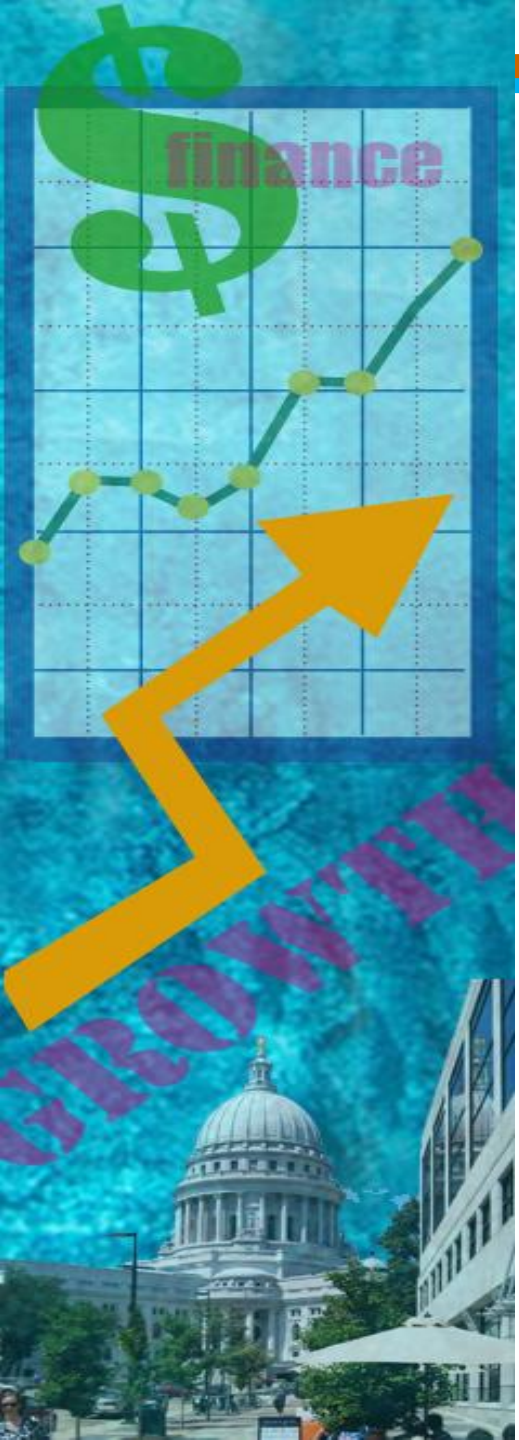


Economic Dashboard Report

Madison

July 29, 2010

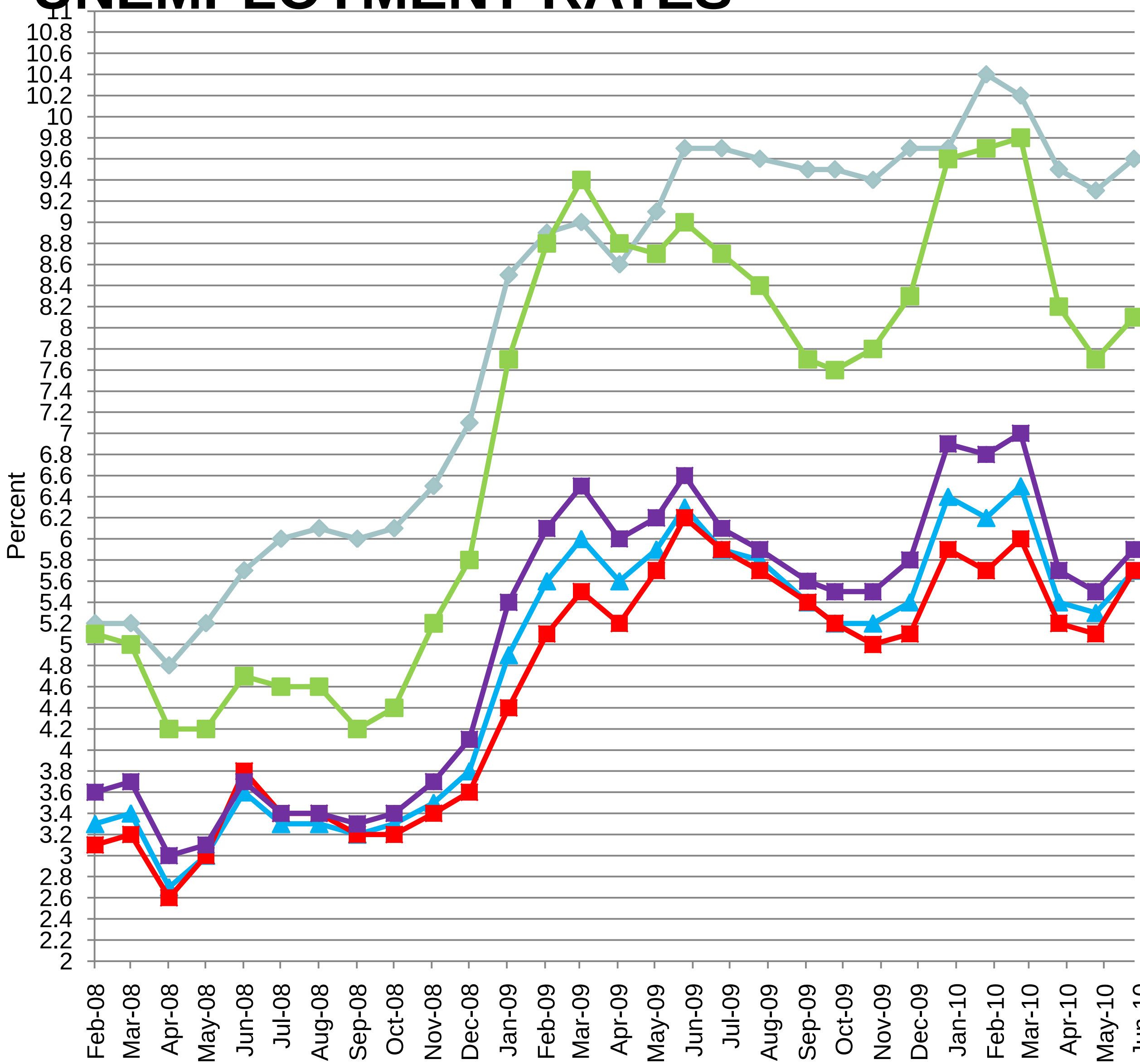
UNEMPLOYMENT RATES

U.S., June= **9.3%**

WI , May =8.1**%**

MSA, June = **5.9%**

Dane County, June= **5.7%**

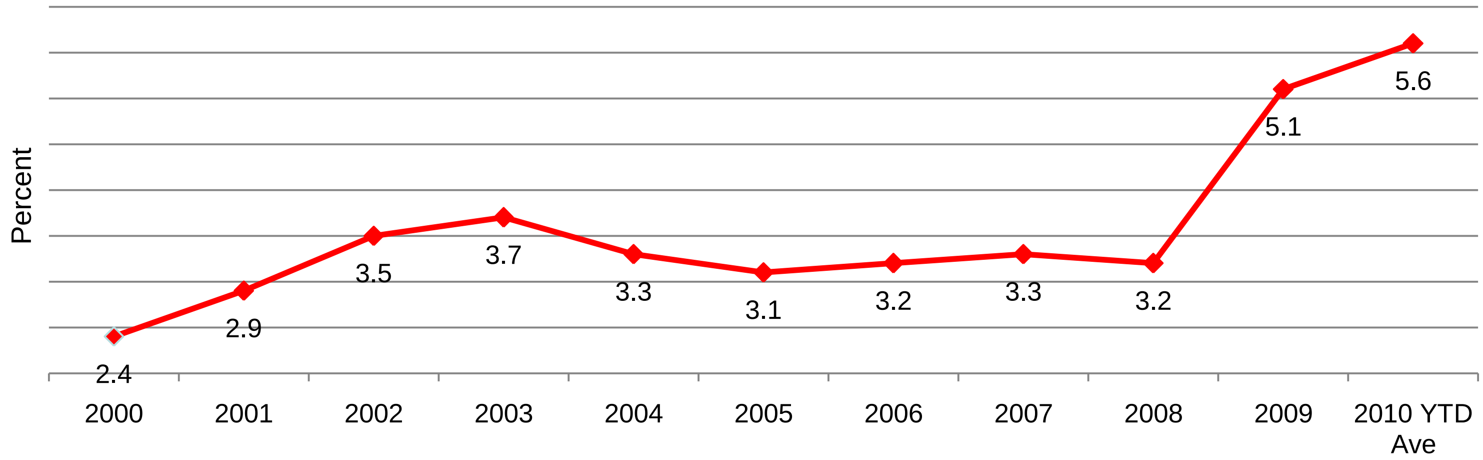


CITY OF MADISON June= 5.7%

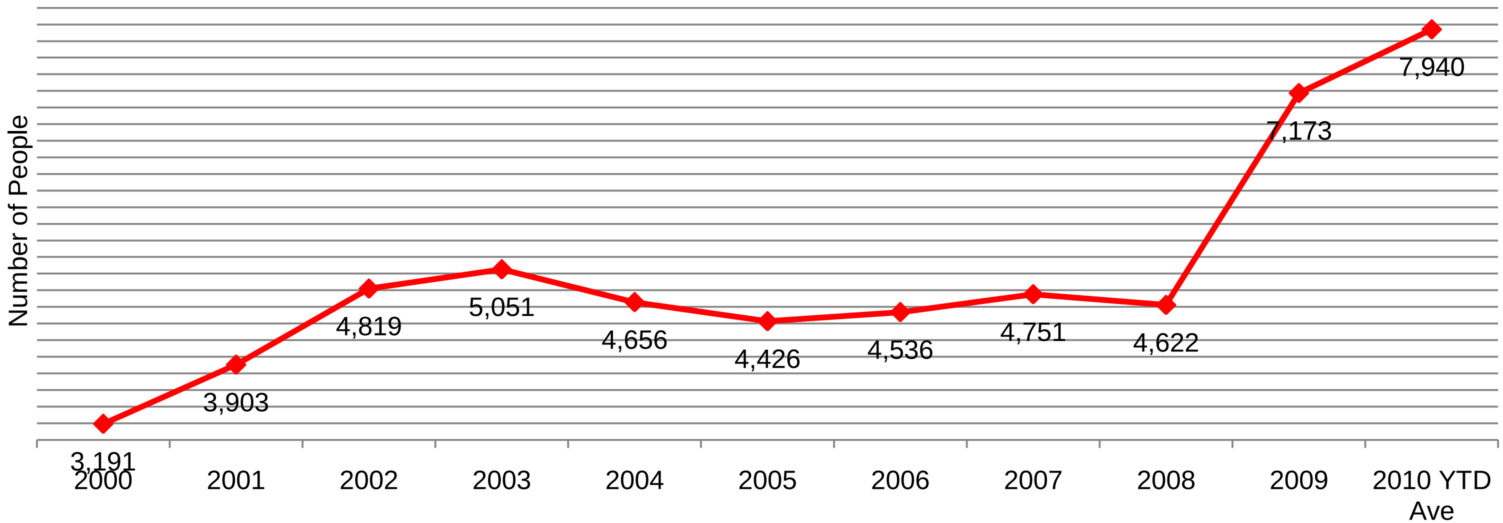
- United States
- Wisconsin
- Dane County
- City of Madison
- Madison MSA

Source: Wis. Dept of Workforce Development, THRIVE , updated7/29/10

City of Madison Unemployment Rate (U3)

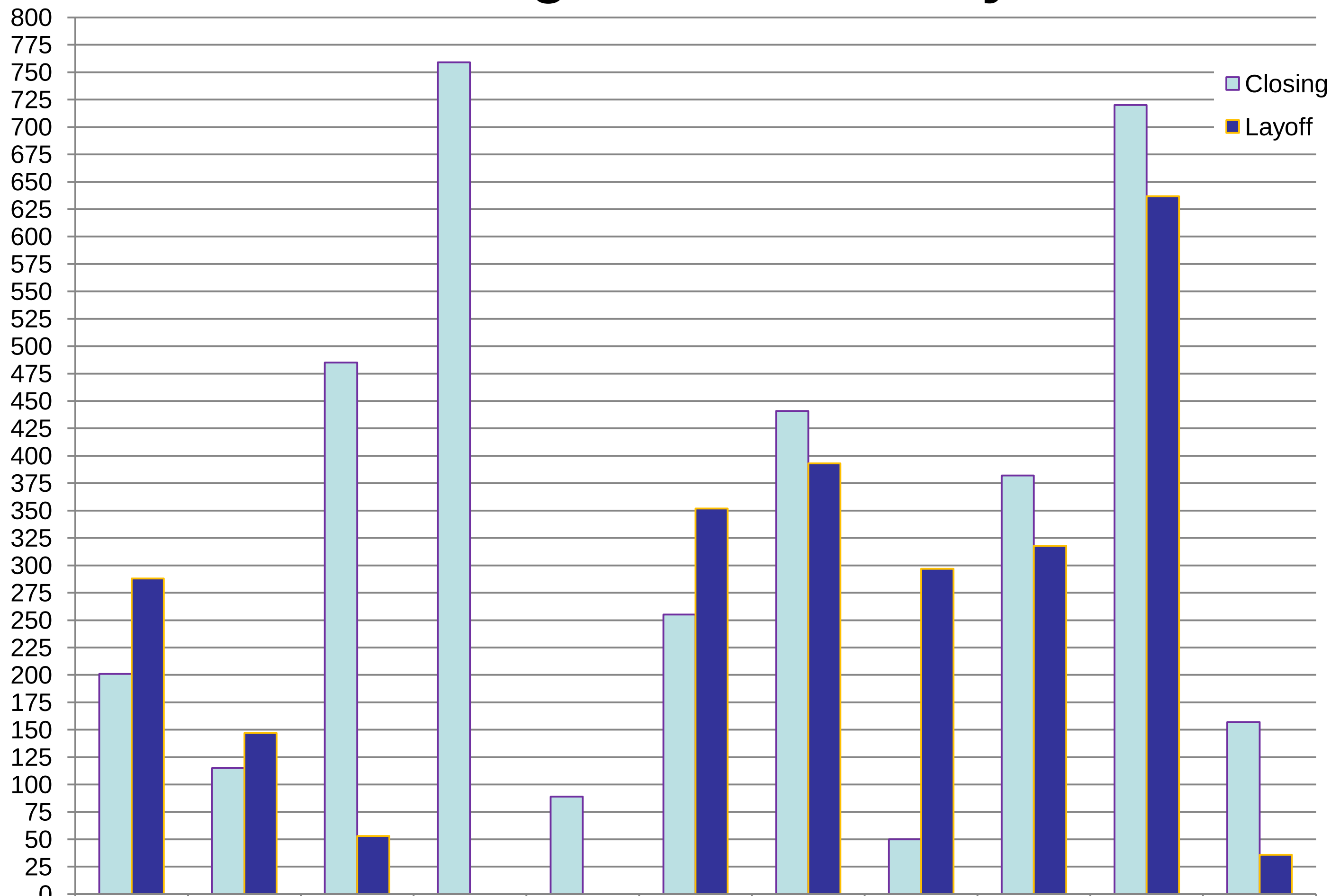


City of Madison Unemployed People (U3)



Source: Wisconsin Dept of Workforce Development, updated 7/26/10

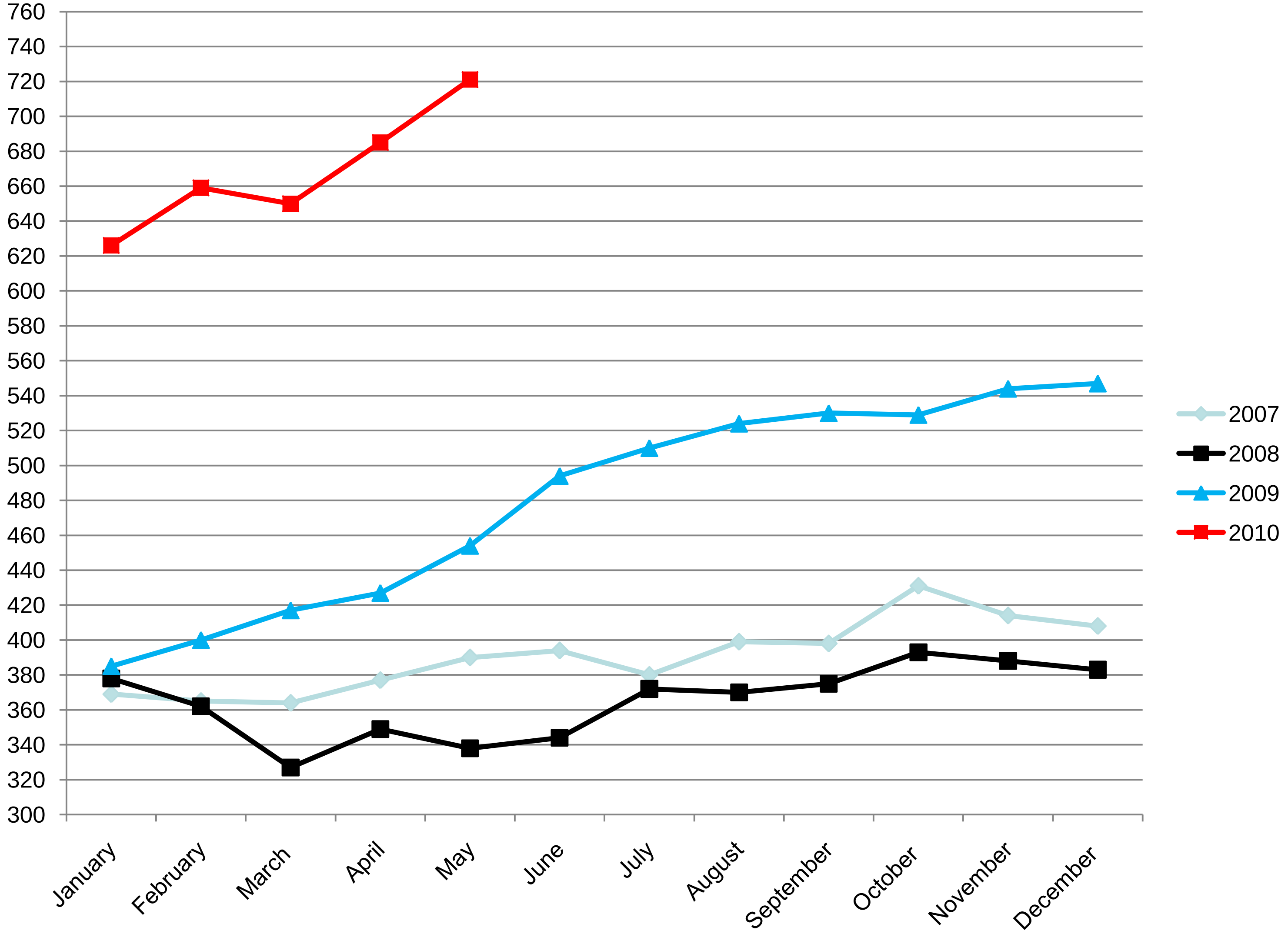
City of Madison - Number of Jobs Eliminated Due to Plant Closings and Mass Layoff Notices



