500 full-time jobs. As a result of that study, the community added a retail component to its economic development strategy to mitigate this leakage. Retailers found the study helpful as well in their expansion decisions. Williams (1997) emphasized also the role that retail had in economic development in preventing the drainage of income out of an area. With less money seeping out of the economy (Williams noted that "many economies leak like a sieve"), less external income generation is needed to reach the same level of economic prosperity.

Furthermore, some communities rely on sales taxes as a major source of revenue. Important sales-tax generators, such as new car dealers, regional malls, furniture stores, and major discount stores are very desirable economic development targets from a fiscal perspective (Devine, 1994). The less tangible benefits of retail development include building community spirit that spills over into higher values for surrounding real estate. In the 1980s and 1990s, many cities saw downtown malls develop near other downtown amenities such as concert halls, theaters, museums, convention centers, and sports complexes (West and Orr, 2003).

Even if developers do not consider a new retail establishment to be of as much importance as, say, a new manufacturing establishment in a high-paying, export sector such as biotechnology, they may still view a high-end department store as desirable, perhaps as recognition of successful past economic development efforts. As an area grows in population and employment opportunities, it aspires to some of the shopping advantages of wealthy communities. All of the national retail chains described in this article are classy; they have long histories and traditions and signal to shoppers both high quality and excellent customer service. When part of a community, they signal prosperity.

It is one thing to recognize the potential of high-end retail as an engine for (or reward from) economic development. It is quite another to implement a successful recruiting strategy for high-end department stores. Economic developers may only marginally influence retail investment decisions. Retailers base their location decisions on the sales they expect to generate within a local trade area. P.G. Lewis (2001) wrote "because retail activity probably cannot be increased spontaneously by government promotion and the distribution of retail is fairly stable, one might conclude that retailers are locating pretty much where they would have in the absence of incentives." Nevertheless, developers can facilitate the retail decision process especially by providing general demographic information to potential retailers and pointing out details about their areas that the retailers may have overlooked (Harald, 1995). If close to the population threshold required, the community may have success with a locational incentive package.

## HIGH-END RETAIL DEPARTMENT STORES

To answer the question ("can we have a high-end retail department store?") posed to us, we studied the locations of five national high-end department stores (Bloomingdale's, Macy's, Neiman Marcus, Nordstrom, and Saks) to determine empirically their locational drivers. Bloomingdale's, with annual sales of \$2 billion, was founded in 1860 by Joseph and Lyman Bloomingdale in New York's Lower East Side. In 1886, it moved to 59th Street and Lexington, and, by the 1920s, covered an entire city block. In 1961, it came up with the first designer shopping bags.

Macy's, with its flagship store in New York as well, now has over 100 stores nationwide. The first Macy's Thanksgiving Day Parade occurred in 1924, a tradition begun by Macy's employees. Federated Department Stores currently owns both Bloomingdale's and Macy's.

Neiman Marcus was founded in Dallas, Texas, in September 1907 by Herbert Marcus, Sr., his sister Carrie Marcus Neiman, and her husband A.L. Neiman. By 1914, it had a permanent location on Main Street at Ervay Street, which has had Texas landmark status since 1982. Nieman Marcus was acquired by two private equity firms in October 2005.

Nordstrom, with an equally long history, was founded in 1901 in Seattle, Washington, by John W. Nordstrom, a Swedish immigrant. Nordstrom sold only shoes until 1963 but now sells a full line of retail products. In 1998, it replaced its downtown Seattle store with a new flagship location across the street. Nordstrom, with 2005 sales of $7.7 billion, employs over 50,000 individuals nationwide.

Finally, Saks opened as Saks Fifth Avenue in New York in 1924. It was founded by Horace Saks and Bernard Gimbel. It branched out almost immediately; its first branch store opened in 1926 in Palm Beach, Florida. It had annual sales of $2.7 billion in 2005.

Whereas all five stores are considered high end, Nordstrom and Bloomingdale's compete at roughly the same average price level, below Neiman Marcus and Saks, but above Macy's.[1]

## THE APPROACH

Addresses for all Bloomingdale's, Neiman Marcus, Nordstrom, Macy's and Saks stores in the United States were collected from the respective companies' web sites in 2001. We were originally approached to answer the question about high-end retail in 1998 so collected our initial data a number of years ago. Having older data, however, with which to estimate a model has given us the opportunity to compare the model's predictions with current (2006) store locations in order to assess the model's performance. The other variables we discuss below (land area, population, percentage of high-income or wealthy families, and so forth) change, in a relative sense, rather slowly over time; hence, our results should still be of current interest.

In 2001, Saks had a total of 63 stores; Macy's, a total of 97; and Nordstrom, a total of 130. Neiman Marcus had 46 stores, while Bloomingdale's had 22. Altogether, there were 358 high-end retail stores for our study. After assigning each store to a metropolitan area, we added up the total number of high-end stores in each geographic region. Out of 275 areas, 64 had at least one high-end department store.[2] The remaining 211 regions had none. Figure 1 shows the locations of the five high-end department stores in our study. Each dot represents one zip code, while the shading varies from light to dark depending on the number of stores.[3]

We next worked toward developing a statistical model that could explain the variation in the number of high-end department stores. Although the development process involved a fairly large database with over 50 different variables describing regional characteristics, we report results only for three of those variables since none of the remaining variables statistically improved the model's fit or predictive ability. The effect of the three variables is strong. Our model explains 89 percent of the variation (that is, the estimated model has an R-squared value of 0.89) in number of stores. In estimating the model, we recognize that the character of our dependent variable (store counts) disqualifies ordinary least squares as a reliable estimation technique. Hence, our results are based on tobit estimation (a statistical regression technique that eliminates any bias and inconsistency associated with ordinary least squares) for censored data. Tobit estimation, available through many standard statistical software packages, has been used in several similar industrial-location studies, though for different industries. See, for example, Smith and Florida (1994) and Klier, Ma, and McMillen (2004).

Photo from Macy's Press Room, Federated Department Stores, Inc.


*Lazarus, a Midwest department store chain founded in 1851 by Simon Lazarus, was taken over by Macy's in 2005. This Macy's store in downtown Cincinnati was formerly a Lazarus store.*

The three explanatory variables are population, land area, and income, with population and income found in *Census 2000* and land area taken from the *County and City Data Book 2000*. High-end department stores, with substantial fixed costs, generally require a large population base to be successful. We expect them only in large urban centers, or "higher-order" centers in the language of Central Place Theory (Christaller, 1966).

Central Place Theory predicts there is a direct, positive relationship between the population of the central place and the number of functions (firms, generally, and, in our case, high-end retail department stores) provided in that place (Deller and Harris, 1993). Indeed, the data show that many of the stores are concentrated in the population centers of Boston, New York City, Los Angeles, and San Francisco.

**Figure 1. High-End Retail Department Store Locations**


In our sample, population ranged from 57,813 for Enid, Oklahoma, to over 21 million for the New York – Northern New Jersey – Long Island, NY – NJ – CT – PA region. Figure 2 is a scatter plot of the number of stores against population for the 275 regions in the study. We see that the largest population centers have the largest number of stores. However, for smaller regions, the range on the number of high-end retail stores is broad, suggesting factors other than population also influence store location.

Besides population, we include the land area in square miles for each metropolitan area. The high-end retailers are expected, other things being equal, to locate more stores in large geographic areas to cut down on shoppers' commutes. Whereas the New York area is fairly condensed in 10,838 square miles, the sprawling Los Angeles region takes up 33,955 square miles of land.

The third variable is the proportion of households in the region with income of at least $150,000 in 2000. High-income households should have more discretionary income to spend, and high-end retail should be attracted to high-income metropolitan areas.

The estimated model, using tobit estimation for censored data, is

Stores = -8.9093 + 0.00000149 Population +
0.0002647 Land Area +
153.0243 Proportion of High-Income Households.

The t-statistics are 11.73, 4.58, and 7.48 for Population, Land Area, and Proportion of High-Income Households, respectively, indicating that each estimated coefficient is significant for at least the one percent significance level.

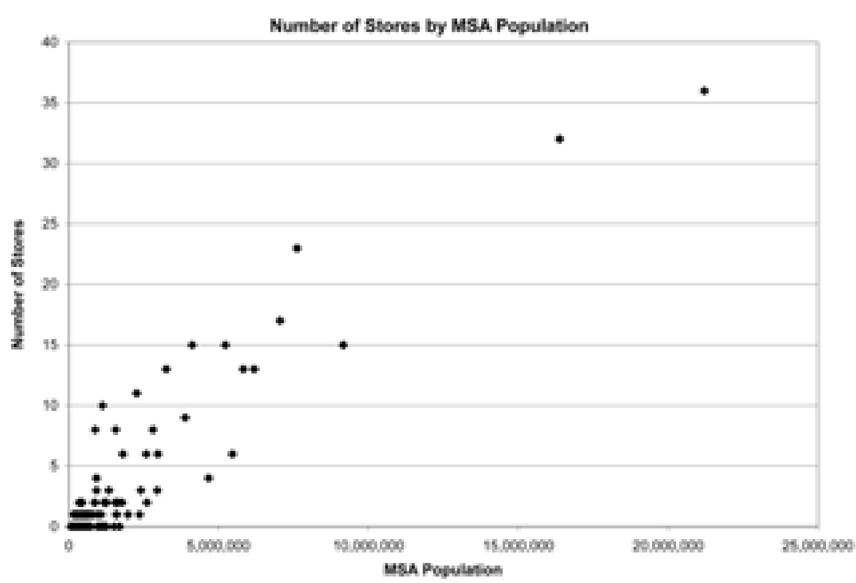
Before the final model was developed and estimated, a large number of other economic and demographic metropolitan-area variables were considered. Although none led to a statistical improvement in the final model, we mention here those additional variables so the reader can appreciate the process of model development. We mention them as well because some of them do undoubtedly enter into a department store's regional location decision as well as its specific site selection within a region. The fact that they do not show up as statistically significant when added to our model does not necessarily mean firms do not consider them when undertaking individual store location and site decisions.

We considered numerous variables that capture gender, the age profile, and educational attainment. We considered the proportion of men and women by region; the proportion of individuals aged 18 – 24, 25 – 34, 35 – 49, and 50 and above; and the proportion of individuals with a bachelor's degree. (Note that this latter variable has an estimated coefficient that is statistically significant in a regression model, but education is too highly correlated with proportion of high-income households for both to be included in the same model.)

We considered variables that captured wealth in an area, including median owner-occupied housing values and the threshold for the upper quartile of housing values in the area. These variables have estimated coefficients that are also statistically significant in a regression model, but, again, they are too highly correlated with the income variable to add to the model.

We looked at other income variables including median household income, effective buying income, number

**Figure 2. Relationship Between Population and Number of High-End Retail Department Stores**



of households with non-wage (interest, dividend, or rental) income, and percent of population employed in the finance-and-insurance sector, which tends to pay a higher-than-average salary. None of these variables performed as well as the proportion of high-income households in an area, and none could be included along with this proportion due to a correlation with the proportion that was too high. We also looked at per capita motor vehicle sales as a possible indicator of the willingness of individuals to buy big-ticket items.

We looked at crimes reported to the police as well as government revenue, including property taxes, and spending. We also considered the fraction of a region's employment in the Accommodations Industry (NAICS 721) to determine whether we could capture successfully a regional economy's participation in tourism and/or the convention business.[4]

Courtesy of Neiman Marcus®.

*Neiman Marcus Flagship Store. In 1914, Neiman Marcus had a permanent location on Main Street at Ervay Street, in Dallas, which has had Texas landmark status since 1982.*

Finally, average annual expenditures on housing, apparel, education, entertainment, and food away from home were obtained from the *Consumer Expenditure Survey* of the Bureau of Labor Statistics (BLS). These data were available for only 28 major metropolitan areas and for four broad regions of the U.S. (Northeast, South, Midwest and West). For areas near one of the 28 areas with data, we assumed the area had the same expenditure pattern as did its nearby BLS area. For areas not near an area with expenditure data, we ascribed the regional value to it.

We thought that people who tended to spend more on apparel or leisure-type activities might be more likely to frequent high-end department stores. However, none of the expenditure variables improved upon the fit or predictive power of the model.[5] Again, we are not saying that expenditure patterns are not important to the locational decisions of the department stores —- only that including secondary data on expenditures does not help us to answer any better statistically the question posed to us by the economic developers.

## THE ANSWER

With a population of 1,979,202, a land area of 3,810 square miles, and 4.57 percent of the households with income of $150,000 plus, our model predicts that the greater Cincinnati area should have had two stores in 2001. In other words, the results of our analysis suggest that a strategy focused on attracting a Nordstrom, Bloomingdale's, Neiman Marcus, or Macy's to the greater Cincinnati area, to join its one Saks branch, could have been successful.

Although there is as yet no Nordstrom, Bloomingdale's or Neiman Marcus store in the area, there are now six Macy's stores, challenging either the model or the notion of "high end" retail. The high-end environment in Cincinnati has been altered due to the takeover of Lazarus Department Stores by Macy's in 2005. Lazarus, a Midwest department store chain founded in 1851 by Simon Lazarus, became Lazarus - Macy's in 2003, and then Macy's in 2005. However, since the average price point of Lazarus was below that of Macy's, it remains to be seen whether the Macy's branches in the Cincinnati area will be able to carry successfully a full higher-end line or whether there will be some closures or other changes within the next five to ten years.

The estimated model does a reasonable job of predicting number of stores across the country's metropolitan areas. For each region, we compared the actual number of stores with the model's predicted number. For 215 regions, the model accurately predicts the actual number of stores. For example, the Minneapolis–St. Paul area had six high-end department stores in 2001. The model predicts six (6.13 to be exact); the Boston area had 13 stores, and the model predicts 13 (12.61).

For 17 regions, including the Cincinnati–Hamilton metropolitan statistical area, the model overpredicts the number of high-end department stores. These 17 regions were those most likely to acquire (have the highest odds of acquiring) one or more stores.

Whereas the model suggested that Cincinnati's characteristics would allow it to have two stores relative to the single Saks branch that it did have, the model overpredicted the number of stores in Naples, Florida, by five stores. A population of 251,377, a land area of 2,025 square miles, and a relatively high-income population (over nine percent of the households had income in excess of $150,000) led to a prediction of six high-end stores. However, Naples had but one high-end department store in 2001. Similarly, the Houston area had five fewer stores than the model predicts. While it had four high-end department stores, the model predicts nine.

The remaining overpredictions were for the following areas:

- San Francisco–Oakland–San Jose (four-store overprediction)
- Detroit–Ann Arbor–Flint (three-store overprediction)
- New York–Northern New Jersey (three-store overprediction)

- Raleigh–Durham–Chapel Hill (two-store overprediction)
- Los Angeles–Riverside–Orange County (two-store overprediction)
- Chicago–Gary–Kenosha (two-store overprediction)
- Charlotte–Gastonia–Rock Hill (two-store overprediction)
- Las Vegas (one-store overprediction)
- St. Louis (one-store overprediction)
- Austin–San Marcos (one-store overprediction)
- Flagstaff (one-store overprediction)
- Cincinnati–Hamilton (one-store overprediction)
- Nashville (one-store overprediction)
- Hartford (one-store overprediction)
- Denver–Boulder–Greeley (one-store overprediction)

Of these areas, in 2001, there were no high-end department stores in Raleigh – Durham – Chapel Hill, Charlotte – Gastonia – Rock Hill, Nashville, or Flagstaff, Arizona. Each of these areas had a population that exceeded the estimated threshold (discussed below) required for a high-end department store. This suggests these areas were ripe for the introduction of a high-end department store soon after 2001. Indeed, as of 2006, there now is a Neiman Marcus store in Charlotte, a Saks branch has opened in Raleigh, and there are two Macy's stores in Nashville, Tennessee. In addition, Nordstrom plans to open a store in Naples, Florida, in 2008.

The other areas for which the model overpredicts already had at least one high-end department store in 2001. In the case of New York–New Jersey, there were 36 stores in 2001, while the model predicts 39. There were 32 stores in the Los Angeles area, while the model predicts 35. According to the Nordstrom website in 2006, this store currently has plans to open two more branches in Los Angeles and another two in New York within the next few years.[6]

The model underpredicts the number of high-end department stores for 43 metropolitan areas. For 21 areas, the underprediction is by just a single store; for seven areas there is a two-store underprediction; for five areas, a three-store underprediction; and for four areas, a four-store underprediction. For six areas, the model underestimates the number of stores by five or more. Our worst prediction is for Portland–Salem, Oregon–Washington, where there were 11 high-end department stores in 2001. Our model predicts only three. Since most of the stores in this area are Nordstrom stores, we assume our underprediction is due to Portland's proximity to that store's headquarters in Seattle. Areas that are popular tourist and/or convention destinations tend to have more stores than the model predicts on the basis of population, area, and income. Indeed, the actual number of stores exceeds that predicted by the model in Honolulu, Hawaii; Phoenix-Mesa, Arizona; the Washington D.C.–Baltimore area; Miami, Florida; West Palm Beach, Florida; and San Diego, California, all popular travel destinations.

To determine how well the model predicts overall, we calculated mean absolute error (MAE) as the sum of the absolute values of the difference between actual and predicted number of stores, divided by 275, the number of metropolitan areas in the sample. The MAE is calculated as 0.5018 stores. This value is lower than that obtained by either the same model estimated using ordinary least squares or a model that includes a squared population variable.[7]

## POPULATION THRESHOLDS

Working from the estimated model above, we compute minimum population levels for having one high-end department store. We set Stores = 0.5 on the left-hand side of the equation. (At predicted values of 0.5 and above, the model predicts at least one store in the metropolitan area.) We choose five different values for land area: 2,000, 2,500, 3,000, 3,500, and 4,000 square miles, respectively. While the metropolitan areas differ in size from a minimum of 393 square miles in Muncie, Indiana, to 39,369 square miles in Las Vegas, Nevada, the mean area is 2,590 square miles. We select five different values for the proportion of high-income households: 0.01, 0.02, 0.03, 0.04, and 0.05. The mean value of this variable is 0.032, while the range is again quite large, from 0.0118 for the Cumberland Maryland–West Virginia metropolitan statistical area to 0.1170 for the San Francisco–Oakland–San Jose area.

**Table 1. Population Thresholds as a Function of Land Area and Proportion of High-Income Households**

| Land Area in Square Miles | Proportion of Households with Income of at Least $150,000 | | | | |
|---|---|---|---|---|---|
| | 0.01 | 0.02 | 0.03 | 0.04 | 0.05 |
| 2,000 | 4,932,656 | 3,905,647 | 2,878,638 | 1,851,630 | 824,621 |
| 2,500 | 4,843,830 | 3,816,821 | 2,789,813 | 1,762,804 | 735,795 |
| 3,000 | 4,755,005 | 3,727,996 | 2,700,987 | 1,673,979 | 646,970 |
| 3,500 | 4,666,179 | 3,639,170 | 2,612,162 | 1,585,153 | 558,144 |
| 4,000 | 4,577,354 | 3,550,345 | 2,523,336 | 1,496,328 | 469,319 |

At the average values of 2,590 square miles and 3.2 percent of households having income of at least $150,000, the estimated model predicts a threshold of 2,568,422 (2.6 million) in population for there to be a high-end retail department store. We note that the Cincinnati area had a population below 2.6 million in 2001. However, with the area's above-average physical size and above-average share of high-income households, it could compete for a high-end department store, as shown in Table 1. Table 1 depicts the sensitivity of the population threshold to the amount of land area and the share of high-income households.

For a wealthy metropolitan area (with five percent of the households having income of $150,000 plus) with a large land area (4,000 square miles), the population threshold for a high-end department store is less than half a million. For such a region, only 469,319 people are needed for one high-end department store. As the land area falls, the threshold rises to 558,144 at 3,500 square miles and 824,621 at 2,000 square miles. On the other hand, as the proportion of high-income households falls, the threshold rises precipitously from 469,319 to 1,496,328 with four percent high-income households, to 2.5 million with three percent, 3.6 million with two percent, and 4.6 million with one percent. The highest threshold in Table 1, 4.9 million people, is for a small (2,000 square miles), low-income (one percent high-income families) area.

Photo by Enrico.

*The first Macy's Thanksgiving Day Parade occurred in 1924, a tradition begun by Macy's employees. The 2006 Parade had some wet weather, but there was still a crowd to watch it.*

## WHEN TO ADD MORE HIGH-END DEPARTMENT STORES

Since the estimated coefficients in this particular statistical model cannot be interpreted as the marginal effects of the independent variables, we compute marginal effects as the estimated coefficients times the proportion of regions (64 out of 275) that have at least one high-end retail store (see Greene, 2003). Using those marginal effects (0.000000347 for Population, 0.000061603 for Land Area, and 35.6129 for High-Income Households), we determine what must happen for an area that already has at least one high-end department store to acquire another.

All else the same, if the population in a region grows by 500,000, the model predicts an increase in the number of high-end department stores of 0.1735 (about a sixth of a store). If the population grows by a million, the expectation is a rise in high-end department stores of 0.347 (about a third of a store). If the population in a region thrives economically such that an additional half percent of households have over $150,000 in income, the model predicts an increase in the number of high-end department stores of 0.1781. This effect is of the same magnitude as that from a population rise of a half million and gives economic developers a feeling for the tradeoff between more people and wealthier people in attracting high-end retail. If the percent of high-income households rises by a full percentage point, the model predicts an increase of 0.3561 in the number of high-end department stores. Growth in physical area (though statistically significant) does not have as powerful an effect on number of stores, due to the relatively small estimated coefficient for Land Area in the model. With an increase in area of 500 square miles, all else the same, the model predicts an increase in the number of stores of 0.0308. With the addition of 1,000 square miles, the number of stores is predicted to rise by 0.0616.

## SUMMARY AND CONCLUSION

In this article, we have estimated an empirical model to explain the number of high-end retail establishments in a metropolitan area. Since most of the 275 metropolitan areas in our sample had no high-end retail, we selected a tobit censored-regression model as the most appropriate specification. The three explanatory variables had statistically significant estimated coefficients. The model fit the data well as evidenced by the high rate of accurate predictions of number of retail stores.