	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009	9-Jul-10
Closing	201	115	485	759	89	255	441	50	382	720	157
Layoff	288	147	53	0	0	352	393	297	318	637	36

Source: Wisconsin Dept of Workforce Development, updated 7/26/10

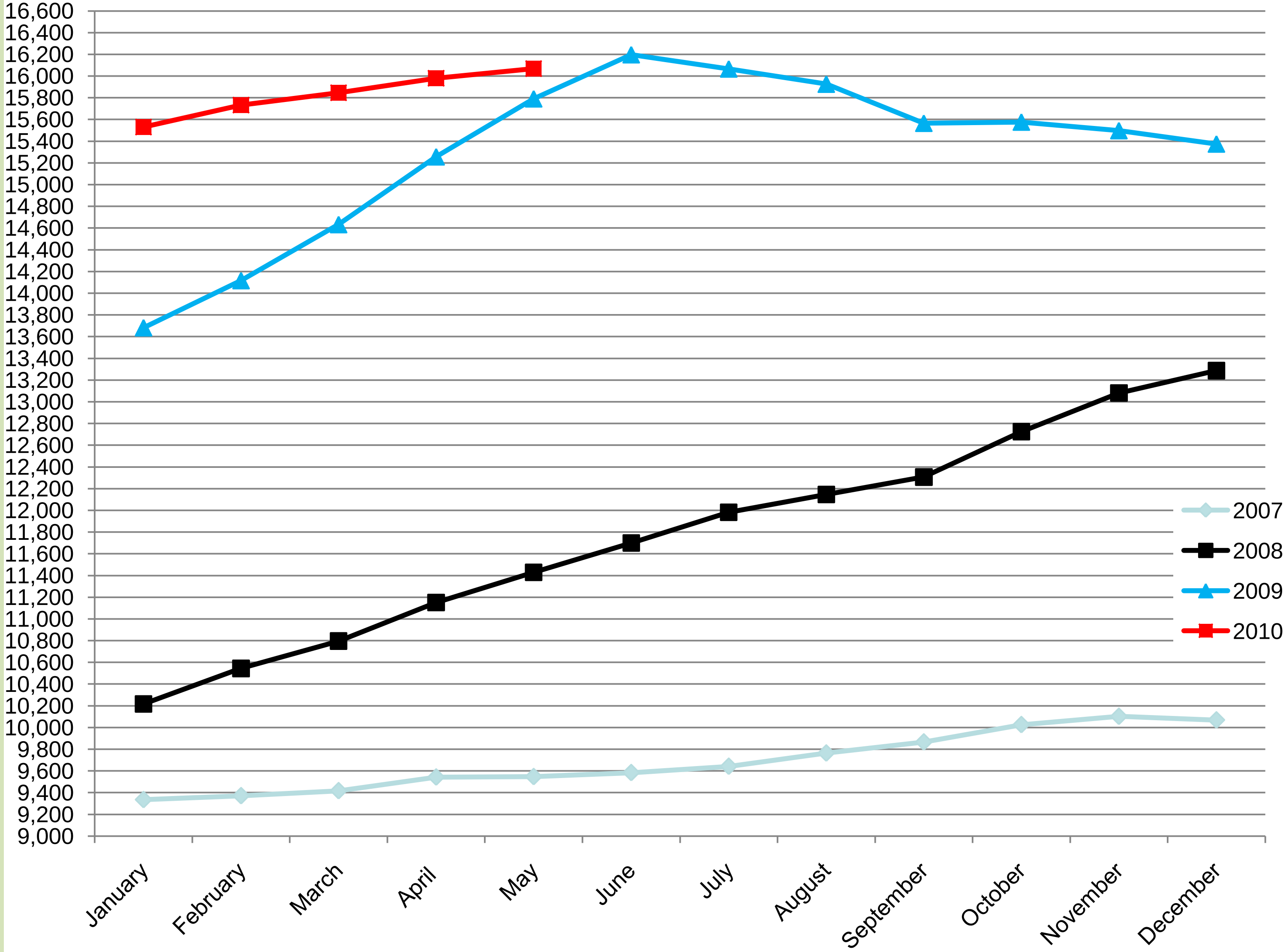
Dane County W2 Caseload (Total Caseload)



Source: State of Wisconsin, updated 6/22/10

Dane County Food Stamps(Food Share)

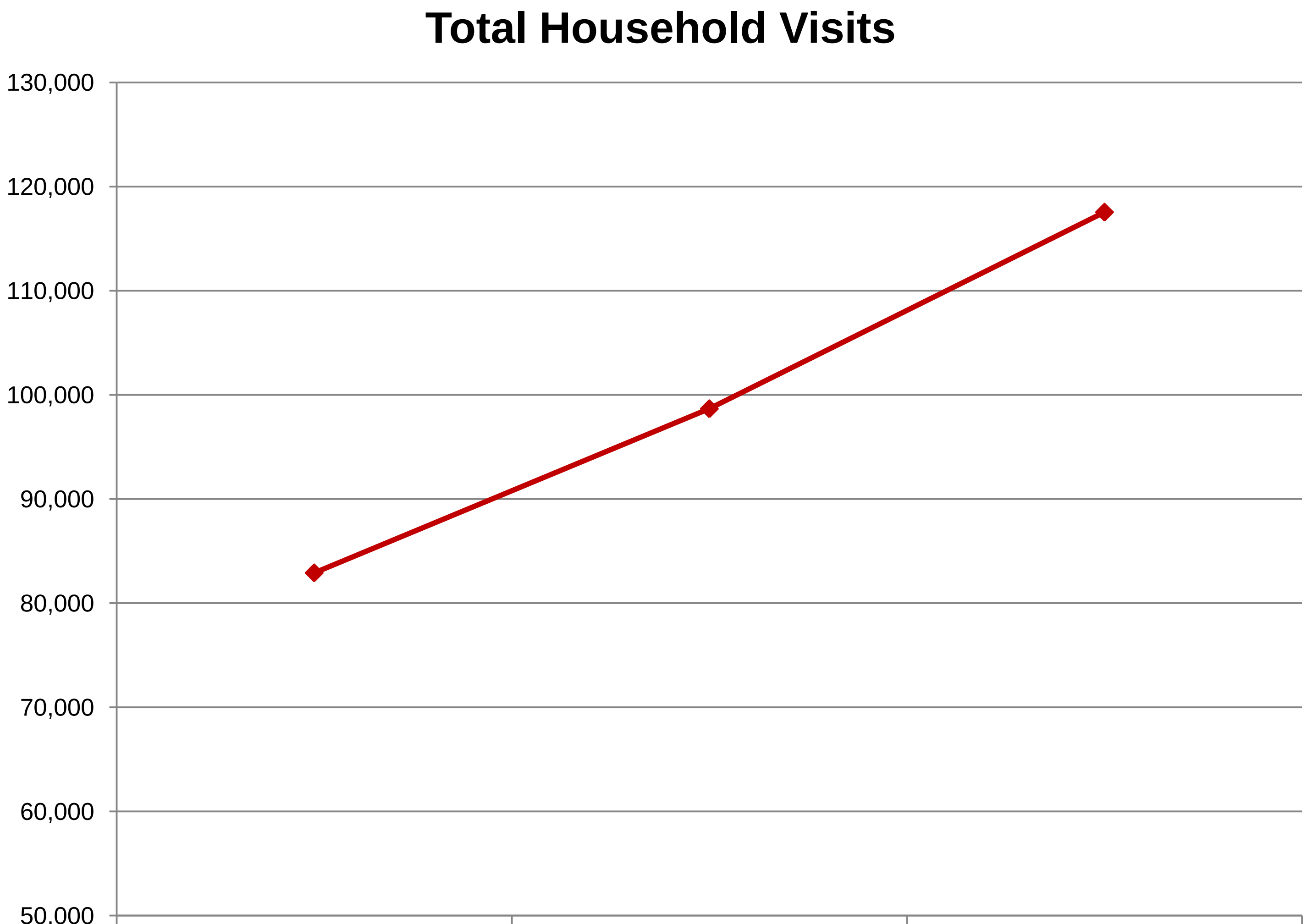
Unduplicated Recipients



Source: State of Wisconsin, updated 6/22/10

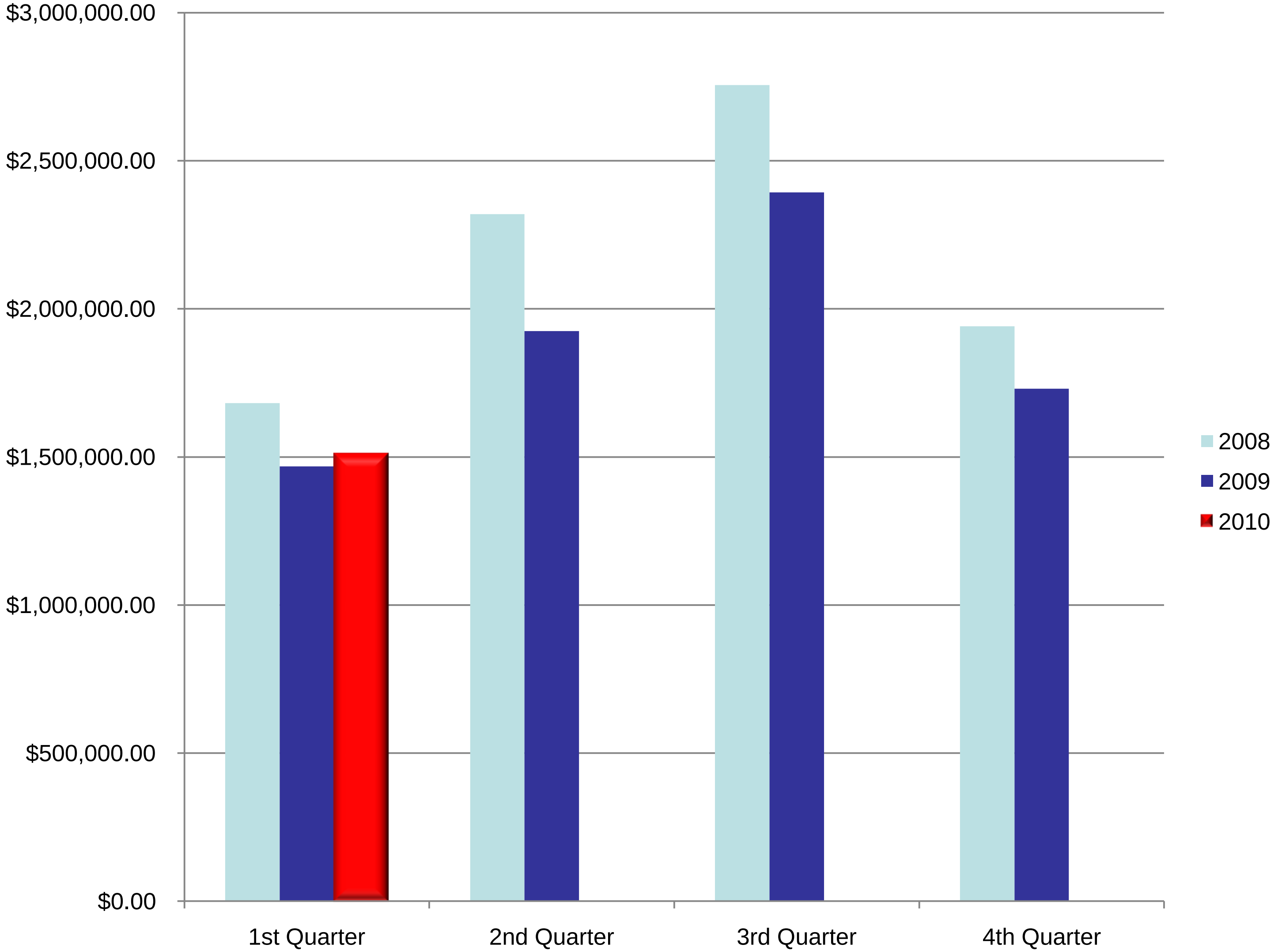
Madison

Dane County Food Pantry Visits



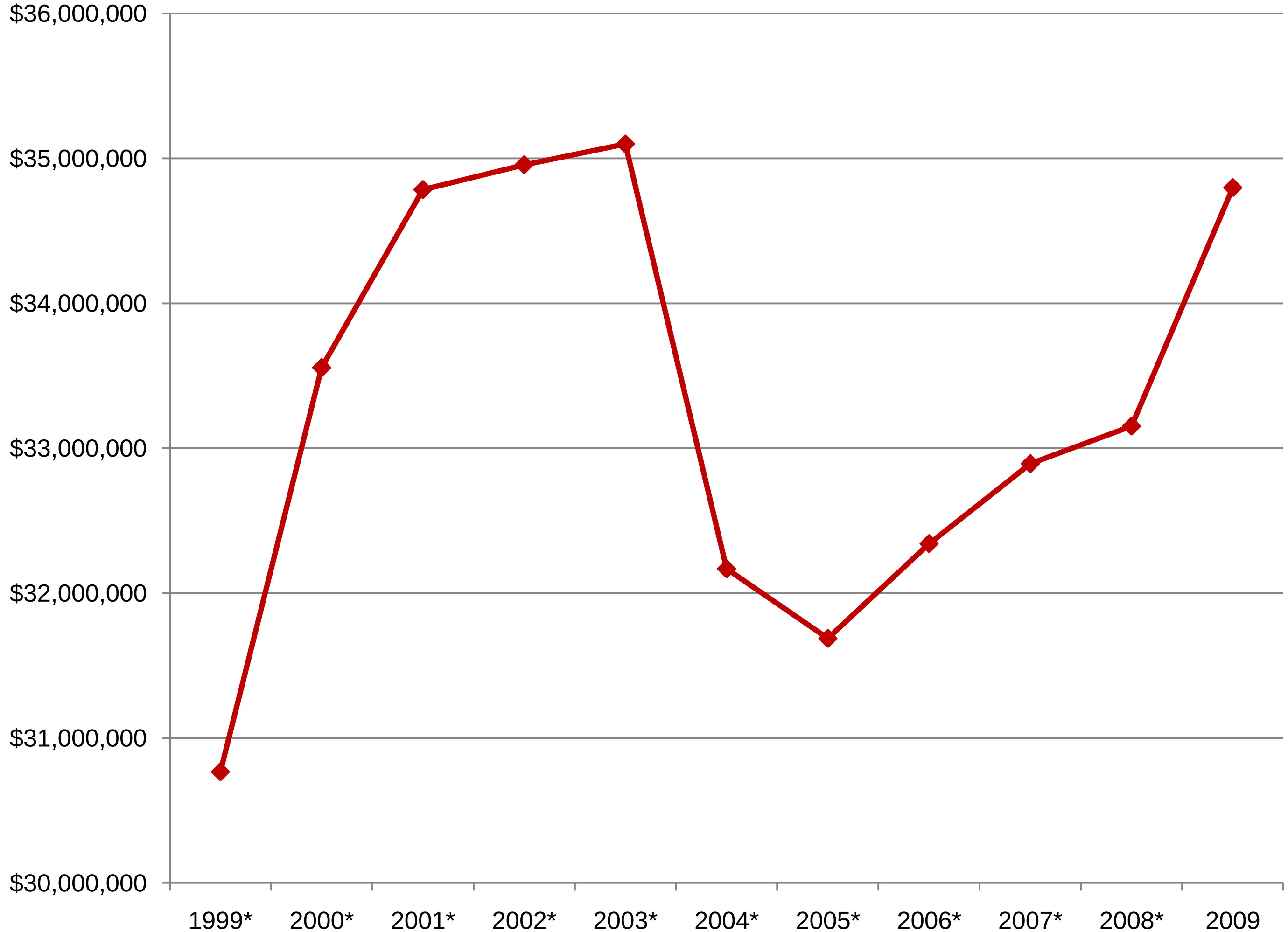
	2007	2008	2009
Totals	82,918	98,675	117,553