Although population was the single most important variable predicting the existence of high-end retail, as we would expect from Central Place Theory, other variables such as land area and the proportion of high-income households were also important factors. Indeed, the population threshold for high-end retail can be reduced significantly by increasing the percentage of high-income households in the area. In that sense, high-end department stores can be viewed as rewards for successful economic development in a metropolitan region.

## FOOTNOTES

1 Sales and employment data are found on Hoover's On-Line, accessed through the University of Cincinnati on September 9, 2006. Company history is available on individual company websites.

2 The metropolitan statistical areas (MSAs) and consolidated MSAs (CMSAs) are based on the relevant definitions in 2001. The U.S. Census Bureau's MSA definitions underwent a significant revision in 2003. For example, in 2001, the Cincinnati-Hamilton CMSA included 13 counties; according to the new definition, the Cincinnati-Middletown region includes 15 counties: seven in Kentucky, five in Ohio, and three in Indiana.

3 In addition to the stores indicated in Figure 1, there are nine stores in Honolulu, Hawaii, and one store in Anchorage, Alaska.

4 NAICS refers to the North American Industrial Classification System.

5 All of the collected data are available from the authors on request.

6 Store locations are available on individual company websites.

7 One issue we had to address was the form of the relationship (i.e., linear, binomial, logarithmic, etc.) between the number of stores and the population of a region. Plotting these two variables and identifying the best-fitting curve revealed that a linear relationship actually provided the best fit.

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# edgewater:

## THE POWER OF PUBLIC-PRIVATE PARTNERSHIPS

*By Betsy Giusto, Ph.D.*

While public-private partnerships have become a common term, the reality is that this method of cooperation and coordination is essential and extraordinary. Edgewater is a prime example of a remarkable project that would never have been launched solely by the municipality or the private company. The public-private partnership that aims to transform a sizeable brownfield into a mixed-use destination is dependent upon attributes that both the municipality and the private company possess—leadership, economics, innovation, experience, and motivation.

A small municipality and a developer have teamed up to undertake a mammoth project that will completely transform one of the largest and most unsightly tracts within a city's boundaries. If it were not for the public-private partnership that was forged between the City of Webster, Texas, and Cherokee Investment Partners, the world's largest firm specializing in brownfield redevelopment, Edgewater would never have been born.

While the City of Webster is located just south of Houston, Webster encompasses only 6.7 square miles and is home to 9,000 residents. The partnership that was created between the city and Cherokee Investment Partners remediates and redevelops a 574-acre tract that is located in the nucleus of the city and constitutes nearly 9 percent of the city's total real estate. Further, as the project adds 2,600 new residents, Webster's population will increase by 29 percent.

*The City of Webster, Texas, and Cherokee Investment Partners receive the International Economic Development Council's Partnership Award for Edgewater in September 2006. Accepting the award in New York are standing from left, Betsy Giusto, City of Webster; Matt Young, Cherokee Investment Partners: Council Member Natalie Dolan; Mayor Donna Rogers; Council Members Carlos Villagomez, Beverly Gaines, Melvin Ellis, and Floyd Myers; and kneeling, Bob Douglas, The Johnson Development Corp.*

When a city and developer work together to dismantle and eradicate an obsolete power plant that is located on prime real estate positioned in the very center of town, remediate a number of environmental contaminants, design a mixed-use destination that accommodates over 2,600 new residents, create more than 375,000 square feet of new retail, construct a marina with accompanying infrastructure, develop at least 31 acres of park land for public access, preserve wetlands along a creek, and fund over $32 million of capital improvements by working together – then, this project is extraordinary!

**Betsy Giusto, Ph.D.**, is economic development director for the City of Webster, Texas.

### TRANSFORMING A BROWNFIELD INTO A MIXED-USE DESTINATION

*When a small municipality and a developer team up to undertake an epic project that will completely transform one of the largest tracts within a city's boundaries, this partnership can serve as a national model and win the International Economic Development Council's Partnership Award for 2006. This is precisely what happened in Webster, Texas, with Cherokee Investment Partners' cooperation, investment, and partnership. Edgewater is a master-planned, mixed-use destination that is being developed on 574 acres located in the center of the city. Once a power plant, this former brownfield posed considerable development hurdles that could only be overcome by the public-private partnership that was forged between the city and developer.*

Within a very short time period, the City of Webster and Cherokee Investment Partners solidified a long-term relationship and formulated innovative financing structures incorporated within development and utility agreements that would enable this brownfield redevelopment project to transpire. In return for a blighted brownfield housing an obsolete power plant, Webster and Cherokee are creating Edgewater – a mixed-use destination that will result in sustainable growth, new economic opportunities, new residents, new businesses, new jobs, new parks, and preservation of natural resources.

## BIRTH OF EDGEWATER

In June 2005, when Texas Genco announced that it would sell the Webster power plant, Webster officials determined that this was an opportune time to shape the destiny of one of its largest tracts. While City Council rezoned the tract from heavy industrial to planned unit development to promote a mixed-use, non-industrial project, Webster's Economic Development and Community Development Departments worked with the seller, real estate brokerage firm, and potential purchasers to foster a development that would be beneficial to all parties. The timing for the sale of this tract was further compounded by NRG Energy's acquisition of Texas Genco, announced in October 2005. If the Webster power plant were not sold by early 2006, the plant would become an asset of NRG Energy, and no sale would be forthcoming.

*This project includes demolition and remediation of more than 30 facilities, including three generating units. The largest generating unit was imploded on January 13, 2007.*

Due to a number of issues surrounding this tract, including environmental contamination, power plant demolition, challenging tract configuration, acres of flood zone, numerous electrical transmission lines, and gas pipeline easements, only one company was willing to forge a partnership with the city and purchase the brownfield – Cherokee Investment Partners.

It is important to note that the tract was being sold "as is," which meant that the contamination identified in the Phase I Environmental Site Assessment had to be remediated, and the more than 30 facilities located on the tract, either inside the immediate power plant area or outside the generating plant footprint, had to be dismantled and removed. As there were nine recognized environmental conditions identified at the site, along with sizeable power plant facilities to be dismantled, it is no wonder that only one development company was amenable to taking on this Herculean project.

## THE RIGHT PARTNER

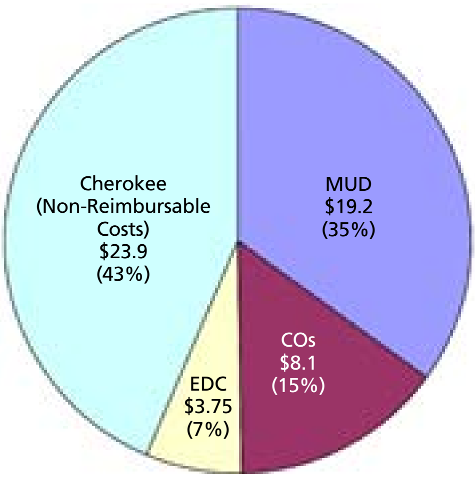
Cherokee Investment Partners, headquartered in Raleigh, North Carolina, with offices in Austin, Denver, and London, is the largest firm in the world specializing in the acquisition, remediation, and redevelopment of underutilized or environmentally contaminated sites.

*This former industrial facility, located on the southwest portion of the 574-acre tract, was retired in 2002. Nine recognized environmental conditions were identified in the Phase I Environmental Assessment.*

With Cherokee's excellent reputation for investing in environmentally-impaired real estate, performing remediation, and redeveloping sites to enhance economic vitality, the city was eager to foster a partnership with this company whose mission is to revitalize America's cities and achieve economic, social, and environmental results.

Despite many development challenges, within four months, the City of Webster and Cherokee Investment Partners worked in concert to formulate innovative financing structures incorporated within development and utility agreements that would enable this project, with development costs of $55 million, to be launched. First and foremost, both parties solidified a long-term commitment with one another. A municipal utility district was created to fund over $19 million of improvements, consisting of utilities, excavation for a navigation system, interior lakes, parks, and trails. Next, the city agreed to issue certificates of obligation to provide reimbursement for demolition, remediation, interior streets, sidewalks, screening, and

**Funding Formula for Initial Development Costs of $55 Million**




*Cherokee Investment Partners advanced funded 100 percent of the initial development costs. Only 57 percent is reimbursable through three sources: the formation of a municipal utility district; City of Webster's issuance of certificates of obligation, as development occurs and appraised value escalates; and Webster Economic Development Corporation's reimbursement after four performance criteria are met.*

landscaping. The city's issuance of debt, capped at $8.1 million, would reimburse Cherokee after certain development milestones were met. Finally, the Webster Economic Development Corporation agreed to provide reimbursement for the mile-long main corridor that would span the entire development from NASA Parkway to Clear Creek.

Cherokee Investment Partners exhibited its willingness to invest in a long-term relationship with Webster to transform blighted brownfields into a vibrant development, as the company is funding more than $23 million that is not subject to reimbursement. Further, Cherokee assumes all risk as it funds in advance 100 percent of initial development costs, as identified in the Capital Improvement Plan, which total $55 million. (See Capital Improvement Plan.)

Webster city staff, City Council, and the Webster Economic Development Corporation worked with Cherokee Investment Partners' Vice President Kyndel Bennett and his team to formulate innovative financing structures incorporated within a development agreement and utility services contract that would enable Cherokee to advance fund 100 percent of $54.9 million in development costs and obtain reimbursement for 57 percent of those costs from three sources, once performance criteria were met. The three funding sources include the municipal utility district, certificates of obligation, and the Webster Economic Development Corporation.

Cherokee worked with the city to submit a land plan and detailed capital improvement plan that clearly identified all of the projects and funding responsibilities of the three entities – city, Economic Development Corporation, and Municipal Utility District. While the land plan featured a mixed-use destination to accommodate 375,000 square feet of retail, a marina with accompanying navigation system infrastructure, 31 acres of public park land, preservation of wetlands along Clear Creek, single-family and multi-family residential that would add 2,600 to Webster's population, the $32 million capital improvement plan identified roads, utilities, sidewalks, landscaping, excavation, bulkheads, engineering, parks, trails, remediation, and demolition that would transform this defunct, contaminated power plant into a vibrant master-planned community.

## ECONOMIC IMPACT

As a result of this partnership, the economic benefits to the City of Webster are considerable. In return for a blighted brownfield housing an obsolete power plant, Webster and Cherokee are creating a mixed-use destination that features a marina, retail development, office, single-family, multi-family, and high-density residential districts, and preservation of a large land area at Clear Creek for a public park with trail system, all amid a pedestrian-oriented "walkable" community. Economic projections for the redevelopment project are conservatively estimated to exceed $55 million within two

Economic projections for the redevelopment project are conservatively estimated to exceed $55 million within two decades and are based on sales tax, water and sewer revenue, and property tax, as this project will result in $265 million in new property value.