City of Madison Hotel Tax Revenues



Source: City of Madison Treasurer's Office , UPDATED 7/29/10

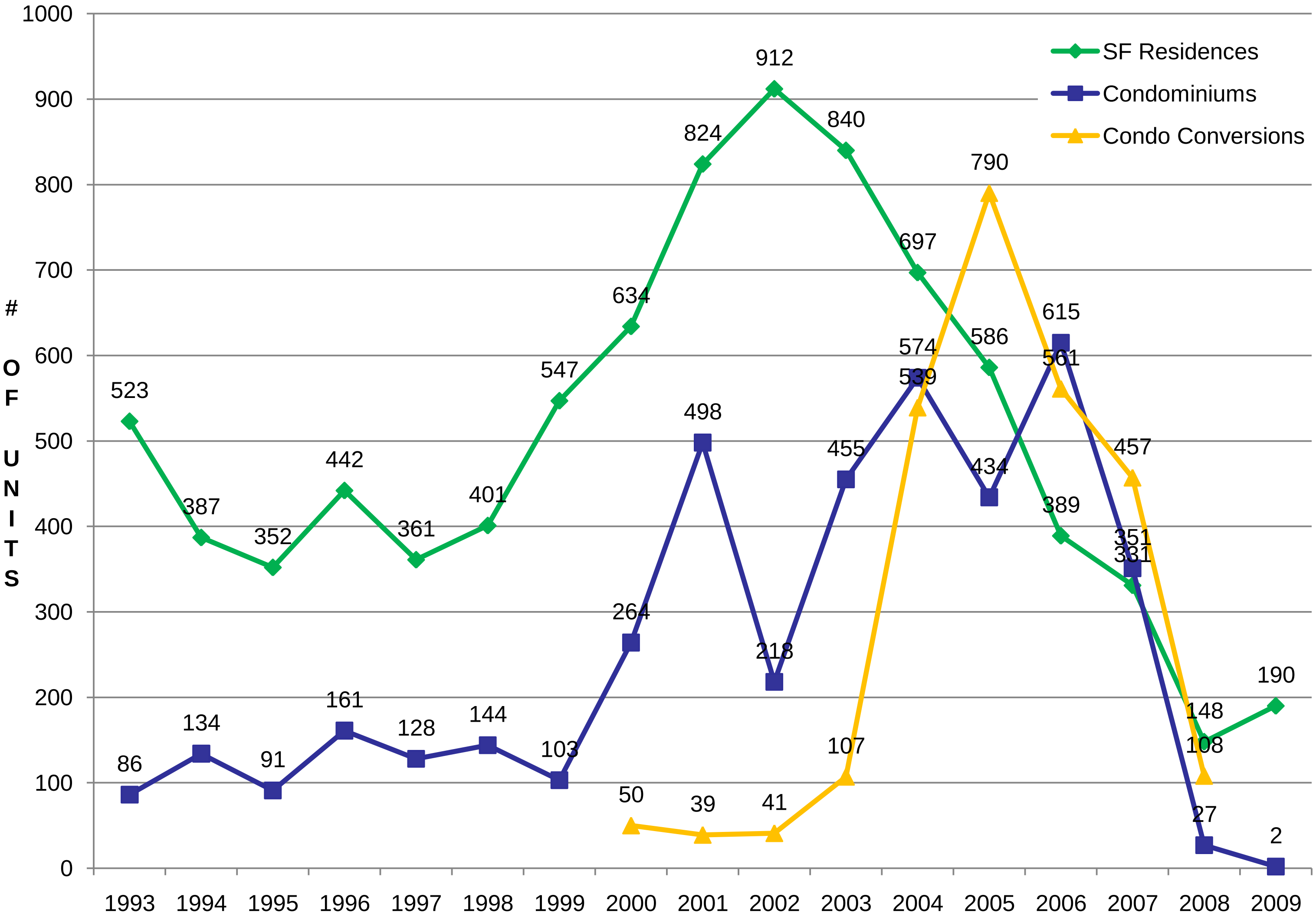
Total Intergovernmental Revenues



* = actual, all others are adopted

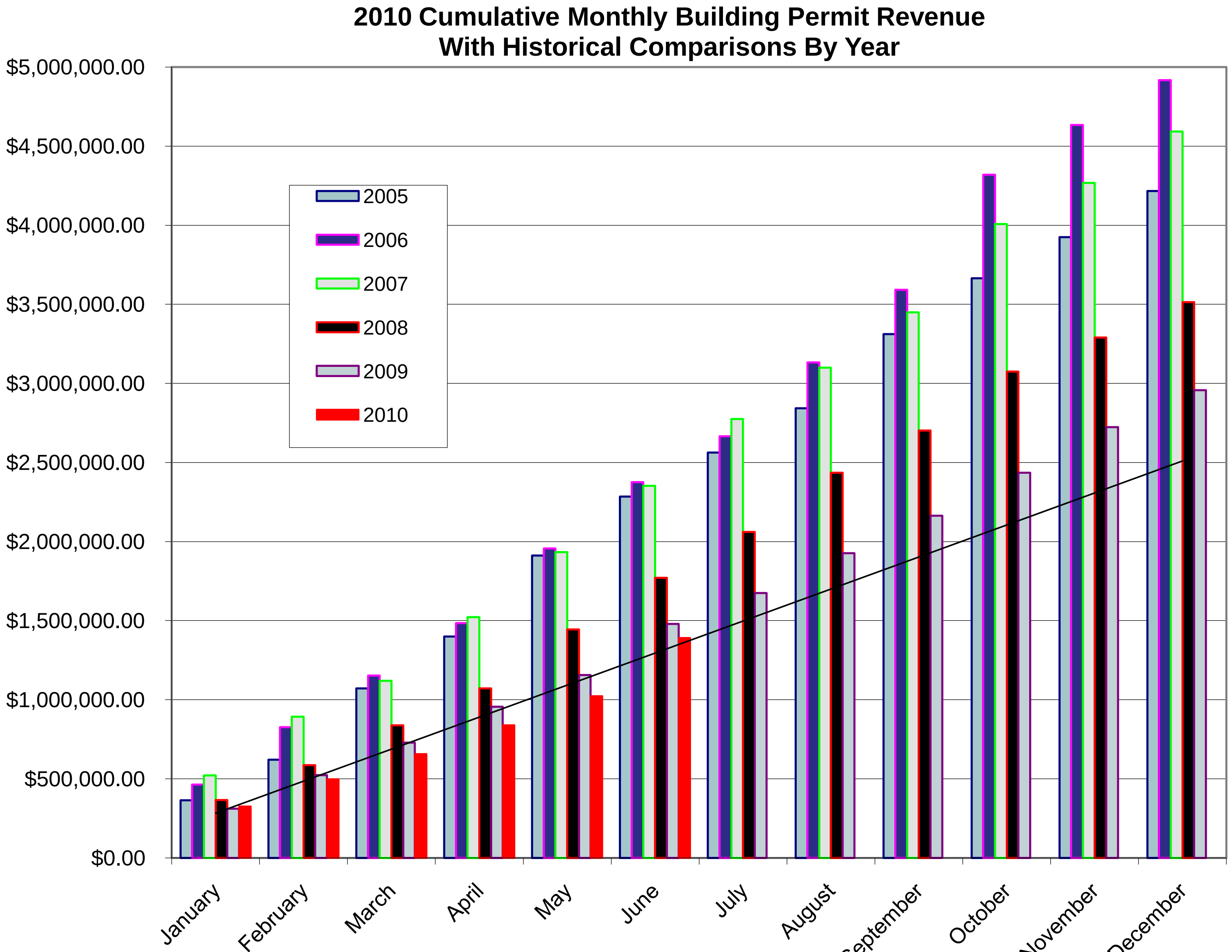
Source: City of Madison Adopted Budgets

BUILDING PERMITS SUMMARY
Units of SF Residences, Condos & Condo Conversions



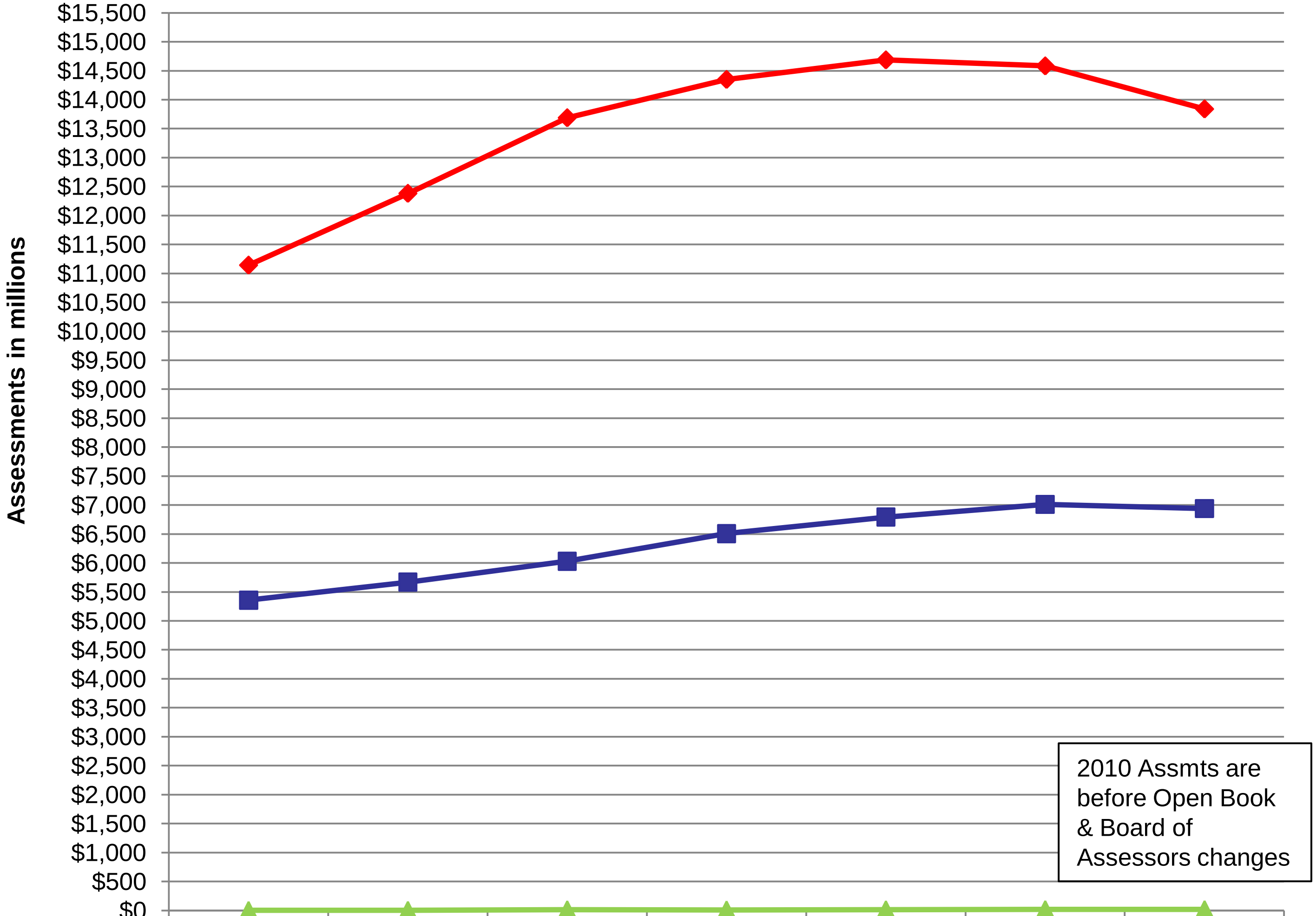
Source: Dept. of Planning & Community & Economic Development
Building Inspection Division: 1993-2009
City Assessor's Office: 2000-2009

City of Madison Total Permit Fees



Source: City of Madison Comptroller's Office, updated 7/26/10

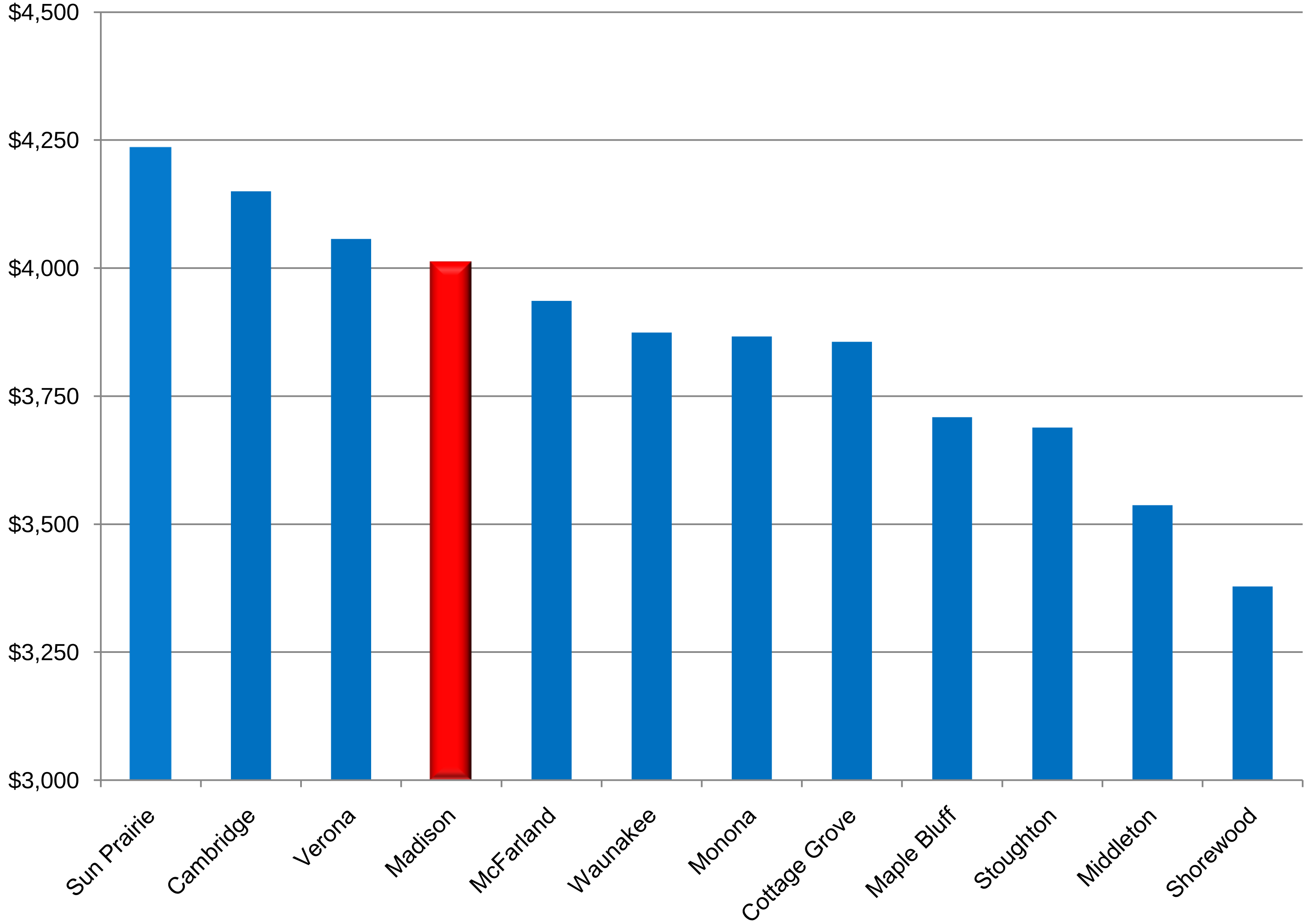
City of Madison Tax Base



	2004	2005	2006	2007	2008	2009	2010
Residential Assmts	$11,141	$12,381	$13,687	$14,349	$14,687	$14,583	$13,839
Commercial Assmts	$5,357	$5,669	6,029	$6,507	$6,793	$7,010	$6,941
Agriculture Assmts	$2	$3	$13	$10	$13	$16	$16

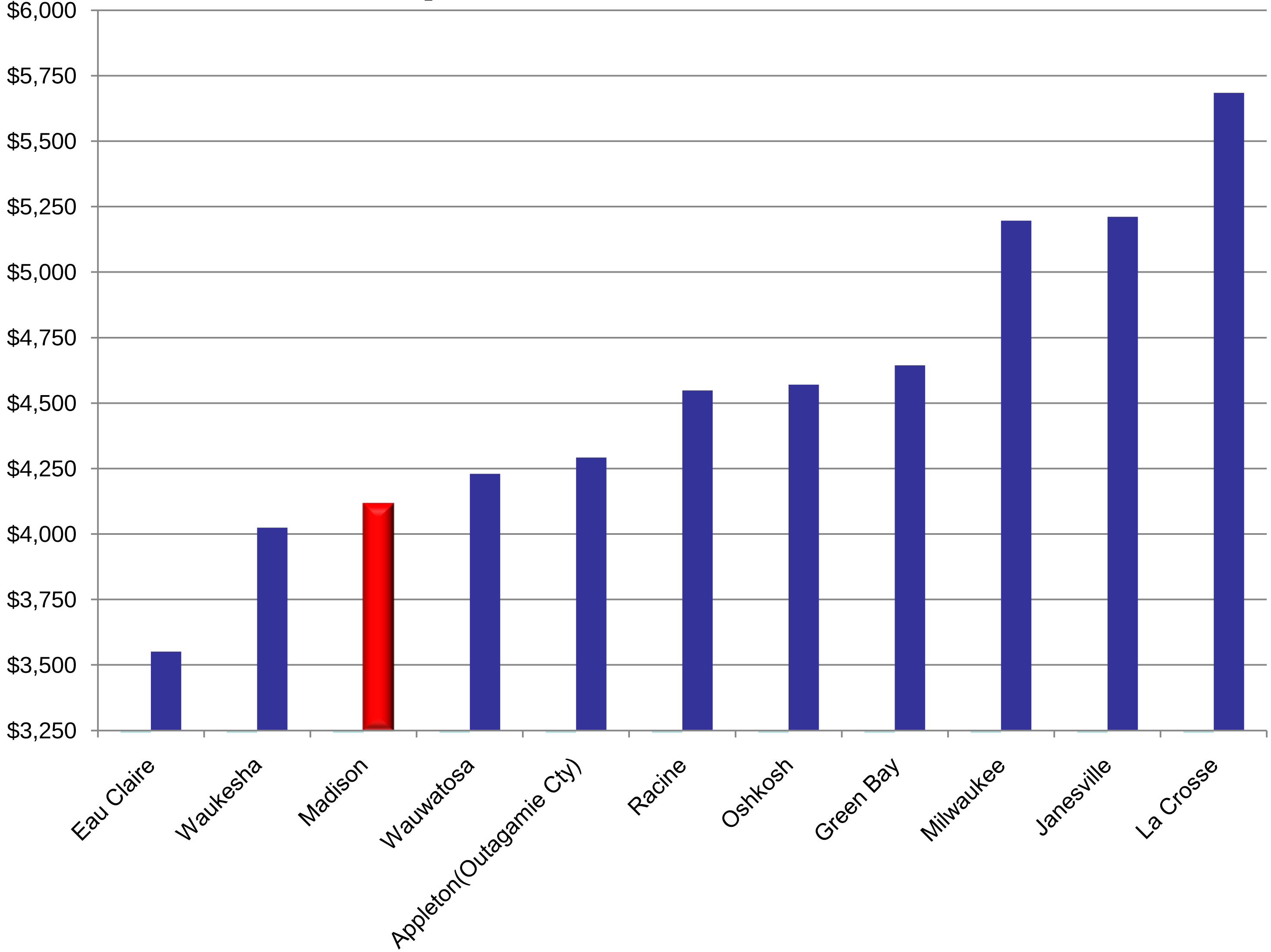
Source: City of Madison Assessor's Office, updated 7/29/10

2009 Property Tax 0n a $200,000 Home-Dane County Communities



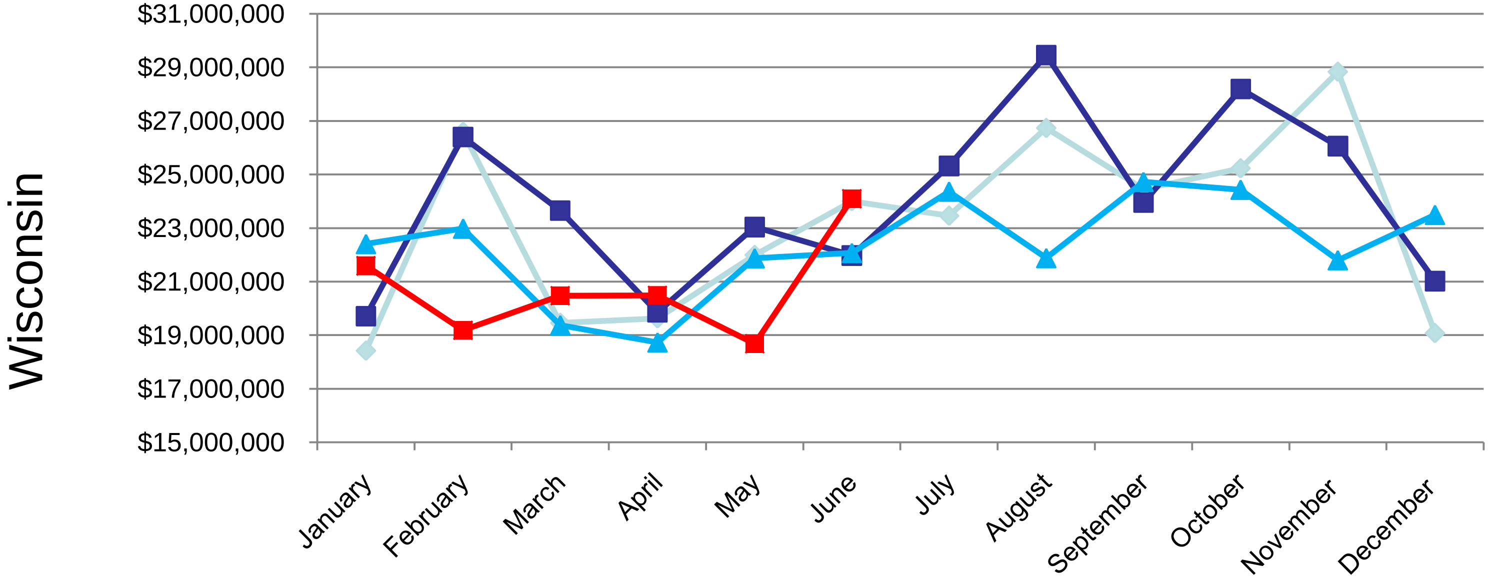
Source: 2010 Book of Business

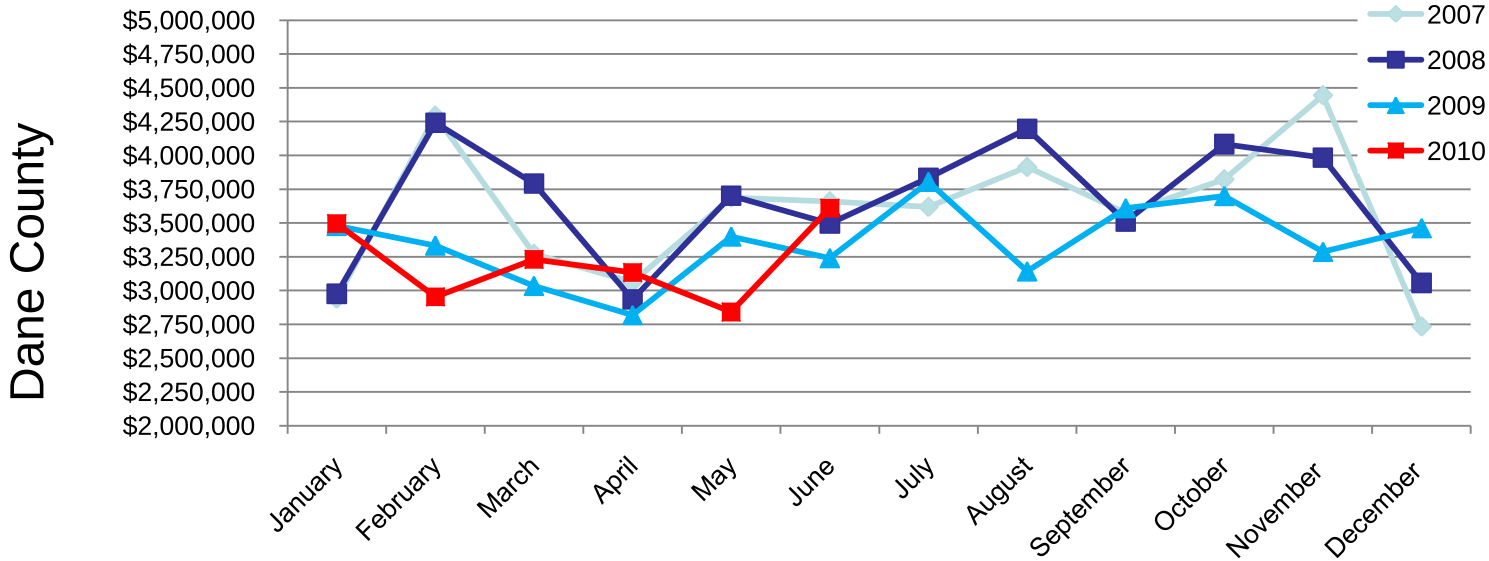
2009 Property Taxes on a $200,000 Home-Statewide Comparison



Source: Municipal Treasurers Offices

Sales Tax Revenues

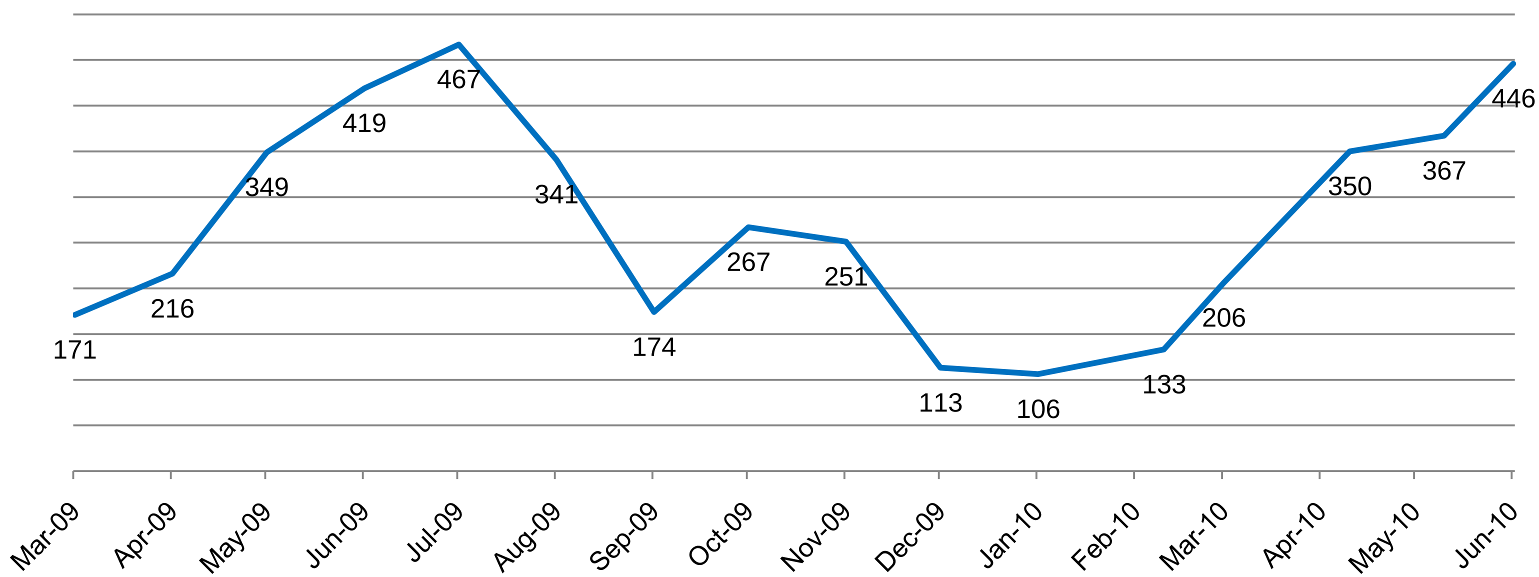




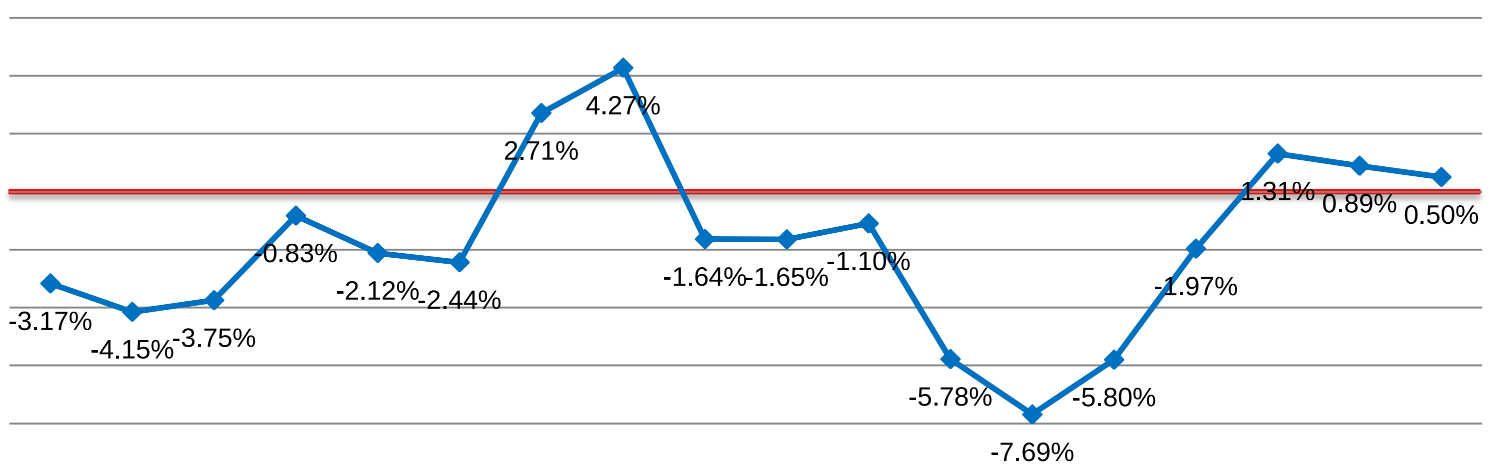
Source: State of Wisconsin, Department of Revenue *Updated 7/26/10*

City of Madison Valid Residential Sales

(Includes single-family, condos, multi-units up to 7 units)