### Capital Improvement Plan
Capital Improvement Plan

| Cost Item | WEDC Improvements | City Improvements | District Improvements | Total Costs |
|---|---|---|---|---|
| Total Major Road Costs | $ 3,719,044 | $ - | $ - | $ 3,719,044 |
| Total Common Utilities Costs | $ - | $ - | $ 2,790,924 | $ 2,790,924 |
| Total Lift Station Costs | $ - | $ - | $ 720,398 | $ 720,398 |
| Total Marina/Island/Lake Costs | $ - | $ - | $ 4,999,926 | $ 4,996,926 |
| Total Detention/Retention Costs Interior Lake | $ - | $ - | $ 928,663 | $ 928,663 |
| Total Detention/Retention Costs Marina/Island | $ - | $ - | $ 3,253,759 | $ 3,253,759 |
| Total Water, Sewer, & Drainage | $ - | $ - | $ 5,097,858 | $ 5,097,858 |
| Total In-neighborhood Paving | $ - | $ 5,157,730 | $ - | $ 5,157,730 |
| Total Screening, Signage, Lighting, And Landscaping | $ - | $ 2,383,524 | $ 307,065 | $ 2,690,589 |
| Total Parks and Trails | $ - | $ 64,350 | $ 933,075 | $ 997,425 |
| Total Remediation | $ - | $ 2,047,100 | $ - | $ 2,047,100 |
| Total District Costs/Market Study | $ - | $ - | $ 210,000 | $ 210,000 |
| Total | $ 3,719,044 | $ 9,652,704 | $ 19,241,668 | $ 32,613,416 |


*The project is located within the nucleus of the City of Webster and constitutes nearly nine percent of the city's real estate. The tract features more than 2,300 feet of frontage along NASA Parkway, in addition to 7,000 feet along Clear Creek.*

*Planned and developed by Johnson Development Corp., the master-planned community will feature a marina, 31 acres of public park land, "finger" lakes, walking trails, a variety of residential housing for 2,600 residents, and 375,000 square feet of retail development.*

decades and are based on sales tax, water and sewer revenue, and property tax, as this project will result in $265 million in new property value.

The redevelopment of a former power plant with all of its impediments into a vibrant, master-planned, mixed-use development appeared impossible and overwhelming until the City of Webster teamed up with Cherokee Investment Partners. The result is a destination with sustainable growth, new economic opportunities, new residents, new businesses, new jobs, new parks, and preservation of natural resources.

## A MODEL FOR CITIES TO EMULATE

This redevelopment project can easily be replicated if several components are present. First, the city must believe strongly that the development will be of significant benefit to the community in terms of economic vitality and improved quality of life. Next, the city must know that without a partnership – without a willing, motivated private entity – the development would not transpire.

Both the city and the developer must seek to attain mutually beneficial results by setting parameters of time, funding levels, and expected outcomes. If the city and developer begin with a vision, solidify the vision through site plans, capital improvement plans, and financing plans, and partner in such a way that the city's risk is minimal and the developer is capable of advance funding, then the project has great potential for success. When a city can provide a specified level of reimbursement to a developer for a project that is tied to performance criteria, rather than speculatively providing incentives on the front end, the project has a far greater chance of being launched.

In the case of the City of Webster and Cherokee Investment Partners, this is precisely what occurred: Webster City Council was enamored of the project and approved reimbursements (as delineated in a development agreement and utility services contract) to the developer based on performance milestones. The city, therefore, incurred no risk – reimbursements would occur after infrastructure was completed and revenues were generated from the project.

For example, the first phase of reimbursement to Cherokee Investment Partners will be $3.75 million by the Webster Economic Development Corporation, after the developer dismantles and remediates the power plant, constructs the major boulevard with sidewalks, landscaping, and lighting, installs utilities, and develops a park. The second phase of reimbursement to the developer will be issued by the city in three increments that total $8.1 million, which will be triggered as the project's appraised value increases by $90 million. The remaining development costs that will be reimbursed to Cherokee are district improvements that total $19.2 million, defined in the Capital Improvement Plan, which will be funded by the Municipal Utility District.

## IMPORTANCE OF LEADERSHIP

While many opportunities exist to forge public-private partnerships that have the potential to transform communities and create incredible projects that will result in economic growth and vitality, leadership is the key attribute that solidifies any development. In the case of Edgewater, Webster City Council could be described as progressive, unified, enlightened, and motivated. City Council depended upon city staff, namely the city manager, director of finance, director of community development, and the Economic Development Department, to be innovative, quick, thorough, and inspired.

While many opportunities exist to forge public-private partnerships that have the potential to transform communities and create incredible projects that will result in economic growth and vitality, leadership is the key attribute that solidifies any development.

Additionally, City Council depended upon Cherokee Investment Partners. Early in the complex process to form the partnership, Cherokee Investment Partners demonstrated its leadership traits – reliability, accessibility, high-performance, integrity, experience, and intelligence.

A public-private partnership implies cooperation – and that is precisely what the Webster City Council, the Webster Economic Development Corporation, city staff, and Cherokee Investment Partners did – they cooperated. They invested in one another. From the beginning, they were determined to overcome hurdles to achieve the goal – Edgewater.

# NEWS FROM IEDC

## ACCREDITED ECONOMIC DEVELOPMENT ORGANIZATION (AEDO) PROGRAM

IEDC worked with the Georgia Tech Enterprise Innovation Institute to assess IEDC-accredited organizations (AEDOs) to develop a system for economic development organizations to identify key quality management challenges and opportunities for improvement. The Georgia Tech publication titled *Benchmarking Quality Management Among Accredited Economic Development Organizations* revealed several components of successful organizations, as well as some common challenges economic development organizations confront.

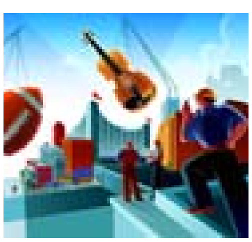
To receive a copy of the publication and for more information on how you can accredit your organization contact Rebecca Moudry at Rmoudry@iedconline.org.

## IEDC COMPLETES WORK IN HULL, UNITED KINGDOM

IEDC recently completed work in Hull, United Kingdom. IEDC developed an action plan for the city based on target industries previously identified by IBM Business Consulting Services' Global Location Strategies. The action plan provided recommendations and best practices in value added port logistics, renewable energy, and the biomedical/health care industry sectors.

Ron Kysiak, Gordon Kennedy and Gene Deprez joined IEDC staff Ed Gilliland, CEcD and Rebecca Moudry on a visit to Hull. The team worked with the city's Urban Regeneration Company, Hull Citybuild, then headed by Adam Wasserman.

## IF YOU BUILD IT, WILL THEY COME? CONFERENCE RETURNS



For the 12th year, IEDC presents the If You Build It, Will They Come? Conference in Kansas City, Missouri, May 20-22. Learn from industry experts and community representatives about how they made projects happen! This event will look at new case studies and areas involved in audience facilities including sessions on:

- Sports Anchored Developments
- Paying for Culture
- The Rise of the Conference Center
- If You Built It 25 Years Ago, What Now?
- The Latest Trends in Convention Center Development
- Surrounding Area Development Districts
- Entertainment Districts in Smaller Markets
- Minor League Sports Facilities: The Critical Factors for Success

For program and travel information and to register, visit www.iedconline.org/ifyoubuildit.

## IS YOUR EDO COMPETITIVE IN TERMS OF SALARIES? ARE YOU?

IEDC's new *2006 Salary Survey Report of Economic Development Professionals* is now available. Based on responses from 5,000 economic developers throughout North America, this is the largest and most comprehensive salary survey ever conducted for the profession.

The report provides a detailed profile of respondents' activities, compensation, and benefits, including 70 pages of data tables. Compensation tables present data by personal, career-related, organizational, and geographic factors (metro area, region, and state). Survey results are also broken down by position, jurisdiction size, and EDO operating budget. Members: $95; Non-members: $125. Visit www.iedconline.org to purchase the report.

## REFER-A-MEMBER 2007 CAMPAIGN

Share your membership experience with friends and colleagues through our Refer-A-Member 2007 Campaign and you'll receive 10 percent off your membership the next time you renew. Help us find more members like you.

This year's campaign is easy for you to participate in. Look for an e-mail and just simply click the "yes – I will refer a member" and forward to a colleague. They too will receive a 10 percent discount and start enjoying all the benefits IEDC has to offer. For more information, contact our membership department at 202-942-9460. Visit our website at www.iedconline.org.

INTERNATIONAL ECONOMIC DEVELOPMENT COUNCIL

*The Power of Knowledge and Leadership*

# CALENDAR OF EVENTS


IEDC sponsors an annual conference and a series of technical conferences each year to bring economic development professionals together to network with their peers and learn about the latest tools and trends from public and private experts. IEDC also provides training courses throughout the year for professional development, a core value of the IEDC. It is essential for enhancing your leadership skills, advancing your career, and, most importantly, plays an invaluable role in furthering your efforts in your community.

For more information about these upcoming conferences and professional development training courses, please visit our website at www.iedconline.org.

## CONFERENCES

**Federal Economic Development Forum**
March 18-20, 2007
Arlington, VA

**If You Build It, Will They Come?**
May 20-22, 2007
Kansas City, MO

**2007 Annual Conference**
September 16-19, 2007
Phoenix, AZ

## PROFESSIONAL DEVELOPMENT

**Business Retention and Expansion**
March 15-16, 2007
Arlington, VA

**IEDC Certified Economic Developer Exam**
March 17-18, 2007
Arlington, VA

**Economic Development Credit Analysis**
March 19-21, 2007
Albany, NY

**Introduction to Economic Development**
April 30-May 2, 2007
Reno, NV

**Real Estate Development and Reuse**
May 17-18, 2007
Kansas City, MO

**IEDC Certified Economic Developer Exam**
May 19-20, 2007
Kansas City, MO

**Entrepreneurial and Small Business Development Strategies**
June 6-7, 2007
Atlanta, GA

**Business Retention and Expansion**
June 14-15, 2007
Baltimore, MD

**Economic Development Marketing and Attraction**
July 26-27, 2007
New Orleans, LA

**Technology-led Economic Development**
August 15-16, 2007
Saratoga Springs, NY

**Workforce Development**
September 6-7, 2007
Louisville, KY

**Business Retention and Expansion**
September 13-14, 2007
Phoenix, AZ

**IEDC Certified Economic Developer Exam**
September 15-16, 2007
Scottsdale, AZ

**Managing Economic Development Organizations**
October 11-12, 2007
Dallas, TX

**Economic Development Credit Analysis**
October 22-24, 2007
St. Petersburg, FL

**Real Estate Development and Reuse**
November 6-7, 2007
Atlanta, GA

## RECERTIFICATION FOR CERTIFIED ECONOMIC DEVELOPERS

Fulfill a recertification requirement without tapping into your budget! Earn two credits towards your next recertification by having an article published in the Economic Development Journal, IEDC's quarterly publication.

This is one of a number of ways that you can pursue recertification credits. Submissions are accepted throughout the year. The Journal Editorial Board reviews all articles and determines which articles are accepted for publication.

For more information contact Jenny Murphy, editor, at murp@erols.com (703-715-0147).

INTERNATIONAL ECONOMIC DEVELOPMENT COUNCIL

*The Power of Knowledge and Leadership*

# building innovative

## COMMUNITIES

*By Mark Kapfer, CEcD, and Beth Taylor*

### INTRODUCTION

One of America's greatest strategic and economic strengths is its capacity to innovate. Closely related to that is our entrepreneurial spirit and abilities to collaborate. Today, more than ever, accessing research occurring at universities and other centers of excellence is important to local economic development efforts. The research often can be commercialized by local entrepreneurs and perhaps most importantly, can provide new profit centers of products, services, and processes to existing industry. However, many times local economic development organizations are separated from these research centers by geographic distance and a lack of understanding how to access the research in a format that is acceptable to the business community.

Acting on these ideas, Eastern Iowa Community College District (EICCD) began a journey in 2003 that led to the creation of an innovative community that embraced groundbreaking ways to grow businesses and economic development through technology creation and commercialization. As a result, a $600,000 investment by the National Science Foundation generated over $6.3 million in new technology development, product/process development and improvement, increased product sales, and the creation of new jobs.

### BEGINNINGS

In late 2002, a three-year grant was awarded to Eastern Iowa Community College District by the Partnerships for Innovation program (PFI - http://ulysses.qrc.com/pfi-public/start.cfm) of the National Science Foundation. The PFI program promotes innovation by bringing together colleges and universities, state and local governments, private sector firms, and nonprofit organizations. These organizations form partnerships that support innovation in their communities by developing the people, tools, and infrastructure needed to connect new scientific discoveries to practical uses. The goals of the PFI program are as follows:

- Stimulate the transformation of knowledge created by the national research and education enterprise into innovations that create new wealth; build strong local, regional, and national economies; and improve the national well-being.

*The NewVentures Center in Davenport, Iowa, a $4 million accelerator for technology driven companies.*


**Mark Kapfer, CEcD**, is executive director of economic development, Eastern Iowa Community College District, Davenport, IA (www.eicc.edu)

**Beth Anne Taylor** is principal consultant of Taylor Technology Consultants, LLC (www.taylortc.com)



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### CONNECTING RESEARCH TO LOCAL COMMUNITY RESOURCES

*The need to compete in the new economy requires business and industry to have connectivity to research institutions where new products, services, and processes are being developed. However, these institutions are often located far away and the business community does not have the time or the patience to sort through the maze often associated with them. In eastern Iowa, a community college working through a National Science Foundation grant developed a model to identify business needs and create a system for existing industry as well as budding entrepreneurs to access the research that may be helpful in bringing new products and jobs to the community.*

- Broaden the participation of all types of academic institutions and all citizens in NSF activities to more fully meet the broad workforce needs of the national innovation enterprise.
- Catalyze or enhance enabling infrastructure necessary to foster and sustain innovation in the long-term.

Entitled the NewVentures AgTech Initiative (called the AgTech project from here on), the project's goal was creating linkages between eastern Iowa/western Illinois entrepreneurs, business communities, and regional innovative institutions. The purpose of these linkages was to transfer the new technologies created at these research centers into the marketplace, using the ingenuity and business know-how of the people and companies in the eastern Iowa/western Illinois region. Goals of the project included:

- Facilitating the collection of research at universities to match area businesses,
- Establishing screening panels to determine market potential,
- Translate and summarize emerging research into a format that was able to be understood by businesses,
- Produce and distribute a research digest,
- Create a website with links to research for more information,
- Educate potential entrepreneurs on the full range of business support available to them,
- Develop a training curriculum on growing innovation-based businesses, and
- Present workshops on the project so it can be replicated.

## FOCUSING ON EXISTING REGIONAL TECHNOLOGY STRENGTHS

Fortunately for the AgTech project, an economic development study for the state of Iowa had been completed not long before the project began. This study asserted that, in order to optimize economic development, Iowa should concentrate on supporting and growing three of its strongest and unique assets: significant infrastructure and expertise in the biotechnology/value added agriculture, information solutions, and advanced manufacturing sectors.

As the project progressed, it became apparent that Iowa has two other particularly unique advantages with regards to value added agriculture. These are its significant early progress in the area of building plants that produce renewable fuels and its head start on the development of biomaterials and bioproducts that have the potential to displace petroleum-based materials and products. As staff researched intellectual property at nearby universities and national labs, they concentrated on finding technologies in all of these sectors.

*Inside the NewVentures Center.*

## PARTNERING ORGANIZATIONS

The success of this project is due in large part to the regional partners who supported Eastern Iowa Community College District's effort. To begin with, the director of the AgTech project, who is also executive director of economic development for EICCD, has substantial knowledge of businesses and ongoing commerce in the target region and was able to bring project staff up to speed with that knowledge. He was able to identify the first potentially vital stakeholders that would be important to the project's success and who therefore should be contacted first about it. Examples of these critical contacts included the industrial liaison for Iowa State University, the director of University of Iowa's Research Foundation, a local value added ag expert, and

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a company executive with expertise in biorenewable product development.

DavenportOne, the local chamber of commerce, downtown partnership and economic development organization (www. DavenportOne.com), was a key player in starting and sustaining the project. DavenportOne helped project staff get connected and acquainted with regional companies. It also provided office space while the project's future home, a regional business accelerator entitled The NewVentures Center, was being constructed in downtown Davenport, Iowa. Funding for the $4 million NewVentures Center, which came from local, state and federal sources, was organized through the efforts of the DavenportOne Foundation.

Another important partner was The NewVentures Initiative, a privately funded non-profit organization featuring a new and dynamic start-up acceleration process for technology-driven companies in eastern Iowa and western Illinois. Conceived and initiated through DavenportOne Foundation, The NewVentures Initiative began operating in July 2003, its mission being to prepare entrepreneurs and business start-ups for commercial success with new technologies and to ready clients for the investment community. NewVentures analyzes clients' business needs, identifies potential investors right for their business, and positions their company for increased probability of funding.

From 2003 to 2006, the staffs of the AgTech project and The NewVentures Initiative partnered with and encouraged high-tech entrepreneurs and start-up companies. To do this, The AgTech staff concentrated on creating linkages between technologies and businesses/entrepreneurs, while The NewVentures Initiative focused on technology commercialization and preparing clients to present their business models to the investment community. The end goal was the start-up and growth of new high-tech companies that would remain and thrive in eastern Iowa and western Illinois.

Other organizations such as Iowa State University, University of Iowa, the National Center for Agricultural Utilization and Research (NCAUR), and University of Illinois were helpful and responsive by assisting in accessing their faculty and staff members who were working in certain research activities of interest, providing speakers for technology screening panels, and inviting project staff and businesses to visit their facilities for special activities.

## GETTING TO KNOW LOCAL COMPANIES AND ORGANIZATIONS

In order to begin building an innovative community, AgTech and NewVentures staff attended and/or spoke at local trade and professional meetings, economic development professionals' conferences, and Rotary and other civic groups where a variety of professional people gathered. A wide variety of people needed to be told about the two projects and their respective goals of technology transfer through the AgTech project and technology commercialization through The NewVentures Initiative. AgTech staff also called and visited with local entrepreneurs and businesses, since it was necessary to learn about their interests in order to search for and evaluate technologies that would help them achieve their goals.

Companies with innovative cultures, which were interested in gaining competitive advantage through innovation, responded and got involved. The same was true of local entrepreneurs, inventors, farmers, investors, bankers, legislators, reporters, and economic development professionals.


*Dr. Karim Abdel-Malek speaking at a technology screening panel meeting about the Virtual Soldier research project at the University of Iowa Center for Computer Aided Design.*

## ORGANIZING AN INNOVATIVE COMMUNITY

Telecommunications and the internet are marvelous tools for networking. Interested parties provided their contact information, including their email addresses, in order to stay apprised of events organized through the AgTech project. The resulting email distribution list was used to distribute an eNewsletter, Linkages, and inform members about upcoming technology screening panels, seminars, and other news of interest.

## WHAT DO COMMUNITY MEMBERS WANT? – NETWORKING

Project staff learned as much as possible about what community members wanted, what their needs and interests were. Staff began learning this by distributing an initial survey to contacts, asking them what their goals and needs were. Regional company representatives and entrepreneurs responded favorably to the project and its technology transfer goals. When asked questions that bordered on competitive intelligence about their companies – requests for descriptions of their operations, technology needs, hopes for future products, and the challenges they face – company contacts were remarkably forthcoming.

Often another word for needs, issues or problems is unmet market demand. Based on their growing knowledge of the developing community, project staff worked to link members with other people or companies that would be motivated to work with them to fill a need or solve a problem. Where appropriate, staff set up individual meetings between potential collaborators. Before or after seminars and technology screening panels were good times to schedule these individual meetings. This helped attendees accomplish two things at once and feel that they had spent their time profitably.

When word spread that AgTech events helped attendees learn about strategically important emerging technologies and make productive and valuable contacts, other locals were motivated to attend these events to get the same benefits.

## RESEARCHING EMERGING TECHNOLOGIES AND TRENDS

Project staff researched several sources for promising emerging technologies. They began by studying intellectual property (IP) developed at institutions that were comparatively nearby, i.e. Iowa State University, University of Iowa, and the National Center for Agricultural Utilization and Research (NCAUR). It has become common practice for universities, national laboratories, and other research centers to list their IP on their web sites. This greatly simplified the staff's technology investigations, and their fields of research gradually expanded to other inventive organizations.

The following list provides an example of technology sources that project staff studied:

- MIT Technology Review (magazine) (www.techreview.com)
- Wired (magazine) (www.wired.com)
- Scientific American (magazine) (www.sciam.com)
- The Economist – quarterly technology issue (magazine) (www.economist.com/science)
- NASA Tech Briefs Insider (e-newsletter) (www.techbriefs.com)
- MyNSF – formerly the NSF Custom News Service (e-newsletter) (www.nsf.gov/mynsf)
- BioSmart Brief (e-newsletter) (www.biosmart.ch/head.htm)
- ISU Tech Transfer (e-newsletter from Iowa State University Research Foundation) (www.techtransfer.iastate.edu)
- Renewable Energy Access (e-newsletter) (www.renewableenergyaccess.com)
- yet2.com Technology Marketplace Report (e-newsletter)
- Nanotechweb.org News Alert (e-newsletter)

This is not a definitive list, nor was it necessary to research all of these each month. It was useful initially to get familiar with these and other technology news sources and decide which are the most useful based on the community's needs and goals.

Staff looked for technologies in all stages of development, from university bench-top stage to new technologies that were commercially available. In general, at least based on the experiences of this project, established companies of all sizes often are skittish of licensing early stage technologies. This is because company management personnel are aware of the risks involved with commercializing inventions at this stage. The market demand for the invention may be poorly understood and defined. In addition, business decision makers are usually aware of the significant amount of resources in time, money, and dedicated staff that will be necessary to bring some of these early stage inventions to market.

Company decision makers and technical professionals seemed more often interested in attending meetings where the discussion centered on technologies that were on the market or were due to enter it soon. For example, two of the better-attended technology screening panels highlighted (1) a soon to be introduced new wireless internet standard, WiMax, and (2) emerging uses for radio-frequency identification (RFID).

*Clinton County Bioenergy, LLC, one of the new start-up biotech companies in eastern Iowa.*

However, this rule about more interest in fully commercialized technology does not always hold. A fair amount of industry interest was expressed in a presentation entitled "Knowledge Acquisition from Distributed, Heterogeneous Data Sources," a comparatively early stage, Iowa State University-generated technology.

In order to encourage entrepreneurs, inventors, executives, and other decision makers about the merits of early stage and/or discontinuous, disruptive technologies, it is a good idea to mention Henry Ford's old maxim, "If I had listened to customers (only), I'd have given them a faster horse." In other words, be prepared to look out for, perhaps even create, the next major technology innovation.

## ORGANIZING TARGETED EVENTS

Based on gathered knowledge about emerging technologies and the interests of innovative community members, project staff organized technology screening panels and seminars, both of which informed the community about emerging, commercially important technologies or imparted critical business skills to entrepreneurs.