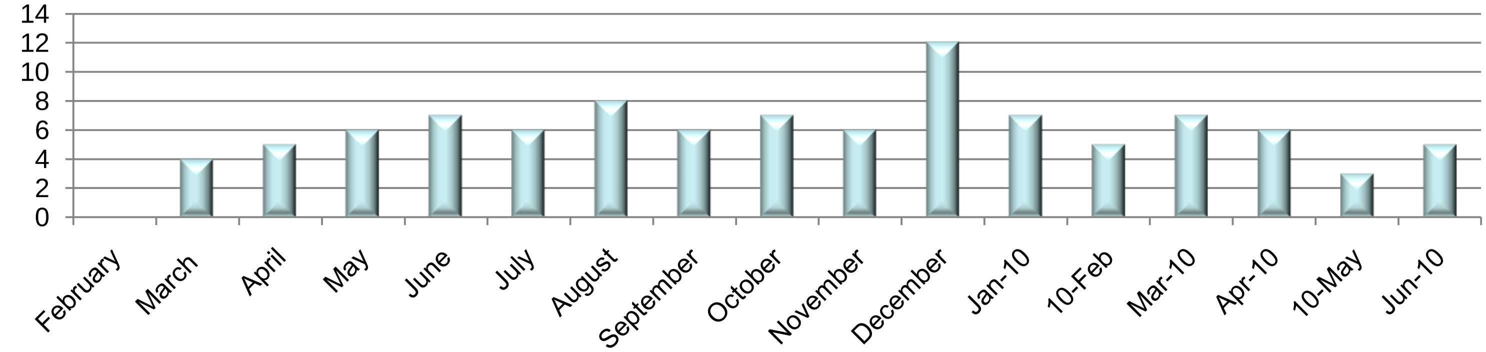


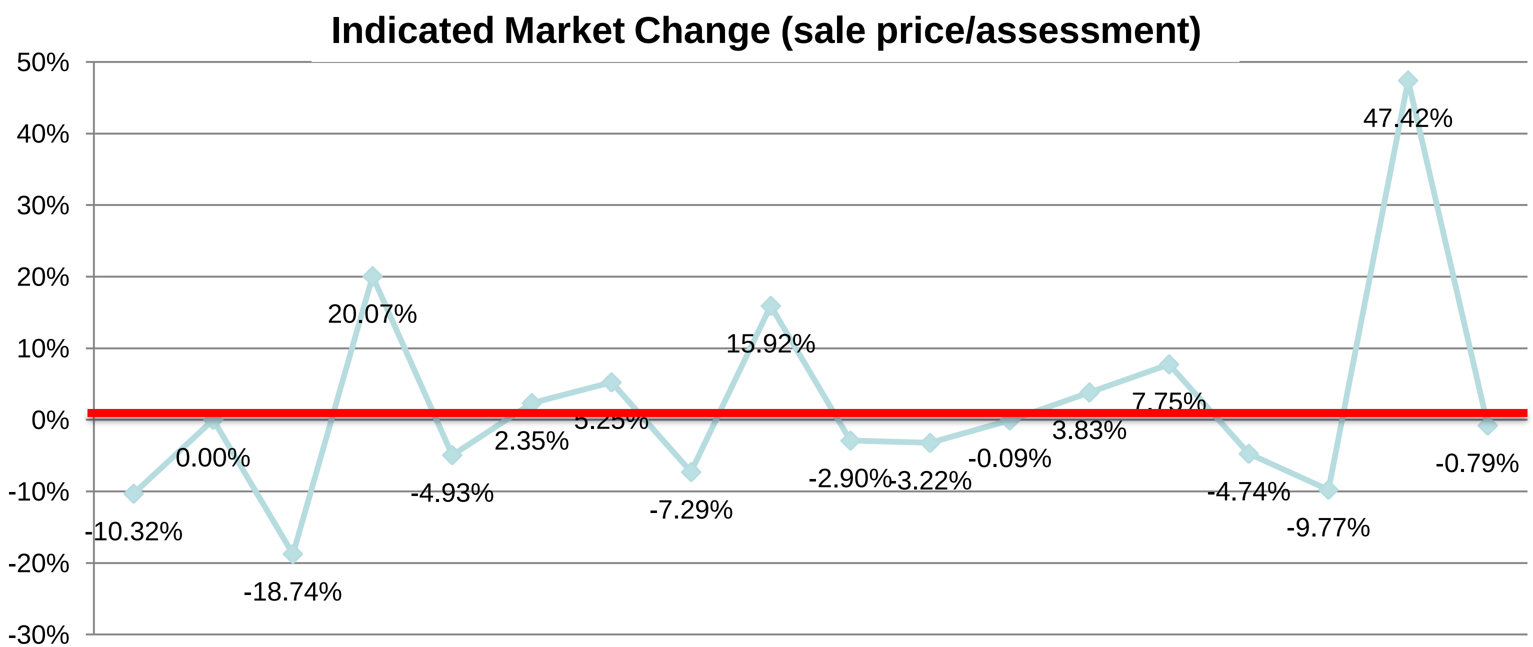
Indicated Market Change



Source: City of Madison Assessor's Office, updated 7/26/10

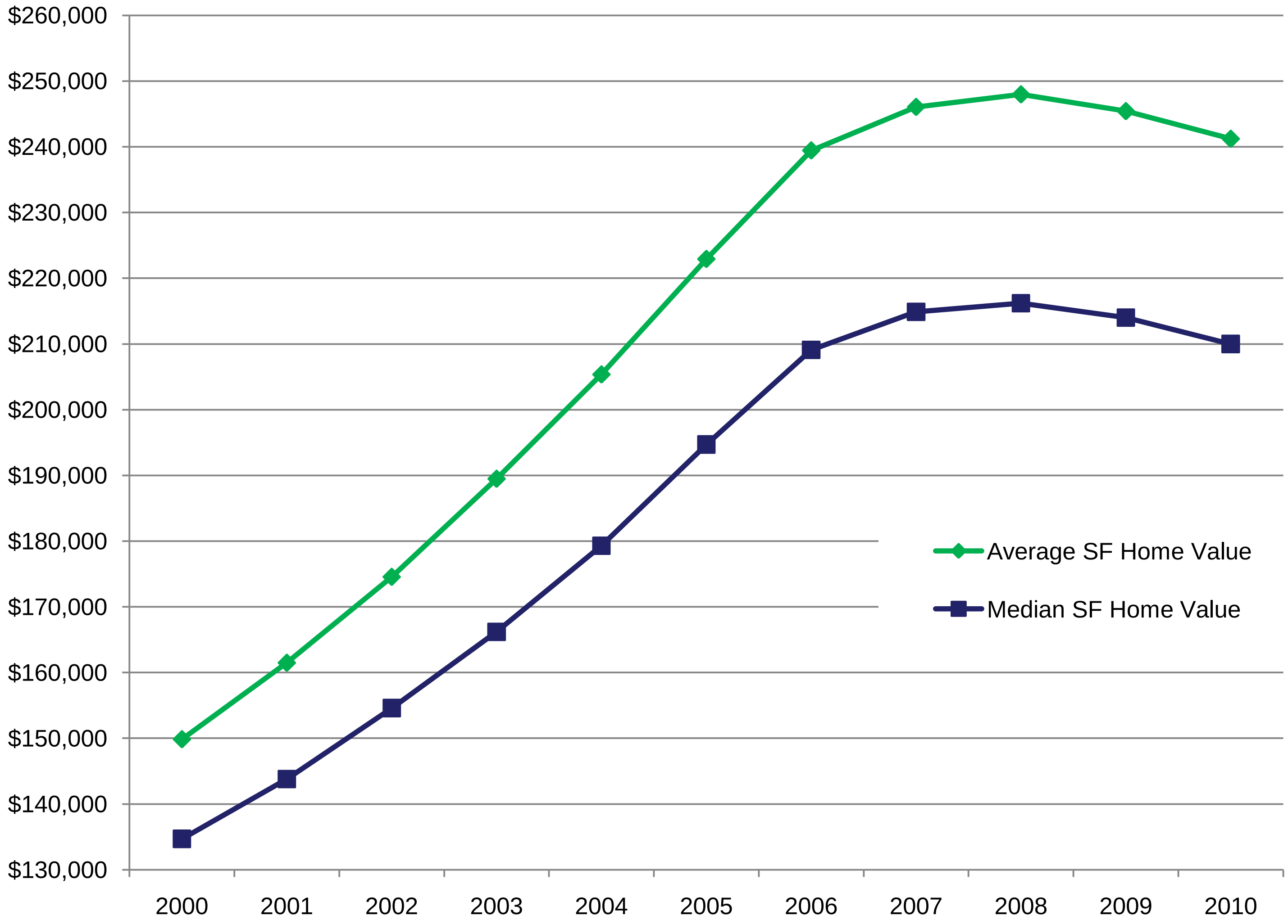
City of Madison Valid Commercial Property Sales, 2009-2010 **does not include manufacturing property**





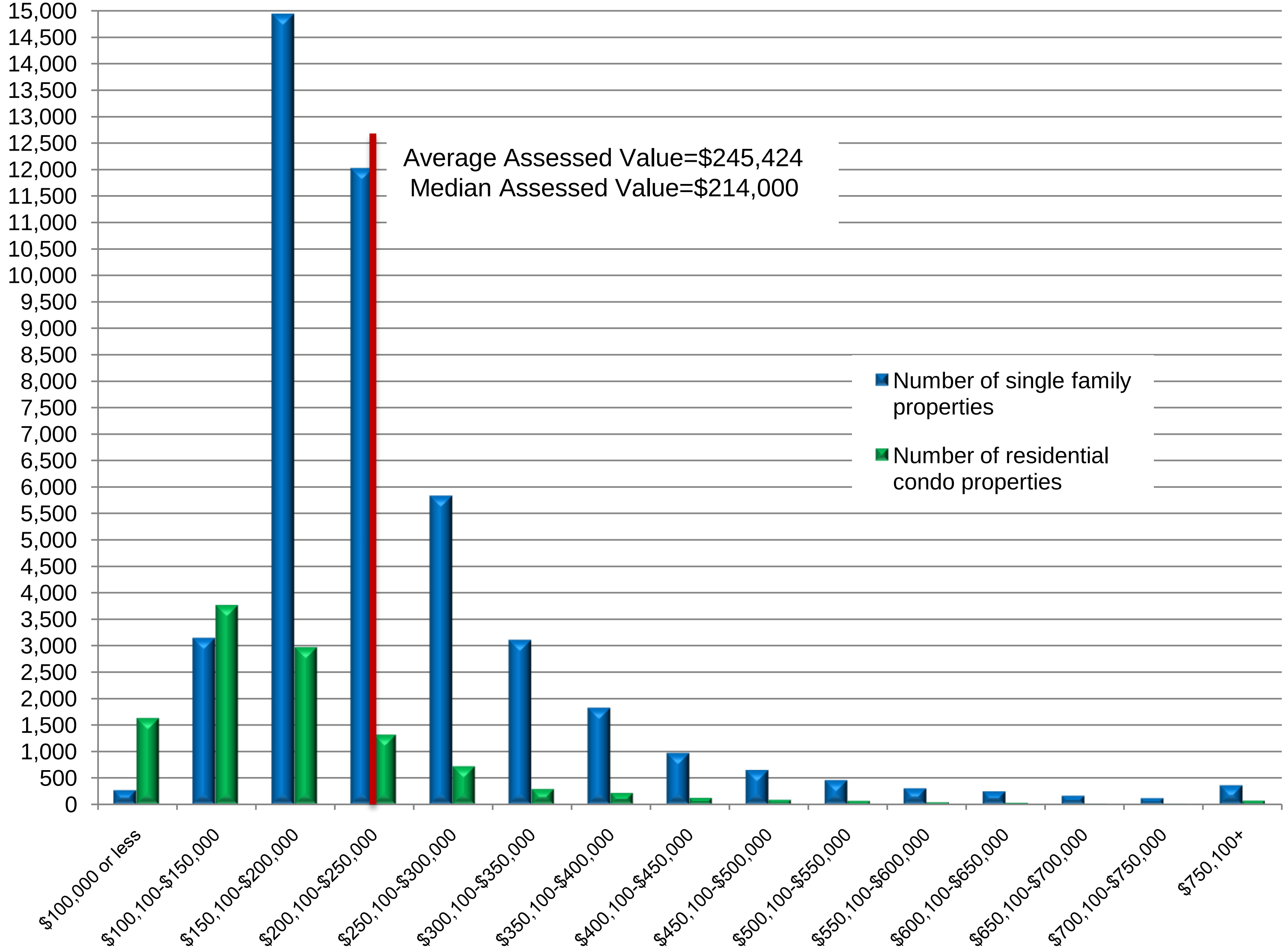
Source: City of Madison Assessor's Office, updated 7/26/10

City of Madison Single Family Home- Average and Median Values



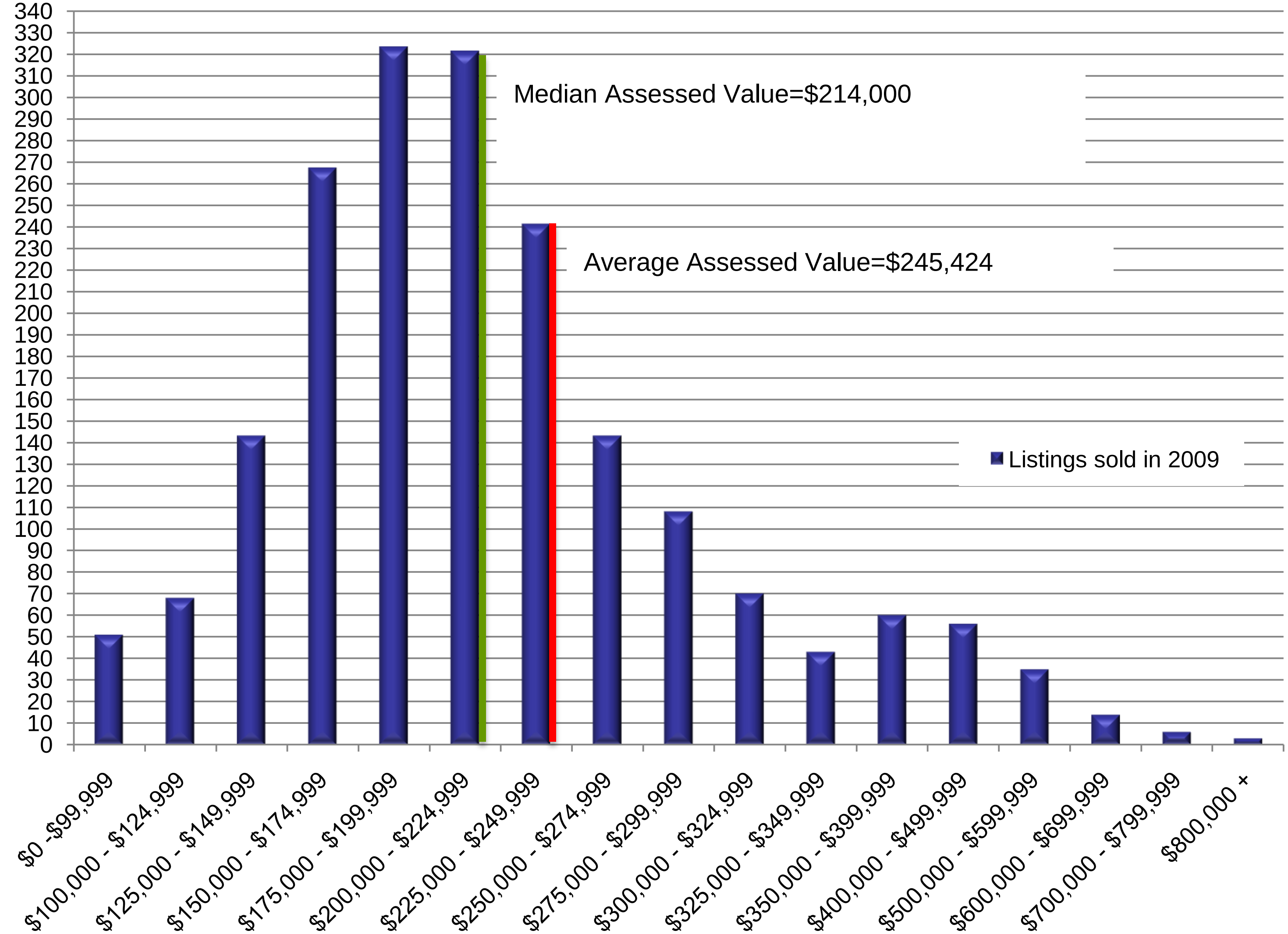
Source: City of Madison Assessor's Office