Monthly technology screening panels featured a speaker with expertise in a particular field or technology. Speakers were sought from Iowa Regent universities and also from the National Center for Agricultural Utilization Research (NCAUR). High tech entrepreneurs were also approached about describing their new technology and/or business. Meeting subjects rotated among targeted areas of concentration. In the AgTech project case, these were biotech/value added agriculture, information solutions, and advanced manufacturing.

A wide variety of people attended: executives, company technical professionals, entrepreneurs, inventors, consultants, commercial bankers, media representatives, farmers, legislators, academics, and others. Panelists were encouraged to inform organizers ahead of time about whether they would attend the meeting. This made it possible for staff to fill out tent cards with attendees' names and company names, on both sides of the tent. This helped those attending to scope out who else was at the meeting. The meeting facilitator asked attendees to introduce themselves and their companies or interests at the start of each meeting.

Organizers noticed that the attendees changed from meeting to meeting, since not every subject was of universal interest. However, community members forwarded meeting announcements to colleagues that they thought would benefit by attending and learning about that particular technology. Commercial bankers often attended and brought their clients.

Based on gathered knowledge about emerging technologies and the interests of innovative community members, project staff organized technology screening panels and seminars, both of which informed the community about emerging, commercially important technologies or imparted critical business skills to entrepreneurs.

Before each meeting, staff researched the technology subject, usually online, and prepared summaries of technology descriptions, or case studies where the technology was used effectively, and emailed those summaries to panelists a few days before each meeting so that they could review the subject beforehand if they wished. Descriptions of technologies at various stages of development were included, from early, university-originated bench top inventions to commercially available products. Although companies were often wary of early stage innovations, providing their technology managers with information about such inventions was educational for them, helped them to see where technology trends are going, what their Regent universities were inventing. The information could also plant a seed where these companies might decide in the future to license and commercialize an invention.

An additional intent in sending out technology descriptions was to give people a chance to discuss their merits at each meeting. Experience showed, however, that attendees usually got into productive discussions with speakers and each other at the end of the presentation, and the technology summaries weren't mentioned. However, the summaries provided information that community members could file and read at their leisure.

These panels served a variety of other purposes. Community members got the opportunity to study featured technologies. They could respond by acquiring the invention, collaborating with the inventor, exploiting the information to gain a competitive advantage for their companies, or prepare for the changes the technology might bring to their markets. At each meeting, staff asked attendees for ideas about future meetings, providing them with forms to fill out with their suggestions.

Seminars were organized to help technology-minded entrepreneurs and company principals gain the business skills necessary to guide their invention and company through the startup process. In the case of the AgTech project, assistance in developing these seminars was given by the NewVentures Initiative business professionals and the director of the regional Small Business Development Center. NewVentures Initiative staff and the SBDC director also acted as instructors in some of these seminars.

Seminar subjects included venture financing, market research, intellectual property strategies, and resources available to aid in the commercialization of new technologies. In a survey of local entrepreneurs, they expressed interest in seminars where managers of successful technology-based companies told about how they achieved their success – in other words, people wanted to hear war stories. Seminar instructors were usually found among regionally successful entrepreneurs, business consultants or university staff members.

These seminars also gave community members a chance to meet new people and network. Networking events are rare where a variety of regional people gather to learn about strategically important, emerging innovations. Without these kinds of events, the status quo is a stovepipe mentality, where entrepreneurs, company employees, consultants, and other professionals in a region seldom learn what their neighbors are doing.

As a rule, technology screening panelists were not competitors with each other, since they were from different backgrounds and/or types of companies. Because of the variety of people at these meetings, during discussions, panelists learned from each other's disparate knowledge, skills, and experience. One of the most fruitful results of this type of gathering was to introduce people with comparatively different skills, but who, after meeting and talking, discovered that through their combined efforts, they could collaborate to improve or invent new processes or products, achieving successes that they could not have gained without each other.

## DEVELOPING RELATIONSHIPS WITH INNOVATIVE ORGANIZATIONS

It was a productive exercise for organizers to develop relationships with universities and other innovative organizations. These institutions nearly always have directors of external relations or industrial liaisons who will work with staff to provide speakers for technology screening panels and seminars.

Academic institutions are often tasked with doing extension work in their communities. Giving them specific outlets for this purpose, like technology screening panels and seminars, motivated them to get involved with this effort. Moreover, research institutions will often admit that they are comfortable with technology creation and transfer, but they lack skills with regards to technology commercialization. The expertise of the community college, working its relationships with businesses and industries in the area, helped to bring this vital commercialization linkage. Through its networking capability, the community college informed private industry about potentially valuable intellectual property so that it may be able to gain technology licensees and/or commercialization partners in the process.

Individual researchers are often motivated to speak at panels and seminars because they want people to know about the results of their often quite unique work. Academics want opportunities to tell private industry about their discoveries, because they need private industry involvement in order to pull their inventions along the path to commercialization. The type of assistance researchers seek includes market research, feedback about desired performance characteristics of new technologies, technology commercialization investment, knowledge of commercial markets, and feedback about the technology needs in private industry.

Project staff, working with the other community college staff, were able to link businesses with academics that fit each company's business sector. For example, staff linked a biocomposite development company with a chemistry professor who has invented a class of bioplastics. Currently they are working together to develop composites with higher percentages of biorenewable materials in their formulations. The end goal here is the creation of bio-based products that will reduce the United States' dependency on petroleum-based products.

## RESEARCHING AND DISTRIBUTING INFORMATION ABOUT FUNDING PROGRAMS

An often-expressed issue from private industry and entrepreneurs was that there are no funding mechanisms available that can be used to support applied R&D, product development, market research, or other aspects of commercializing promising technologies. Organizers researched grant opportunities from online resources like:

- Small Business Innovation Research Grants
  www.sbirhelpdesk.com
- The National Science Foundation's "My NSF" enewsletterhttp://www.nsf.gov/mynsf/
- USDA Cooperative State Research, Education and Extension Service
  http://www.csrees.usda.gov/
- Grants.gov www. Grants.gov
- State grant programs,
  e.g. List of Venture and Equity Funds in Iowa
  www.iowalifechanging.com/business/downloads/equityfunds.doc
- State grant programs,
  e.g. Entrepreneurial Ventures Assistance
  http://www.iowalifechanging.com/business/eva.html

LINKAGES

Connecting Technology & Business

Genesis Systems Group

Welding systems fuse technology

Genesis Systems Group takes existing technology to the edge. Engineers start with the product or part a customer needs to produce and design a complete robotic welding system for its production. Systems can handle up to 20,000lbs or maneuver 5lb automotive axles into welding position in seconds.

The Genesis shop floor is an engineer's dream, a series of workstations with small to large welding systems in different stages of assembly for a wide variety of clients. Here is a fairly compact system for an automotive client; there is a mammoth system for a company that builds rock-crushing equipment.

Robotic Welding & Productivity - Key elements in American manufacturing today

The tie that binds this unique assemblage is Genesis technology and standard components provided by companies like Fanuc (www.fanuc.com), the world's largest robot company.

Genesis Systems Group is dedicated to helping companies achieve top productivity through robotic welding processes.

"In today's market, it's not much of an obstacle getting people to automate," said Terry O'Connell, vice president for sales and marketing. "Companies must buy new, highly productive equipment or they are not in business. Our job is to make sure the automation will do what the customer wants done."

To be sure a welding system is a good match for a company, Genesis often employs variation simulation analysis (VSA), using software to analyze the capabilities of the company's process before agreeing to customize a welding system for that company. "This helps us understand the customer's product design and manufacturing process capabilities, it's a wonderful "measure-twice, cut-once" tool. It also makes us aware of design and manufacturing issues that could cause project costs to escalate or preclude success of the system," O'Connell added.

Automating manufacturing processes is a leap into 21st-Century technology for some companies, but for Genesis, the quest for more and better innovations continues.

"We're always out there looking for new technology," O'Connell said, adding that Genesis officials plan to visit the German company, Reis Robotics, to talk about a $CO_2$ laser welding innovation – a system that redirects the laser beam internally rather than externally with a mirror inside the robotic welding arm. "$CO_2$ laser welding robotics can change the way people make their product," he said. "It changes the design and weight, makes parts lighter. By 2006 all Volkswagens and Audis will be processed with $CO_2$ laser welding."

CASE STUDY

Another innovation that has caused excitement lately among Genesis officials is the potential suggested by new software that speeds up the programming phase of robotic welding. With this new software, now in development, the part to be welded programs the robot rather than vice versa.

(Continued on Page 3)

*Linkages newsletter sent quarterly to area industry. Besides case studies of technology application in industry, the publication also highlighted research at various institutions of higher learning.*

- University Assistance programs, e.g. Iowa State University Company Assistance Programs http://www.iprt.iastate.edu/assistance/index.html

After learning about local companies' needs and researching grant programs, staff were not only able to link up companies and people who responded by working together, but were also able to inform these collaborators about funding programs that, if applied for and awarded, could support some of the cost of their project work. One of these linkages resulted in the award to Iowa State University and collaborators of a $2.4 million applied research and development grant (See page 5 of Linkages newsletter at www.newventurestechtransfer.com/newsletters/linkages07.pdf). See another example of this type of project in the case study on page 1 of the Linkages newsletter at www.newventurestechtransfer.com/newsletters/linkages08.pdf.

## CREATING AN INNOVATIVE COMMUNITY NEWSLETTER

An innovative community newsletter called Linkages was created as part of the AgTech project. This type of publication is most easily distributed by email. Linkages contained the following elements:

- Case studies that showed how local companies and entrepreneurs benefited from commercializing or adopting a new technology, or the benefits of joint ventures for the purposes of applied R&D or product development;
- Descriptions of high impact (with regards to enhancing local economic development) applied R&D at regional universities, national laboratories or private industry research centers;
- Descriptions of applied research funding programs currently or soon to be open for proposal submission;
- Dates of upcoming technology screening panels and seminars.

## CONCLUSION

Starting and growing a regional innovative community is well worth the effort. In the space of three years on a budget of $600,000 from a National Science Foundation grant, the NewVentures AgTech Initiative was instrumental in generating over $6.3 million in technology development investment, product/process improvement, additional product sales, and jobs. This includes nearly $1 million in additional earnings to workers and the creation of an estimated 25 jobs in the advanced manufacturing and life sciences sectors. The wages were above the regional and state wages and the companies expect to continue to grow their businesses, adding revenues and jobs over the next five years.

# economic development

## STRATEGIC PLANNING

*By Frederick L. Hamilton, DPA, CEcD/EDFP*

### INTRODUCTION

Economic development strategic planning is still a very important component in developing a successful economic development program that will allow communities to compete in the global economy. Local, regional, and state officials must utilize economic development strategic planning for a clear direction on the best economic development practices for economic opportunities. According to Darling and Bittel (1991):

> Strategic planning is a framework providing a systematic approach to planning for future development and allocating needed resources for anticipated changes. Ordinary planning goal setting usually looks at the past and bases the future on historic trends, and then bases planning resource allocation on anticipated changes.