City of Madison Number of Residential Properties by 2009 Assessed Value

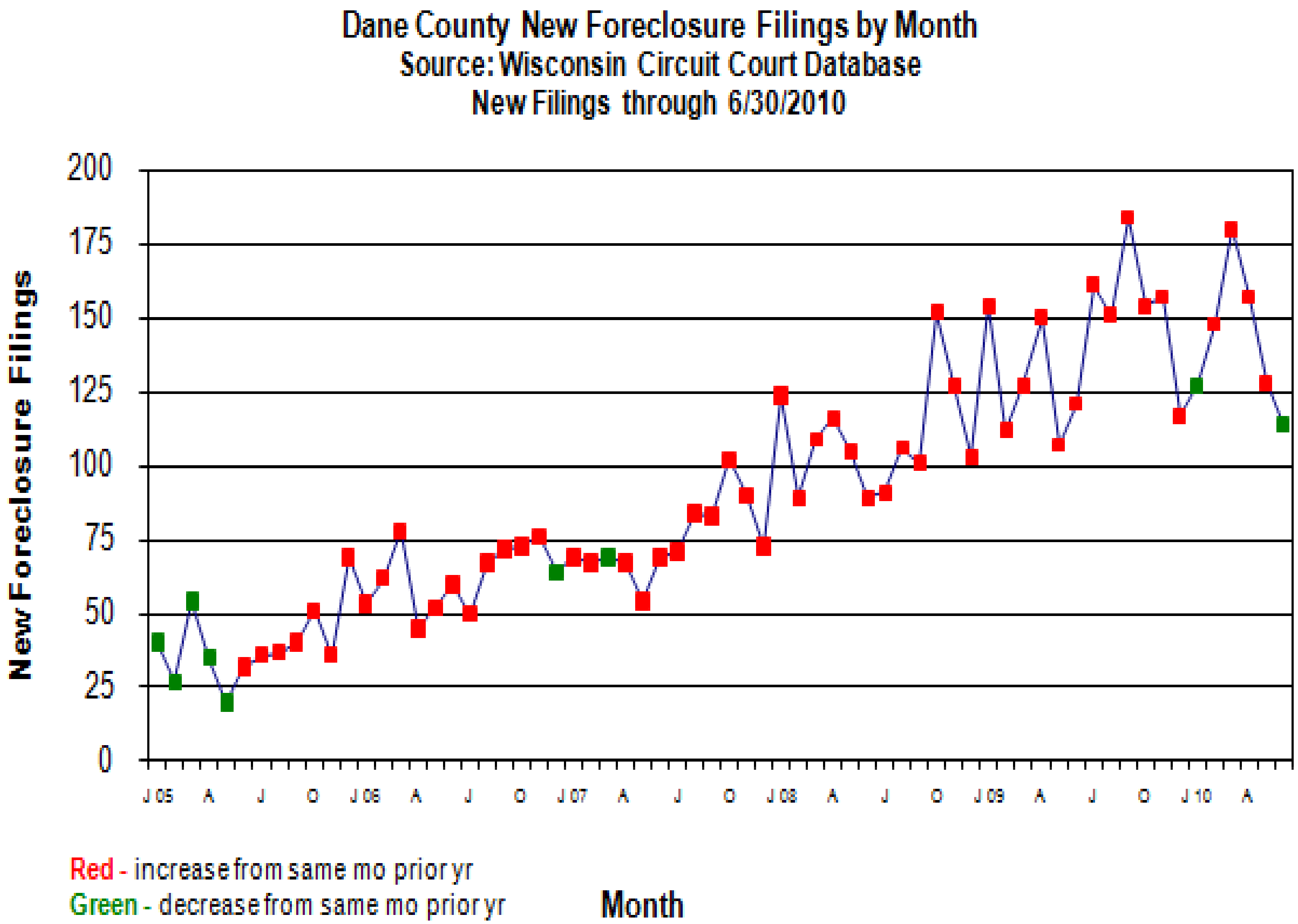


Source: City of Madison Assessor's Office

City of Madison Homes Sold by Price Range - 2009

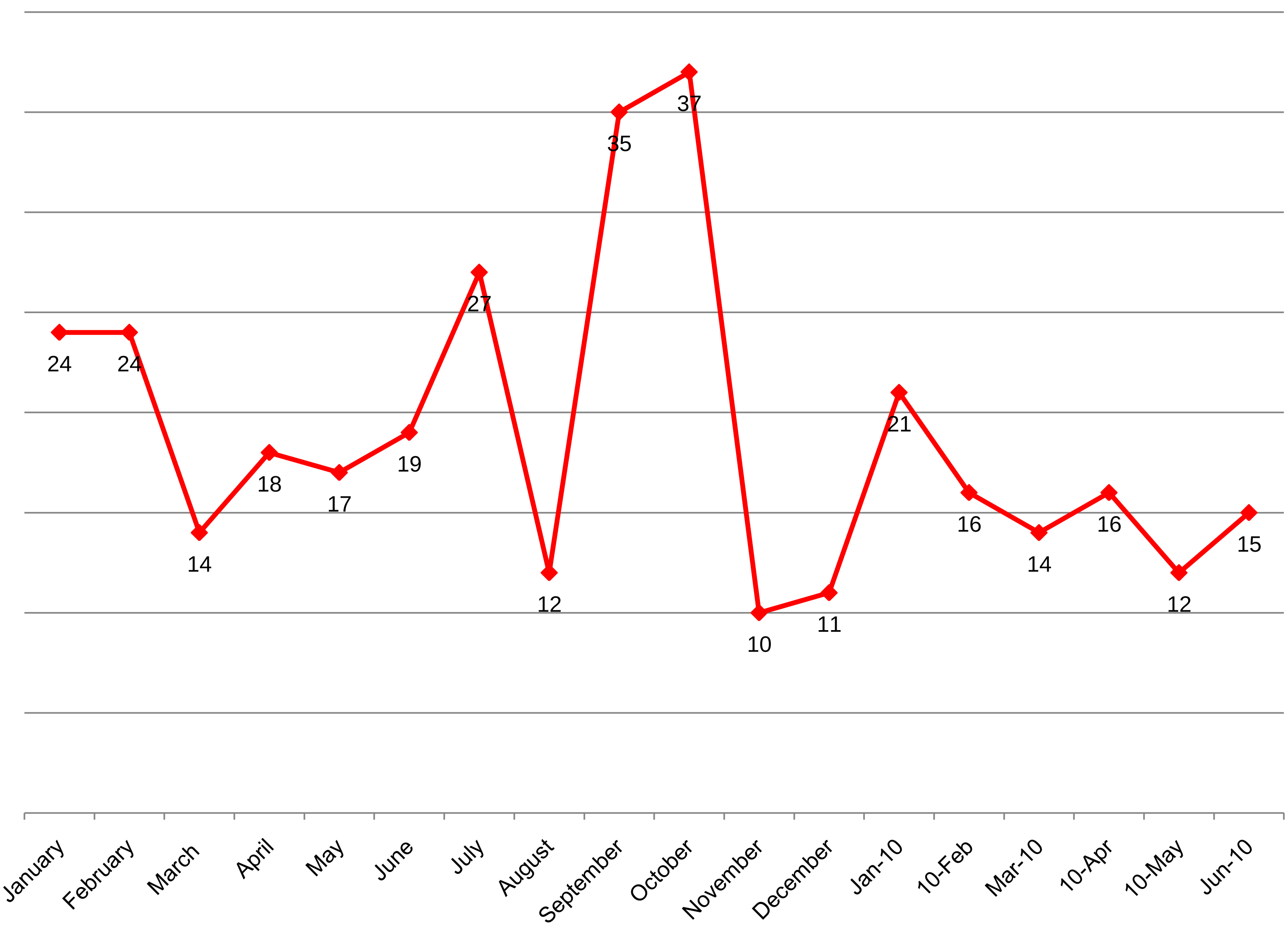


Source: South Central Wisconsin MLS Corporation



Source:www.madisonrealestatemarket.com *updated 7/2610*

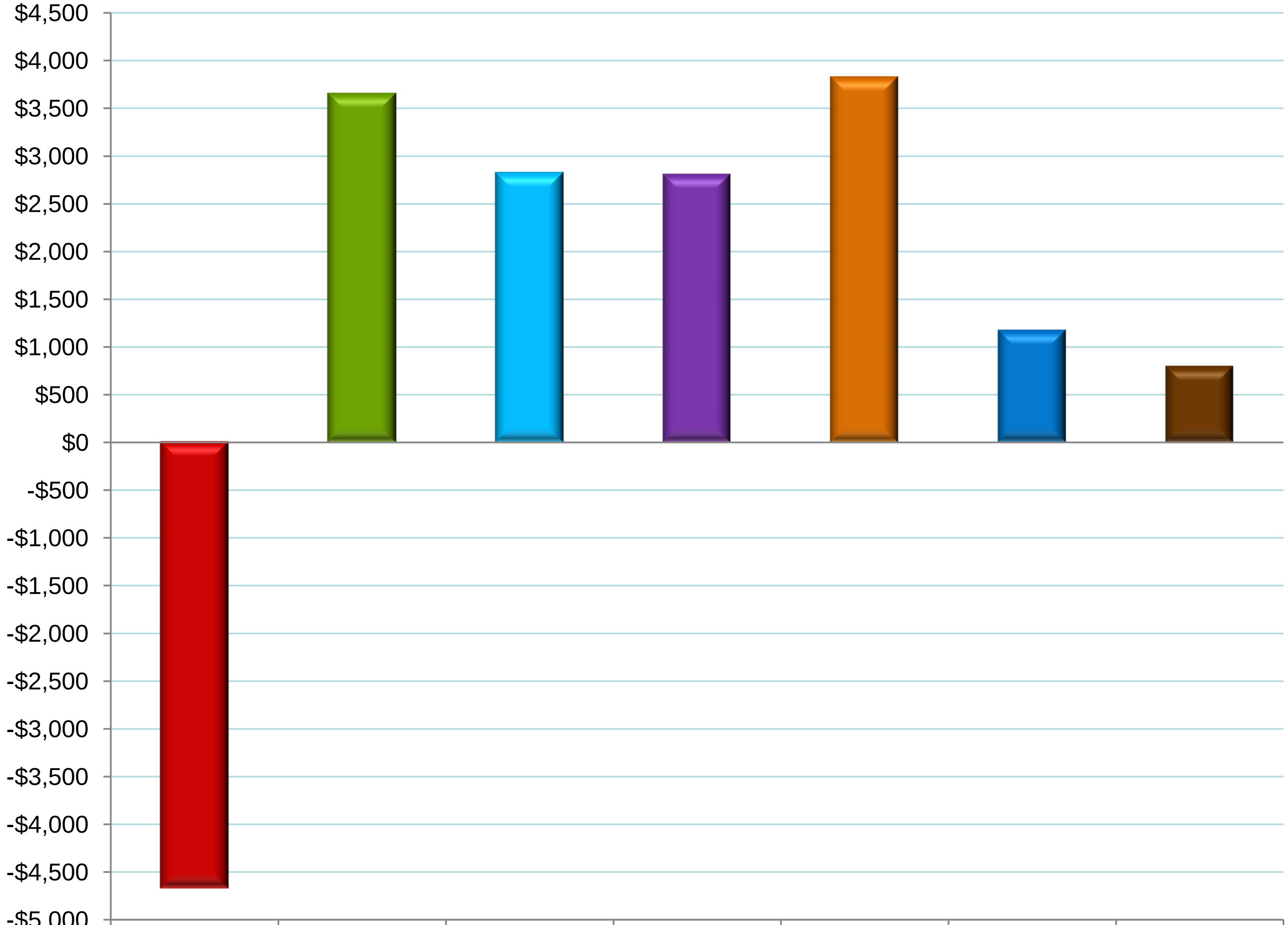
City of Madison Foreclosures – 2009-2010



Source: City of Madison Assessor's Office, updated 7/26/10

Madison

Net Median Household Income Migration 2000-2005

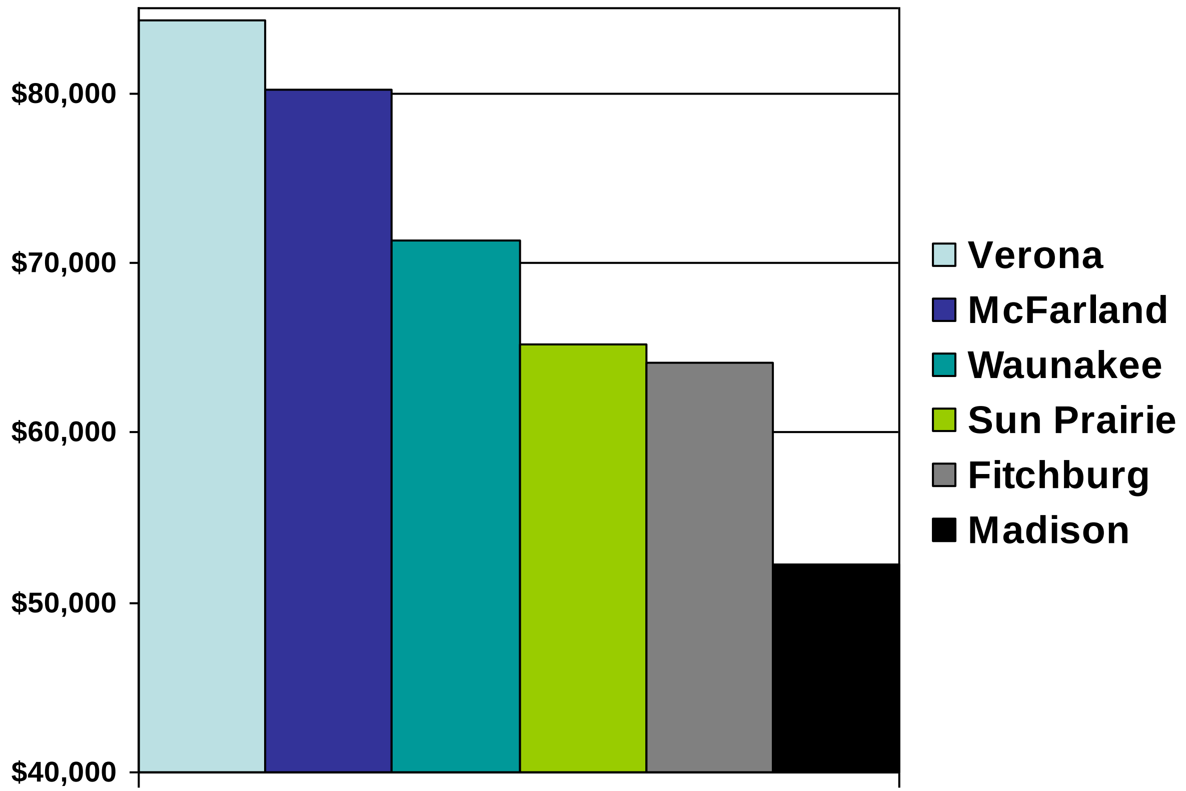


	Dane	Waukesha	Jefferson	Iowa	Columbia	Rock	Green
Net	-$4,668	$3,652	$2,826	$2,805	$3,828	$1,169	$787

Source: http://enterprise.star-telegram.com/ARCIms/Maps/clt/2007/irsmig.a...

Large Disparity with Immediate Suburbs

2008 Median Household Income

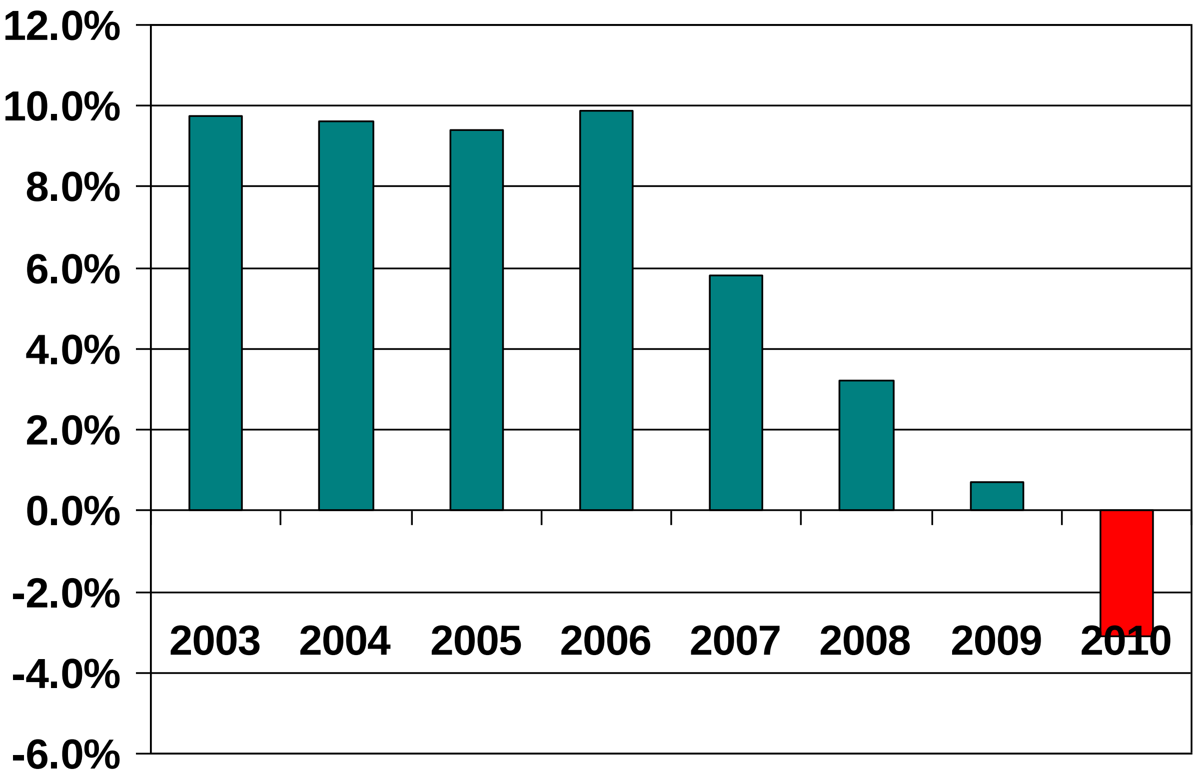


Source: U.S. Census Bureau, American Community Survey

Assessment Change Over Previous Year

2003 – 2010

OVERALL

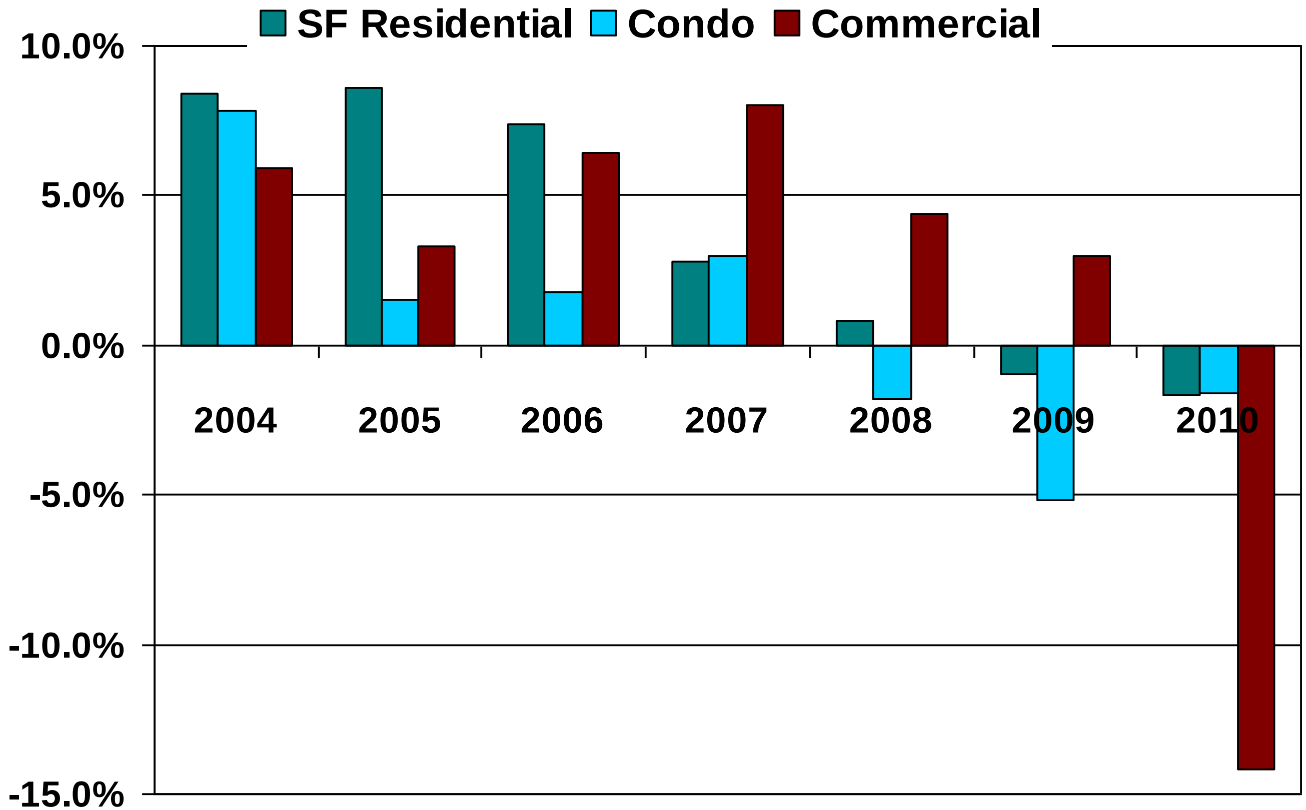


Source: City of Madison Assessors Report

Assessment Change Over Previous Year

2003 – 2010

On <u>average</u> single-family residential, condo & commercial property



Source: City of Madison Assessors Report

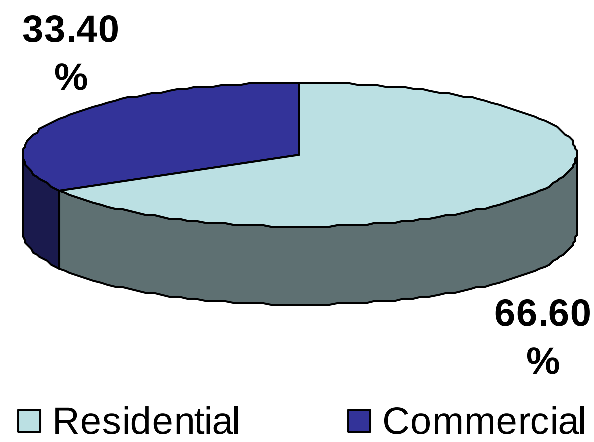
2010 City of Madison Assessment Data

Breakdown of $671.7 M **DECREASE** over 2009	Change in $ Millions
New Construction	246.6
Revaluations	(885.9)
Annexations	4.3
Real Estate Exemptions	(48.6)
Buildings Removed	(2.9)
Property Formerly Exempt, Now Assessed	13.8
Personal Property	1.0
TOTAL	**$(671.7)**

Net impacts assuming same levy as current year:
City = ($5.32M)
MMSD = ($7.03M)

On a $20.8B base

(- $2.2B)



Source: City of Madison Assessors Report

Articles and Research

- Madison, WI MSA Profile, Export Nation, Metropolitan Policy Program, Brookings
- Wisconsin Job Search , COWS, June 2010
- Census Bureau Releases 2008 Tax and Spending Data, Wisconsin Budget Project, 7/19/2010
- America's Top States for Business 2010, CNBC, 7/15/2010
- Good Schools, Bad Real Estate, Wall Street Journal, 6/25/2010
- The Case Against Summer Vacation, Time Magazine, 8/2/2010
- The Importance of Startups in Job Creation and Job Destruction & Job Growth in U.S> Driven Entirely by Startups Press Release, Kauffman Foundation Study, 7/2/2010
- Lowest Start-up Rate on Record as Jobs, Fragile Economy Deter Entrepreneurism, Challenger, Grey & Christmas, Inc., 7/19/2010
- Percent Job Losses in Post WWII Recessions Chart, www.calculatedriskblog.com
- Memo: $2.5B Budget Shortfall Looms in Wisconsin, www.madison.com, 7/9/2010
- Small Companies Denied Credit as Big Firms Thrive, www.yahoo.com, 7/12/2010
- Investment Outlook: Alphabet Soup, Bill Gross, www.pimco.com , 7/2010
- Unemployment Rate Falls in 39 States in June, www.yahoo.com, 7/20/2010
- The Need to Expand Personal Mobility, Wendell Cox, www.newgeography.com, 7/8/2010
- The Myth of the Back-to-the-City Migration, Joel Kotkin, www.newgeography.com, 7/6/2010
- Move to Suburbs (and Beyond) Continues, Wendell Cox, 7/13/2010
- Luring Companies to Stay Put, Area Development Magazine, Fe/March 2010
- The Tax Tsunami On The Horizon, Investors Business Daily, 7/21/2010
- Madison's Office Market Struggles Amid Plenty of Space, www.madison.com, 7/24/2010

PROFILE FOR

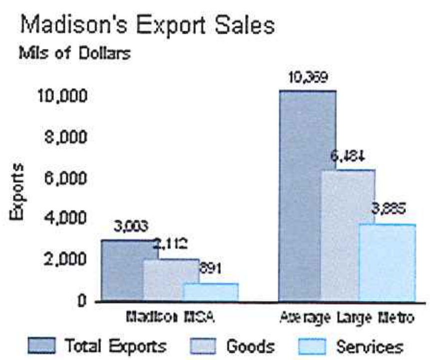
Madison, WI MSA

Why Exports Matter to the Country, And Why Metros Matter to Exports

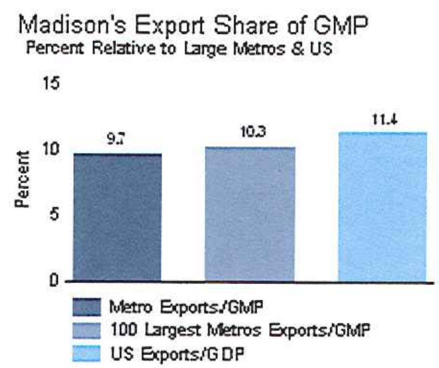
Even before the devastation wrought by the Great Recession, the U.S. economy was struggling against substantial structural weakness. Despite periods of rising prosperity, the last three decades have been characterized by middle- and lower-income wage stagnation; a lack of job opportunities for those without college degrees; and a speculative bubble-inducing trade deficit. A significant increase in U.S. exports could dramatically improve each of these conditions. Because metro areas are where over 83 percent of U.S. exports are produced, strategies to enhance their unique concentrations of industry clusters and specific competitive advantages would greatly strengthen national export performance.

Madison's Unique Export Profile

Madison produces $3.0 billion in total exports. As a share of its total economy, 9.7 percent of what it produces was exported in 2008, supporting 30,362 jobs. Recent export growth in Madison has been above average, expanding at 10.6 percent. Average wages in its largest export industry were $59,097, above the U.S. average. The metro has 8 export industry clusters. Finally, its major export industries are Chemical Manufacturing, Machinery Manufacturing, Computer and Electronic Product Manufacturing, Electrical Equipment, Appliance, and Component Manufacturing, and Royalties from Intellectual Property.



Brookings Institution analysis of various data for Madison, WI MSA



Brookings Institution analysis of various data for Madison, WI MSA

AT A GLANCE

EXPORTS ANNUALLY

$3.0 billion

(Rank 75)

EXPORT SHARE OF GMP

9.7%

(Rank 62)

EXPORT JOBS

30,362

(Rank 67)

Madison's Key Export Indicators For 2008

	Metro	Metro Rank[1]	100 Largest Metro Areas	United States [2]
Exports (in blns USD)	3.0	75	1,037	1,609
Exports as a share of GMP	9.7	62	10.3	11.4
Number of export-related jobs	30,362	67	7,688,744	11,854,390
Percent annual growth rate of exports, 2003-2008 (inflation adjusted)	10.6	36	8.7	9.2
Average wages in leading export industry[3]	$59,097	62	$66,449	$45,563*
Number of export clusters[4]	7	33	6.7	N/A
Percentage of exports sold to Brazil, India and China	9.8	8	8.6	8.8

Source: Brookings analysis of Moody's Economy.com, the Institute of International Education (IIE), the Internal Revenue Service (IRS), the United States Bureau of Economic Analysis (BEA), the United States Bureau of Labor Statistics (BLS), Quarterly Census of Employment and Wage (QCEW) and Integrated Public Use Microdata Series (IPUMS) (for metro industry wages), and the United States International Trade Commission (USITC) data. GMP refers to Gross Metropolitan Product. 1. A rank of 1 signifies the highest value among the 100 largest metropolitan areas. 2. The export values for the United States refer to U.S. domestic private exports, excluding scrap materials and used merchandise. 3. Data for individual metros refer to the leading exporting industry by value; data for the largest 100 metros refer to the average large metro's wage in its leading export-industry (using QCEW and IPUMS); *data for the US refer to all industries as reported by the QCEW. 4. An export industry is defined as clustered in a metropolitan area if its export value is at least 50 percent larger as a share of the metro economy than the industry's exports are relative to the U.S. economy.

Madison's Export Markets For 2008

Largest Export Markets Based on Metro Industry Composition	Value of Metro Exports (in mils USD)
Canada	463
Mexico	287
Japan	187
UK	175
China	161
Largest U.S. Export Markets for Top Metro Export Industry—Chemical Manufacturing	**Value of Metro Exports (in mils USD)**
Canada	59
Mexico	44
Netherlands	29
Belguim	26
Germany	24

Example Export Companies

University of Wisconsin
Oscar Myer/Kraft
Universal Acoustic and Emissions Technology
Dane Manufacturing

Sources: ITA Foreign Trade Zones, Journal of Commerce, local chambers of commerce

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1775 Massachusetts Avenue, NW
Washington D.C. 20036-2188
telephone 202.797.6139
fax 202.797.2965
web site www.brookings.edu/metro

WISCONSIN JOB WATCH

COWS

June 2010 Data Update

ANOTHER DIP IN WISCONSIN'S JOB PICTURE

Following steady gains in employment from December 2009 through April 2010, Wisconsin's job outlook worsened again last month, with 8,200 jobs lost in June. The improvement in the state's job picture in early 2010 (34,000 jobs added) had been welcome news following hemorrhaging employment in 2008 and 2009. Still, these gains were small, and the April to June decline has reversed this positive trend. Wisconsin has lost 162,000 jobs since the recession's start in December 2007, and the state's job base is 5.6 percent below its pre-recession level.

In better news for the state, Wisconsin's unemployment rate dropped 0.3 percentage points to 7.9 percent in June 2010, its lowest level since February 2009 and the third consecutive month that unemployment levels have fallen. Despite this improvement, unemployment in the state remains much higher than its December 2007 level (4.5 percent), and this recession continues to set records for long-term unemployment. (Table 1, Figure 3 on back page)

MANUFACTURING DOWN SLIGHTLY, CONSTRUCTION UP

Wisconsin's manufacturing and construction sectors have been hit hard this recession, but both industries posted gains in the early months of 2010. Wisconsin's manufacturing sector dipped slightly in June 2010 (1,400 jobs lost) following five months of small but consistent employment gains. Despite the overall gains seen in this industry since the beginning of the year, Wisconsin's manufacturing sector still has nearly 69,000 fewer jobs than when the recession started, representing a 14 percent loss of manufacturing jobs and accounting for more than 40 percent of Wisconsin's total job loss.

Wisconsin gained 500 construction jobs between May and June, continuing an overall positive trend for this industry in 2010 (6,400 jobs gained between January and June 2010). Still, even if growth in construction jobs remains consistent, there is a long road ahead to reach pre-recession levels. The construction sector has lost 22,900 jobs this recession, a 19 percent loss in the industry since December 2007. (Table 1, Figure 2)

Table 1

CHANGES IN UNEMPLOYMENT AND NUMBER OF JOBS IN WISCONSIN, DECEMBER 2007 TO JUNE 2010

	December 2007	*June 2010*	*Change*	*Percent Change*
Unemployment	4.5%	7.9%	3.4	
All jobs	2,885,500	2,723,800	-161,700	-5.6%
Manufacturing jobs	498,100	429,400	-68,700	-13.8%
Construction jobs	123,700	100,800	-22,900	-18.5%

Figure 1

TOTAL JOB LOSS IN WISCONSIN, DECEMBER 2007 TO JUNE 2010

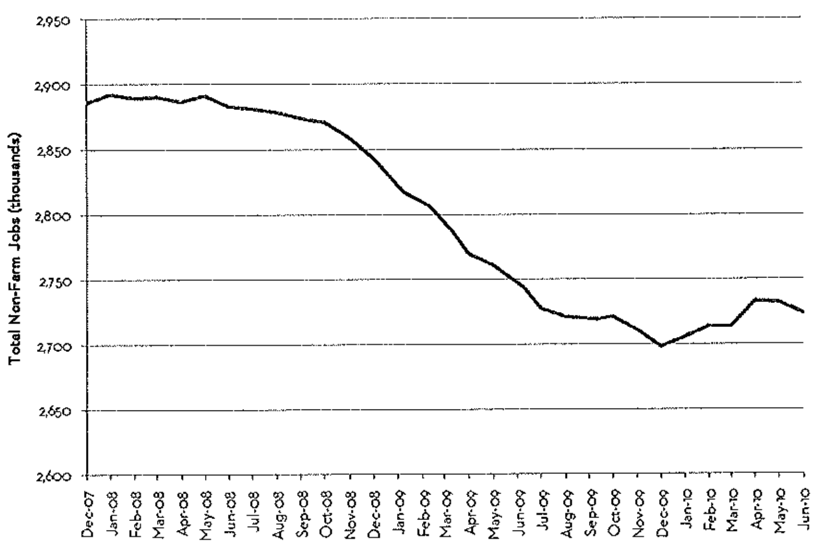
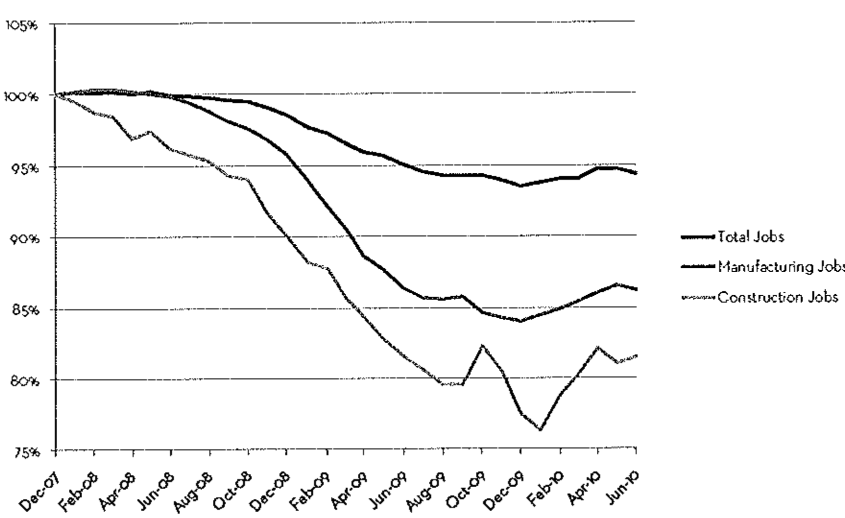


Figure 2

PERCENT CHANGE IN MANUFACTURING, CONSTRUCTION, AND TOTAL JOBS IN WISCONSIN, DECEMBER 2007 TO JUNE 2010



JOB LOSS CONTINUES TO OUTPACE RECENT RECESSIONS

The severity of this recession stands out when compared to the three most recent downturns of 2001, 1990, and even that of 1981. Wisconsin has lost 5.6 percent of its pre-recession job base, a substantially larger deficit than has been seen in generations. Despite the increase in jobs starting at the beginning of this year, jobs fell yet again in June 2010, and we have a long way to climb to reach pre-recession levels. Moreover, despite the drop in Wisconsin's unemployment rate between March and June of this year, unemployment in the state remains stubbornly high and parallels levels from the early 1980s. (Figures 3 and 4)

Figure 3

WISCONSIN UNEMPLOYMENT RATE IN CURRENT RECESSION, COMPARED WITH 1981, 1990, AND 2001 RECESSIONS

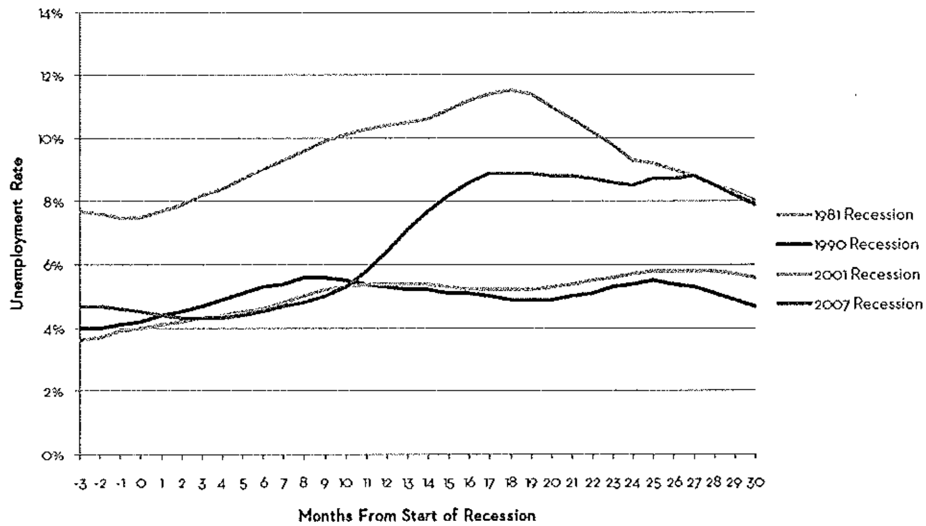
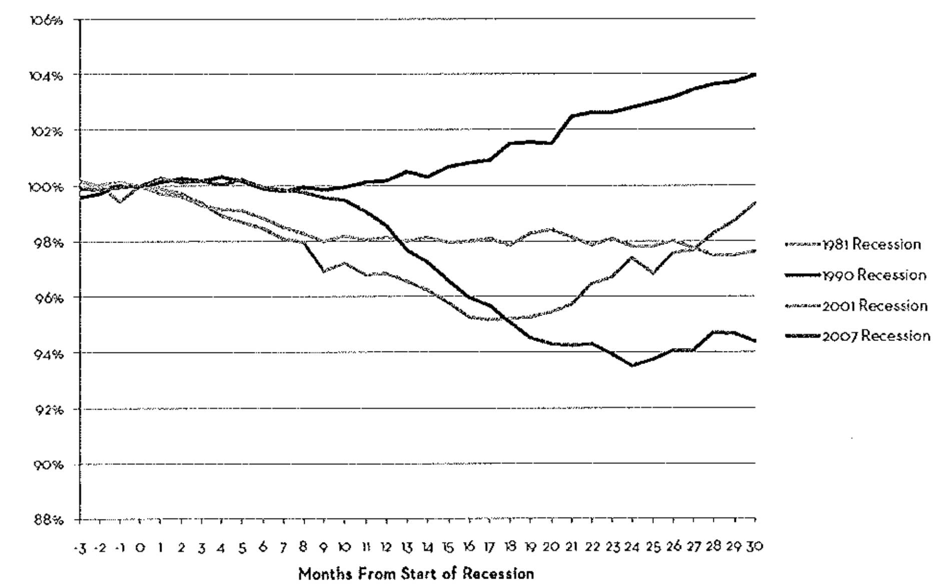


Figure 4

PERCENT CHANGE IN WISCONSIN JOBS IN CURRENT RECESSION, COMPARED WITH 1981, 1990, AND 2001 RECESSIONS



Wisconsin Job Watch, a monthly publication of the Center on Wisconsin Strategy (COWS), provides a snapshot of Wisconsin's job picture and reports on key recession trends. The numbers provided in this report are based on seasonally-adjusted Bureau of Labor Statistics data compiled by the Economic Policy Institute (www.epi.org).

The Center on Wisconsin Strategy (COWS) is a policy center and field laboratory for high road economic development — a competitive market economy of shared prosperity, environmental sustainability, and capable democratic government. Housed at University of Wisconsin-Madison, COWS has been supporting progressive policy innovation since 1991. For more information, visit www.cows.org.

COWS

center on wisconsin strategy

1180 Observatory Drive • Madison, WI
608.263.3889 • www.cows.org

★ AMERICA'S TOP STATES FOR BUSINESS 2010 ★ | A CNBC SPECIAL REPORT

Overall Rankings - 2010

We scored all 50 states—using publicly available data—on 40 different measures of competitiveness. States received points based on their rankings in each metric. Then, we separated those metrics into the ten broad categories, with input from business groups including the National Association of Manufacturers. We weighted the categories based on how frequently each is cited in state economic development marketing materials.