The city of Enterprise, Alabama, through the economic development strategic planning process created an environment conducive for an industrial location. HS&AA, a tier one supplier for the Hyundai Motor Company, began producing automobile parts for Hyundai in January 2005. The location of HS&AA to Enterprise provided diversification to the local economy as well as many economic stimulus effects. This article discusses the economic development strategic planning process and how this process led to Enterprise creating an environment conducive for an industrial location project. The article provides an overview of the economic development strategic planning process, which includes initiating and organizing the process, analyzing the community situation, formulating the plan, implementing the planning process, and evaluating the process and its results. It describes the city of Enterprise's economic development strategic plan and focuses on the Hyundai Motor Company location to the state of Alabama. The article concludes with an overview of the HS&AA location to Enterprise.

*HS&AA's facility, which is the 50,000 S.F. shell building built as part of the recommendations from the economic development strategic plan. The building was financed by Alabama Power Company's speculative building program.*

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### OVERVIEW OF THE ECONOMIC DEVELOPMENT STRATEGIC PLANNING PROCESS

According to Albertson-Zenor & Raftery (1993):

> Strategic planning has become an almost magical phrase in the 1990s. Used since the 1960s by industry, the concept has spread and schools, municipalities, universities, and even churches


## PREPARING FOR AN INDUSTRIAL LOCATION PROJECT IN ENTERPRISE, ALABAMA

*This article shows how economic development strategic planning is the foundation for planning for economic growth and positioning a local community, region, or state to be competitive in the global economy. The city of Enterprise, Alabama, developed and implemented an economic development strategic plan and used the plan as a guide for attracting an industrial project. The city was successful in attracting HS&AA, a tier one Hyundai supplier that initially created 350 new jobs and $20 million in capital investment. The company is in the process of expanding and estimates 250 new jobs and a capital investment of $20 million.*

use today. Simply put, strategic planning is a process: a set of concepts, procedures, and tools designed to assist a group in meeting the needs of its organization or a community in changing its environment.

The economic development strategic planning process provides a mechanism for evaluating various aspects of the planning area so that strategies can be developed to make the community, region, or state more competitive in the global economy.

Kolzow (1991) presents five components to the economic development strategic planning process. This process includes the following:

1. Initiating and organizing the process;
2. Analyzing the community's situation;
3. Formulating the plan;
4. Implementing the planning process; and
5. Evaluating the process and its results.

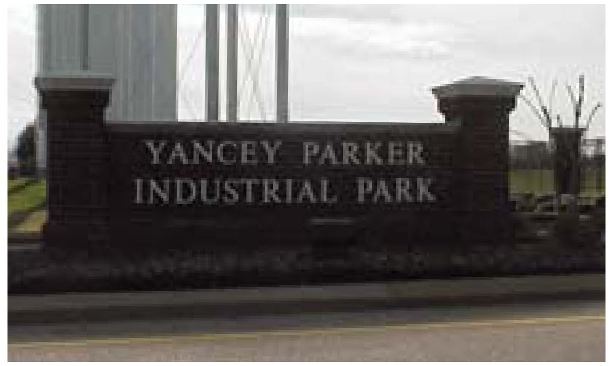
## INITIATING AND ORGANIZING THE PROCESS

One of the most important steps in the economic development strategic planning process is starting the process. Normally, the leaders in the community will initiate the process by organizing an initial meeting with the stakeholders in the area that will undergo the planning process. Key stakeholders must be identified and encouraged to participate in the economic development strategic planning process. According to Albertson-Zenor and Raftery (1993), "a stakeholder is any person, group or organization that can place a claim on a community's attention, resources, or output, or is affected by that output".

The organization of the planning team is usually inspired by the desire to understand the economic opportunities of the local community and to establish direction on how to achieve desired economic opportunities. It is very important that a lead organization is identified for the planning process. This organization may come from the community, a consulting firm, local college, or university. According to USDA Rural Development (1998), "This organization may provide meeting space, telephones, computers, copiers, fax machines, secretary support, or other things the community needs".

It is also important to identify a facilitator early in the process. It is highly recommended that the facilitator come from outside of the organization. McNamara (1999) gives several reasons why the facilitator should come from outside the organization. These reasons are as follows:

1. Your organization has not conducted a strategic plan before.
2. For a variety of reasons, previous strategic planning was not deemed to be successful.
3. There appears to be a wide range of ideas and/or concerns among organization members about strategic planning and current organizational issues to be addressed in the plan.
4. There is no one in the organization whom members feel has sufficient facilitation skills.
5. No one in the organization feels committed to facilitating strategic planning for the organization.
6. Leaders believe that an inside facilitator will either inhibit participation from others or will not have the opportunity to fully participate in planning themselves.
7. Leaders want an objective voice, i.e., someone who is not likely to have a strong predisposition about the organization's strategic issues and ideas.




*The entrance into the Yancey Parker Industrial Park, which is the location of HS&AA.*

## ANALYZING THE COMMUNITY'S SITUATION

In order to develop a clear understanding of the economic development goals of the community, the planning team should conduct a thorough analysis. Kolzow (2000) states, "Before a community can plan for where it wants to go, it must know where it is. It is often difficult to see the "forest for the trees," so it is important to access the current situation as comprehensively as possible".

The process of analyzing the community consists of, but is not limited to, a thorough analysis of issues such as quality of life, education system, local government, infrastructure system, labor, transportation, utilities, real estate, market, as well as other important attributes of the community. Darling and Bittel (1991) state:

> Since the key ingredient of strategic planning is the development of a plan based on anticipated future changes, the planning group needs all relevant social and economic information. Envisioning the future, understanding the competition and analyzing local and outside factors are necessary to identify key issues affecting the political unit.

The planning team can be divided into small committees to study the various issues identified above in order to provide the analysis needed to develop the economic development strategic plan.

## FORMULATING THE PLANNING PROCESS

The visioning process is one of the key components to formulating the economic development plan. Members who serve on the planning team should have a vision for the community and want to see the area grow in prosperity. Kolzow (1991) states, "A visioning for the community is an ideal and unique image of the future. It incorporates a view of a future condition that would be better, in some important ways, than what now exists".

Formulating the economic development strategic planning process is a key component in creating an economic development plan that will lead to sound economic opportunities. According to the World Bank Website (2006):

> As part of the LED strategy, a shared economic vision for the community and LED goals, objectives, programs, projects and actions will be developed. This process ensures that all major stakeholder groups are given the opportunity to define what is to be achieved, how it will be achieved, who will be responsible and the timeframes associated with the implementation of the LED strategy. Most importantly, the LED strategy and action plans must be finely assessed against the staff resource capacity to carry them out, as well as budgetary constraints.

It is very important in the planning process that goals for the area of study be identified so that strategies to achieve the goals can be adequately studied to the point of various recommendations. It is important that the members of the planning team be broken into smaller groups or committees to study and evaluate various components of the planning area. According to Woods (2006):

> Key issues are those that will influence the direction of community economic development efforts. A complete set of basic data may indicate some key issues. They may be things the community can do something about, such as streets, the sewer system or the attitude of the citizens toward change.

## IMPLEMENTING THE PLANNING PROCESS

Many times, great plans are produced only to collect dust on the shelf. How futile it is to call community leaders together to form a great planning team and produce a great plan that is never implemented. Woods (2006) states, "The best plan in the world is no good if it is not used. The plan should be as simple as possible, but complete. It should be flexible to allow for problems that will arise".

Once goals and objective have been identified, the planning team should focus on implementing the planning process. Renkow and Garber (2006) state:

> Once goals and recommended strategies have been discussed, key implementors and support groups should be identified for each strategy, and an action plan that can be used to carry out the strategy should be developed. The action plan should list the specific steps to be taken, assign responsibility to specific individuals or groups who will carry out those steps and assure that tasks are completed according to a detailed timetable that is evaluated along the way.

## EVALUATING THE ECONOMIC DEVELOPMENT STRATEGIC PLAN

Once the economic development plan is in the implementation process, an evaluation system must be put in place to monitor the results of the planning effort. According to the USDA Rural Development Website (2006):

> A strategic plan is never finished. It will change as your community's needs, resources and priorities change. Your first version will change over time as you learn from your experiences and improve it. Think of your plan as being in a looseleaf notebook, not as a hardcover book which never changes. Constant evaluation will help you see how the community is doing, understand the benefits and impacts of certain activities, and make decisions on better information.

*HS&AA's facility.*

It is crucial that the evaluation process be designed to assure the progress or identify shortfalls in the economic development strategic planning process. This process should consist of monitoring the goals of the strategic plan. According to Kolzow (1991):

> The purpose of the monitoring effort is to determine whether specific actions and activities are achieved. A key step in monitoring is to compare the current status of a project with an agreed upon schedule of time and expenditure. Obviously, for such monitoring to take place, it is essential that good records be kept by staff involved in the project.

## OVERVIEW OF THE CITY OF ENTERPRISE ECONOMIC DEVELOPMENT STRATEGIC PLAN

The city of Enterprise is located in southeast Alabama. The local economy is driven by Fort Rucker, Alabama, which is the largest army helicopter aviation training center in the world. Community leaders decided that an economic development strategic plan was needed to further diversify the local economy. Consequently, community leaders hired Troy State University in 1993 to facilitate the economic development strategic planning process.

Troy State University officials worked with the Enterprise local planning team to identify and assess various areas of the community that needed evaluating in order to promote an environment that would lead to economic expansion. These meetings led to several focus committees being formed to evaluate key components of the community. The components included Enterprise's education system, infrastructure, the need for a speculative building and business incubator, labor, available incentives, and quality of life issues. After the city completed the economic development strategic planning process, several recommendations and priorities were identified.

### RECOMMENDATIONS AND PRIORITIES IDENTIFIED

After reviewing the strengths and weaknesses identified during the planning process, Enterprise immediately focused on several issues to strengthen the community's position to attract an industrial project. The creation of an Economic Development Corporation was one of the first priorities since an economic development organization was needed to implement the economic development strategic plan. The construction of a speculative building was also a priority of city leaders, as well as the construction of a business incubator for start-up businesses in the community.

City leaders also focused on developing local incentives, as well as utilizing the state incentives available to industrial prospects. Furthermore, an analysis of the city's infrastructure was considered a priority. An analysis of labor and quality of life issues was also included in the recommendations and considered a priority by city leaders. Following is a brief overview of the implementation process for the recommendations and priorities identified by the planning team.

### ENTERPRISE ECONOMIC DEVELOPMENT CORPORATION (EEDC) FORMED

In 1994, the Enterprise Economic Development Corporation (EEDC) was formed as a public/private economic development organization. The Board of Directors consisted of 13 members, which included business leaders, industry officials, city officials, bankers, educators, and a staff member of the Southeast Alabama Regional Planning & Development Commission.

During the initial stages of forming the EEDC, the city, local bankers, and Alabama Power provided seed money to operate the economic development organization. One of the first goals of the EEDC Board was to hire a professional economic developer to assist the board with the implementation of the strategies that were identified in the economic development strategy. Consequently, in September 1994, Dr. Tim Alford became the first executive director of the EEDC. Dr. Alford's first goal was to review and understand the various strategies that were identified in the economic development plan.

The Board's second priority was to establish various means of financing the organization. The EEDC obtained a 501(C) (6) from the IRS, which allowed donations given to the board to be written off for tax purposes. After receiving this tax exemption status from the IRS, a brochure was developed to show the impact of 100 new manufacturing jobs on the various businesses in Enterprise. Each board member was asked to talk to business leaders throughout the community for an annual contribution. The business community in Enterprise responded positively to the organization and gave enough funds, along with the city, to operate the newly formed EEDC.

After receiving the funds needed to operate the EEDC, the board members held a series of meetings with the executive director to discuss the implementation of the economic development strategic plan.

Based on the economic development strategic plan, one of the first goals of the EEDC board was to build a speculative building. An available building is one of the key components to industrial recruitment. In many cases, a community can be eliminated from the industrial location process due to a lack of an available building.

### SPECULATIVE BUILDING AND BUSINESS INCUBATOR

Based on the economic development strategic plan, one of the first goals of the EEDC board was to build a speculative building. An available building is one of the key components to industrial recruitment. In many cases, a community can be eliminated from the industrial location process due to a lack of an available building. The Board of Directors took advantage of Alabama Power Company's speculative building program and built a 50,000-square-foot shell building in the Yancey Parker Industrial Park. The economic development strategic plan also identified the need to build a business incubator to assist start-up businesses. The city was fortunate to receive a $200,000 Community Development Block Grant (CDBG) from the Alabama Department of Economic and Community Affairs (ADECA) to construct a new business incubator in the Yancey Parker Industrial Park. The city had to provide local matching funds with the grant and was able to construct a 10,000-square-foot facility. There are current plans to expand the facility.

### LOCAL INCENTIVES

The economic development planning process identified the need to create local incentives and understand the state statutory incentives. Consequently, the EEDC Board of Directors did provide funds for local incentives. In most cases, these funds have been used for subsidizing rent. In addition, the Industrial Development Board has the power to provide land on a case by case basis. The remaining incentives are provided by the state of Alabama and are as follows:


- **Tax Abatement:** Alabama's tax abatement program allows the abatement of all non-educational ad valorem taxes on land, building, machinery, and equipment for ten years. Moreover, the program allows for the abatement of all non-educational sales and use taxes on construction materials, machinery and equipment placed in service at the facility.
- **Capital Investment Tax Credit:** This program is designed to allow qualified companies the opportunity to claim a tax credit against Alabama's income tax liability generated by a qualifying Alabama project. The tax credit cannot exceed 5 percent of the initial capital cost annually and also cannot extend beyond 20 years from the date the qualifying project is placed in service.
- **Site Preparation Grant:** Site preparation funds are provided by the State Industrial Development Authority to qualified companies. New companies and expanding companies may use these funds for site preparation work such as preparation of a means to access the site, drainage improvements on the site, surveying, cleaning and excavating, reasonable rehabilitation of buildings and other structures, and other site preparation deemed necessary and appropriate.
- **Alabama Industrial Access Road and Bridge:** The Alabama Industrial Access Road and Bridge Corporation was created through legislation in 1985. This program provides funding for industrial access and bridge construction. The Alabama Department of Transportation administers the program and reviews applications from an engineering standpoint.
- **Alabama Industrial Development Training (AIDT):** AIDT provides a comprehensive recruiting and start-up training program after a company has met the established criteria.
- **Industrial Revenue Bonds:** A financing instrument that is issued by designating local industrial development boards or other issues authorized by state law. This program provides financing for land, buildings, and equipment for new and expanding companies.
- **Environmental Permitting:** The Alabama Department of Environmental Management (ADEM) is the single, state regulatory department that provides major federal environmental permits of air, water, land, and hazardous materials.
- **Pollution Control, Reduction, or Elimination of Air & Water Pollution:** Alabama law provides for deductions or exemptions for the amount of money invested by the taxpayer in all devices, facilities or structures, and all identifiable components thereof or materials for the use therein, acquired or constructed primarily for the control, reduction or elimination of air and water pollution. The tax deduction or exemption may apply to Alabama corporate income, ad valorem, and/or sales and use tax.
- **Inventory Tax:** This program provides exemptions for business inventories from property taxation including all materials used in manufacturing, goods in process, stored manufacturing goods and goods in transit for a period of 12 months.

## IMPLEMENTATION OF INFRASTRUCTURE IMPROVEMENTS

Having adequate infrastructure, such as water, sewer, and roads, is essential for locating an industrial project. Based on evaluation of the city of Enterprise's infrastructure during the planning phase, the city implemented several water system improvements projects, which included drilling three new wells over the past few years. A 750 Gallons Per Minute (GPM) well was installed for the Coffee Gin Company, which is located in the south section of Enterprise. Furthermore, the city installed a 900 GPM water well off Shell Field Road and installed a 1,000 GPM well off of State Highway 167 North. This project extended 10 miles of water mains in the area.

The city also resurfaced 30 miles of streets within its corporate limits. This project was financed by a municipal bond.

The EEDC, as well as Enterprise officials, have made an effort to improve road systems within the city's corporate limits in order to enhance economic development. The city received an Industrial Access Grant from the Alabama Department of Transportation to make road improvements along Salem Road and State Highway 167. The project widened and resurfaced the road, and made intersection improvements. The state funded project was a part of the location of HS&AA. The city also received grant funds from USDA Rural Development to install 16 T-Hangars at the Enterprise Municipal Airport.

## LABOR

Based on the analysis of labor during the planning process, city leaders wanted to be sure that the labor force was prepared for industrial prospects considering Enterprise. The EEDC took action to improve the workforce in Enterprise, as well as surrounding areas, by working with local officials to develop a workforce alliance with the local colleges in the area to provide necessary training for skills needed by industry. In addition, the EEDC contacted the Alabama Industrial Development Training (AIDT) office, which provides training programs for new, as well as expanding industries to include comprehensive recruiting and start up training programs for industries that meet a certain employment criteria.

## QUALITY OF LIFE

Quality of life issues were also evaluated during the economic development strategic planning process. Several years ago, the Enterprise Recreation Complex was completed. The recreation park consists of 200 acres with a lake and a lighted jogging and walking trail. In addition, the park has a playground, as well as four centralized concessions stand softball fields. The park also has one lighted soccer field.

In addition, the city of Enterprise has one of the best school systems in the state of Alabama. In 1953 the city council approved an additional millage tax to be earmarked for education. This tax must be approved every 25 years. It is estimated that the 7-mill tax that recently passed by the city council will generate one million dollars to be used by the school system for capital improvements.

Compared to state and national statistics, crime in Enterprise is low. Due to the close proximity of Fort Rucker, the ethnic background of the Enterprise community is diverse and full of cultural opportunities. Housing opportunities in Enterprise are plentiful and provide excellent opportunities for all walks of life. The city has also expanded shopping opportunities. A new shopping center called North Pointe was recently completed, providing a variety of shops and restaurants, as well as a new hotel. There are plans to develop other new shopping centers in the near future.

## HYUNDAI MOTOR COMPANY OVERVIEW

In early April 2002, the Hyundai Motor Company, which was established in 1967 and based in Seoul, South Korea, announced its plans to locate an automobile production facility in Montgomery, Alabama. Hyundai officials narrowed the location choice down to Alabama and the state of Kentucky. After months of competing, Alabama was chosen for the automotive production facility. According to Hyundai Motor Manufacturing Alabama, LLC Website (2006):

> The $1.1 billion plant is the company's first U.S. manufacturing facility. The plant employs more than 2,700 team members with high-paying jobs and full benefits. Additionally, more than 72 suppliers have located businesses throughout North America to support Hyundai's new plant. Altogether, these suppliers are expected to create 5,500 additional jobs with a combined capital investment of $500 million.

The Hyundai Motor Company is the fourth automobile production company to locate to Alabama. In 1993, Mercedes-Benz located to Vance for its first United States production facility. In 1999, Honda built an automotive production facility in Lincoln and Toyota announced a production facility in Huntsville to produce Tundra pickup trucks in 2001.

## ECONOMIC IMPACT OF HYUNDAI MOTOR COMPANY

The Hyundai Motor Company is expected to have a significant impact on Alabama's economy. According to Dugan (2002):

> The following estimates the potential economic impact of the investment in Hyundai Motor Co. in Montgomery. Compiled and analyzed by Auburn University at Montgomery economist Keivan Deravi, the individual figures provided are estimates and do not add up to the sum of their parts:
>
> 1. Total employment impact: 8,000 jobs
> 2. Direct employment: 2,000 jobs
> 3. Indirect employment: 6,000 jobs
> 4. Total earnings: $280 million
> 5. Direct earnings: $99 million
> 6. Indirect earnings: $180 million
> 7. Average annual earnings for Hyundai employees in Montgomery: $49,400
> 8. Average annual earnings for indirect employment: $28,000.

## ENTERPRISE INDUSTRIAL LOCATION OF HS&AA

After many years of hard work in the area of economic development strategic planning and months of negotiations, the city of Enterprise was fortunate to locate HS&AA, a tier one supplier of Hyundai. Several factors identified and implemented from the economic development strategic plan impacted the company's location decision. The factors included the available speculative building in the Yancey Parker Industrial Park; the infrastructure improvements to Salem Road, which provides access to the company's site; and various quality of life issues implemented in the community.

City and HS&AA officials announced the location on February 24, 2003. This was the company's first location in North America. HS&AA built a $20 million plant in the Yancey Parker Industrial Park in Enterprise. The company produces automotive rubber products, such as hoses and weather strips. In addition, it produces industrial rubber products. According to HS&AA:

> The company has been the forerunner of the automobile parts industry since it was founded in 1978. The company has more than 60% of the market share of the automotive rubber products in Korea. The company employs 1,705 people and had $370 million in sales in 2002 (HSAA brochure np).

## ECONOMIC IMPACT OF HS&AA

According to the Bureau of Economic Analysis and Regional Economic Information System, the employment base of Enterprise, which is located in Coffee County, consists of 23.7 percent services. This is due to the close proximity of Fort Rucker, which is the world's largest army helicopter training base. Moreover, 19.4 percent of the available workforce works in retail trade. Finally, 18.7 percent of the workforce works in manufacturing.

The proposed project initially created 350 new jobs. Using the motor vehicles and equipment employment multiplier for the company, the 350 news jobs will have an impact of creating 952 new jobs for the county and regional economy. Using the motor vehicles and equipment earnings multiplier, the $20 million capital investment will have an impact of $45 million.

HS&AA announced an expansion project in November 2006. The company's expansion project will create 250 additional jobs and a capital investment of $20 million. The expansion project will further enhance the economy for the city of Enterprise, as well as the regional economy.

## CONCLUSION

Economic development strategic planning is still the foundation of a successful economic development program. Assessing factors such as infrastructure, labor, local incentives, available buildings, and quality of life issues can lead to recommendations that may poise a community for economic growth and diversification. The city of Enterprise's economic development strategy and implementation of the economic development plan finally paid off after many years of hard work. As previously mentioned, the location of HS&AA has brought new jobs and economic stimulative effects for the city, as well as surrounding communities. The company is in the process of expanding, which will add 250 new jobs and a capital investment of $20 million, which will further expand Enterprise's economy.

This article has provided an overview of the economic development strategic planning process and shown how this process played a major role in preparing the city of Enterprise for an industrial location project. The location of HS&AA not only diversified the local economy but also has expanded the city's economic base. The implementation of the economic development strategic plan will give Enterprise an advantage in its goal to compete for new business in the global economy.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