Here are the ten categories ranked in our study:

- Cost of Doing Business
- Workforce
- Quality of Life
- Economy
- Transportation & Infrastructure
- Technology & Innovation
- Education
- Business Friendliness
- Access to Capital
- Cost of Living

Overall	State	Cost of Business	Workforce	Quality of Life	Economy	Transportation	Technology & Innovation	Education	Business Friendliness	Access to Capital	Cost of Living
1	Texas	30	16	29	1	1	4	30	19	7	8
2	Virginia	26	9	18	11	12	10	13	2	9	27
3	Colorado	25	10	2	8	36	12	29	4	15	35
4	North Carolina	15	3	32	37	10	11	26	13	10	23
5	Massachusetts	39	23	6	17	39	3	1	14	2	41
6	Iowa	1	20	17	10	32	29	16	12	36	17
7	South Dakota	4	15	11	4	27	49	21	3	40	5
8 (tie)	Minnesota	31	34	12	5	11	16	9	20	19	15
8 (tie)	Utah	7	7	5	23	32	25	48	10	39	17
10	Georgia	20	3	35	37	2	17	28	17	13	9
11	Kansas	22	13	27	7	8	31	11	18	33	5
12	North Dakota	15	23	13	3	20	47	18	10	40	17
13	Nebraska	18	18	21	14	18	37	22	8	40	5
14	Wyoming	13	12	10	9	24	50	22	20	27	27
15	Washington	33	30	8	18	35	5	22	34	5	35
16	Tennessee	10	5	49	36	4	23	41	6	35	1
17	Missouri	5	29	39	29	7	24	15	25	20	9
18	Arizona	23	2	29	41	23	19	45	5	25	34
19	New Hampshire	34	38	4	12	47	27	6	9	16	39
20	Pennsylvania	40	42	25	15	16	6	4	32	11	30
21	Indiana	9	42	44	41	6	22	16	6	26	13
22	New Jersey	44	32	14	28	32	9	2	35	4	47
23	Oregon	19	33	22	33	15	20	38	28	14	37
24	New York	50	49	18	2	22	2	2	45	3	43
25	Oklahoma	3	22	41	6	41	36	40	25	32	1
26	Idaho	8	8	18	39	29	39	47	22	28	11
27	Maryland	43	36	28	18	43	8	10	16	12	45
28	Florida	41	1	31	48	21	13	35	23	17	30
29	Wisconsin	24	46	23	31	14	21	12	27	30	17
30	Illinois	35	39	24	29	12	14	26	39	6	17
31	South Carolina	6	5	45	46	8	26	43	30	34	24
32 (tie)	Arkansas	2	11	43	27	36	44	33	39	40	3

45	Mississippi	11	21	42	35	45	46	49	47	40	13
46	West Virginia	15	44	40	24	38	48	34	50	40	17
47	Nevada	37	19	37	49	31	37	50	15	40	37
48	Hawaii	49	50	1	22	49	43	38	42	31	49
49	Rhode Island	45	25	33	49	48	28	14	48	23	41
50	Alaska	46	45	26	41	50	41	45	44	40	47

WISCONSIN
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PROJECT

An Initiative of the Wisconsin Council on Children and Families

Census Bureau Releases 2008 Tax and Spending Data

Wisconsin below average on per capita spending and taxes

July 19, 2010

New data from the U.S. Census Bureau show that Wisconsin was below average in per capita state and local taxes and spending in fiscal year 2008. This issue brief analyzes the latest data, which was released by the Census Bureau on July 14, and updates the state rankings.

Wisconsin's spending and taxes have been falling relative to other states for a number of years, and the figures in the tables below show a significant drop from 2000 to 2008 – particularly in the per capita rankings shown in Table 1. For example, Wisconsin went from 15th highest in 2000 to 27th in 2008 in total state and local general revenue per capita, and from 13th to 23rd in total spending per capita.

Our analysis of the Census Bureau data found that total government spending at the state and local level in Wisconsin was $570 (6.1%) per person below the national average in 2007-08. However we think the better spending measure to use for comparisons between states is a slightly narrower category, known as direct general spending, which excludes things like revenue from public utilities and state-run liquor stores. By that measure, the Census Bureau data show that Wisconsin was $345 (4.4%) below the national average in per capita spending.

Table 1 –2008 Revenue, Spending and Employees – Per Capita[1]

	Natl. Average	Wisconsin	% Difference	Ranking	
				2000	2008
Total state & local general revenue	$7,970	$7,463	-6.4%	15th	27th
State & local "own-source" revenue	$6,388	$6,152	-3.7%	11th	21st
Total state & local taxes	$4,371	$4,331	-0.9%	8th	17th
Federal revenue	$1,582	$1,310	-17.2%	35th	46th
Total state & local spending	$9,327	$8,757	-6.1%	13th	23rd
Direct general state & local spending	$7,886	$7,541	-4.4%	12th	22nd
State and local employees (Mar. 2008)	0.055	0.050	-8.2	33rd	41st

Note: We excluded the District of Columbia from these rankings. If it were included, Wisconsin would drop one place on all of the rankings (for example, from 17th to 18th highest in total per capita taxes).

Taxes, Fees and Federal Revenue

Total state and local taxes were $40 per person less in Wisconsin in FY 2008 than the national average, and Wisconsin ranked 17th in that category (compared to 8th in 2000). However, because per capita income in Wisconsin is almost 6 percent below the national average, Wisconsin ranks higher (closer to the top) on many of the measures when revenue is calculated as a percentage of total personal income in the state. Most notably, Wisconsin ranked 13th in fiscal year 2008 in total state and local taxes relative to income, despite the fact that the state average per person is now below the national average.

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2010 Issue Brief #3

Of course, state residents don't only care about taxes; they generally have the same feelings regarding other revenue sources, such as fees, that come from their pockets. A broader measure of what state and local government collects from its residents, known as "own source revenue," includes all state and local revenue except federal aid. On that measure, Wisconsin's per capita revenue is $236 below average and ranks 21st. Measured against personal income, own source revenue at the state and local level in Wisconsin is 2 percent above the national average.

The fact that Wisconsin takes in less "own source" revenue per capita than the national average is one factor in the state's below average spending. Another factor is that Wisconsin continues to rank very low in federal revenue. On a per capita basis, Wisconsin ranks 46th in federal revenue, 17 percent below average.

Table 2 – Revenue and Spending Relative to Income in 2008 [2]

	Natl. Average	Wisconsin	% difference	Ranking	
				2000	2008
Total state & local general revenue	20.4%	20.3%	-0.7%	18th	30th
State & local "own-source" revenue	16.4%	16.7%	+2.1%	13th	21st
Total state & local taxes	11.2%	11.8%	+5.0%	4th	13th
Federal revenue	4.1%	3.6%	-12.2%	35th	38th
Total state & local spending	23.9%	23.8%	-0.5%	19th	27th
Direct general state & local spending	20.2%	20.5%	+1.4%	17th	25th

(As noted under the previous table, we excluded the District of Columbia from these rankings.)

Government employment and payroll

One reason that per capita government spending in Wisconsin is below the national average is that government units in Wisconsin have fewer employees on their payroll. Census Bureau data reveal the following about public sector employment and payrolls in Wisconsin in 2008:

- The number of state and local employees per 1,000 state residents was 8.2% below average, ranking 41st nationally.
- State and local spending for public employee payrolls was 9 percent below the national average and ranked 33rd.

Conclusion

State and local spending in Wisconsin in fiscal year 2008 was 4.4 percent below the national average when it is measured on a per capita basis, and 1.4 percent above average when it is measured relative to personal income. Wisconsin relies more heavily on tax revenue than most other states and less on fees. Nevertheless, when compared with other states, Wisconsin taxes, total revenue and total spending have declined significantly over the past decade. In fact, Wisconsin's total state and local taxes per capita were $40 less than the national average in FY 2008. Because per capita personal income in Wisconsin is below the national average, most of the Wisconsin rankings – and the tax ranking in particular – are higher when revenue and spending are measured as a percentage of income.

Jon Peacock, project director
Tamarine Cornelius, research analyst

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[1] We used the Census Bureau's July 1, 2008 population estimate for each state to compute the per capita amounts.

[2] To be consistent with how the Legislative Fiscal Bureau has determined rankings in the past, we calculated the percentages using personal income during the calendar year in which the fiscal year began.

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WSJ.com

HOMES | JUNE 25, 2010

Good Schools, Bad Real Estate

Despite the housing slump, house hunting in good school districts frustrates parents who often have to settle for less house.

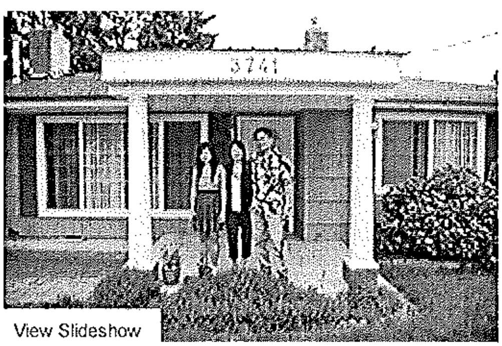
By Sarah Max

Oh, the sacrifices parents make.

Kiely and John Adams began their house hunt this spring with grand plans to upgrade from their small home in Cary, N.C., to a larger, four-bedroom house—preferably with an office and a bonus room—about 25 miles away in Chapel Hill, where Kiely plans on starting a Ph.D. program next fall.

They could have gotten all that and more for their $415,000 budget if they kept their search on the outskirts of Chapel Hill. But, determined to stay within the boundaries of Chapel Hill's highly-regarded school district, the parents of 5-year-old twins, Megan and Bevin, and 4-year-old Sean trudged ahead in what they dubbed "an exercise in compromise." Even when they did find a house that showed promise, it was usually snapped up before they could take a closer look. "Most houses seemed to come and go, come and go," Mr. Adams says.

One Family, Two Houses



View Slideshow

Amanda Koster

The Shin family bought this smaller house in Bellevue, Wash., just to get their daughter into the school district.

It's supposed to be a buyer's market. Yet, for parents determined to buy in areas associated with top schools, those bargains may be harder to come by. When housing markets go south, "areas with exceptional schools tend to hold their value better than the market overall," says Michael Sklarz, president of Collateral Analytics, a Honolulu-based firm that specializes in real estate data analysis.

In Chapel Hill, where the Adams family was looking, the average single-family home price, based on price per square foot, has declined about 4.8% since the market peaked in 2007, according to Collateral Analytics, but houses there still command about a 48% premium, per square foot, to homes in the Raleigh-Cary metro area.

In other parts the country, home prices have dropped in areas with good schools, but the declines are typically nowhere near the levels in their surrounding metro areas. In Irvine, Calif., a city that regularly gets national attention for its quality schools, average price per square foot has fallen 18% since its 2006 peak, but prices in the greater metro area surrounding Irvine fell 33%. The same goes for Edina, Minn., where prices per square foot are down about 14% since their peak, versus 27% for the greater Minneapolis area. And in the brainy town of Andover, Mass., prices are down just 4%, versus more than 16% for the Boston metro division.

There are several factors at play, says Mr. Sklarz. Areas with good schools tend to be more affluent and were less susceptible to the sub-prime mortgage debacle so saw fewer foreclosures. What's more, homes associated with great schools generally sell faster, in good markets and bad.

All of this comes as no surprise to the real estate agents who work with education-obsessed parents. "Schools have a huge impact on home values," says Kathy Beacham, a real estate broker in Raleigh. When schools in her own well-to-do neighborhood were redistricted three years ago, the value of her million-dollar home dropped more than $150,000. "A good education has always been important but I don't remember looking at the numbers like parents do today," she says.

Then again, the numbers have never been so widely available. State assessments, independent ratings from websites like GreatSchools and Education.com and annual magazine rankings of America's top high schools have not only made it easy for parents to factor school test scores and parent-teacher ratios into their buying decisions, they've cemented the relationship between home prices and school quality.

When Florida rolled out its statewide grading system in 1999, the real estate market took note. According to research by David Figlio, who is now a professor of education, social policy and economics at Northwestern University, an A-rated school in Gainesville added about $10,000 to the value of a home there versus a B school.

Once a school is graded, the gap often grows. Strong ratings lead to better community support, which in turn leads to better schools. Today, the difference between an A school and B school might easily be $50,000 on a $300,000 house, he says.

That phenomenon isn't lost on residents of Bellevue, Wash., a Seattle suburb that is home to some of the best schools in the state. "I don't think there's ever been a school levy on the ballot here that's been turned down," says broker Michael Orbino. Even residents who don't have school-age children tend to stand behind the schools. It's not altruism; it's economics. All things being equal, homes in the Bellevue school district fetch as much as a 15% premium to those just outside of it, he says.

"But there's more to it than that," says Mr. Orbino. "Because the land is worth so much more in Bellevue, builders tend to build more expensive homes here," making the school district that much more expensive to begin with. By Mr. Orbino's estimate, the prices for single-family homes are down about 10% since the market peak. "But it isn't a catch-all," he says. Prices for ultra-luxury homes and condos, which generally aren't influenced by schools, are down 30% to 40%, he says. So while prices per square foot in Bellevue have fallen slightly more than the Seattle market overall, prices for more family-friendly abodes haven't necessarily seen the same declines.

Meet Bellevue's Enforcer

Glenn Hasslinger, the student placement manager for the Bellevue School District, wears many hats, but enforcing the district's enrollment policy could easily be a full-time job.

The state of Washington allows students to cross school boundaries, provided there's space. Because most of Bellevue's best-known schools don't have spots to spare, families enrolling their kids in those schools need to show proof of residency and actually reside within the district four nights a week. "Some people will argue over the semantics of what it means to reside," says Mr. Hasslinger. Others get creative. They rent apartments in Bellevue for a couple months prior

The stabilizing effect of good schools is welcome news for those who already own property in school boundaries, but it makes it tough for parents to trade up to better homes. John and Kiely Adams considered themselves lucky to have found a three-bedroom home in a Chapel Hill neighborhood they liked and at a price in their budget. But, alas, they were forced to back out of the deal when their current home came up short in the appraisal. With their daughters' first day of kindergarten fast approaching, the couple will stay put for now and start the process over again next spring. "We don't want them to start kindergarten only to to enrollment, craft stories about the kids going to live with grandma and grandpa and broker deals with residents in order to come up with the proper paperwork. Paying for someone's utility bill is a popular ruse.

The truth, says Mr. Hasslinger, usually comes out when neighbors tattle, school mail gets returned or kids inadvertently spill the beans. During the last school year alone, Mr. Hasslinger investigated 35 cases of questionable residency. "I'm guessing we're just scratching the surface," he says. "There are probably two or three times as many cases." -S.M.

yank them out two months later," says Mr. Adams.

Left with few other options, some parents get creative. Bellevue school administrators have seen all kinds of tactics for skirting the district's policy that students spend at least four nights a week within boundary lines. Common ploys include using a family member's address or taking over a resident's utility bill, one of the documents used as proof of residency. The school district has uncovered 35 cases of enrollment fraud this year alone. Other families jump school boundaries by spending four nights a week in a small apartment and going home to a bigger house in another town for the weekends.

Two years ago, Daniel and Dee Shin used an inheritance from Mr. Shin's father to pay $410,000 for the "cheapest house they could afford" in Bellevue for the sole purpose of securing a spot in the school district for their then 11-year-old daughter, Kayla. The 900-square-foot circa-1955 rambler is "beat up and not insulated very well," says Mr. Shin, adding that he assumed that paying property taxes on the house would be enough to satisfy the school district's residency requirements even if the family actually resided in a 2,326-square-foot, four-bedroom home in the nearby town of Renton. Their new neighbors in Bellevue, evidently, didn't see it that way. They reported the Shins to the school district, and the district gave them an ultimatum: move into the Bellevue district by the time Kayla registers for high school in February, or start the following school year in another district.


View Full Image

Amanda Koster

The idea of changing school districts triggered tears from Kayla Shin.

The decision was clear for the Shins. They plan to spend the summer insulating the Bellevue home and doing their best to make it livable. Come January, they'll move into that house, and their extended family will move into the house in Renton.

The Shins considered just sending Kayla to a private school, but Mr. Shins says that suggestion triggered "on demand tears" from Kayla, who doesn't relish the idea of going to a different high school than her middle-school pals. After all the trouble the couple went through to get Kayla into Bellevue schools, they're determined to see her graduate from Newport High School, which, Mr. Shin is quick to point out, is consistently ranked among the best in the country.

As the father of three children ages 11, 14 and 16, Northwestern's Mr. Figlio understands the dilemma parents face. When he and his family relocated from Gainesville, Fla., to Evanston, Ill., in 2008, Mr. Figlio vetted the middle schools before making a decision about where exactly he and his family would live. For parents struggling with how to get their kids into the "best" schools at a price they can afford, he recommends considering test scores, state ratings and the like—but not getting too hung up on enrolling your child in an A+ school at all costs when a B+ school might actually be a better fit, academically and financially.

Cooley

EDUCATION

The Case Against Summer Vacation

It's an outdated legacy of the farm economy. Adults still romanticize it. But those months out of school do the most damage to the kids who can least afford it

BY DAVID VON DREHLE

RECENTLY I REREAD *THE ADVENTURES of Tom Sawyer* after many years, and I was stunned to discover that Tom's summer vacation doesn't begin until the end of Chapter 21. Memory plays tricks. Tom's glorious idyll of mud, mild rebellion, chaste romance and rampant imagination—electrified by a dash of danger and a blaze of heroism—had been filed in my mind under the heading of complete summer freedom. Even the most vivid scenes of Tom in school had been washed out by the brilliance of Tom barefoot and unbound. In reality, though, our hero spent much of his summer vacation pathetically bedridden with the measles.

I mention this because my muddled recollection is a small version of a broad misunderstanding, a skewed view of childhood and summertime. We associate the school year with oppression and the summer months with liberty—and nothing is more American than liberty. Summer is red, white and blue. It's flags and fireworks, hot dogs and mustard, cold watermelon and sweet corn. School is regimen; summer is creativity. School is work; summer is play. But when American students are competing with children around the world, who are in many cases spending four weeks longer in school each year, larking through summer is a luxury we can't afford. What's more, for many children—especially children of low-income families—summer is a season of boredom, inactivity and isolation. Kids can't go exploring if their neighborhoods aren't safe. It's hard to play without toys or playgrounds or open spaces. And Tom Sawyer wasn't expected to care for his siblings while Aunt Polly worked for minimum wage.

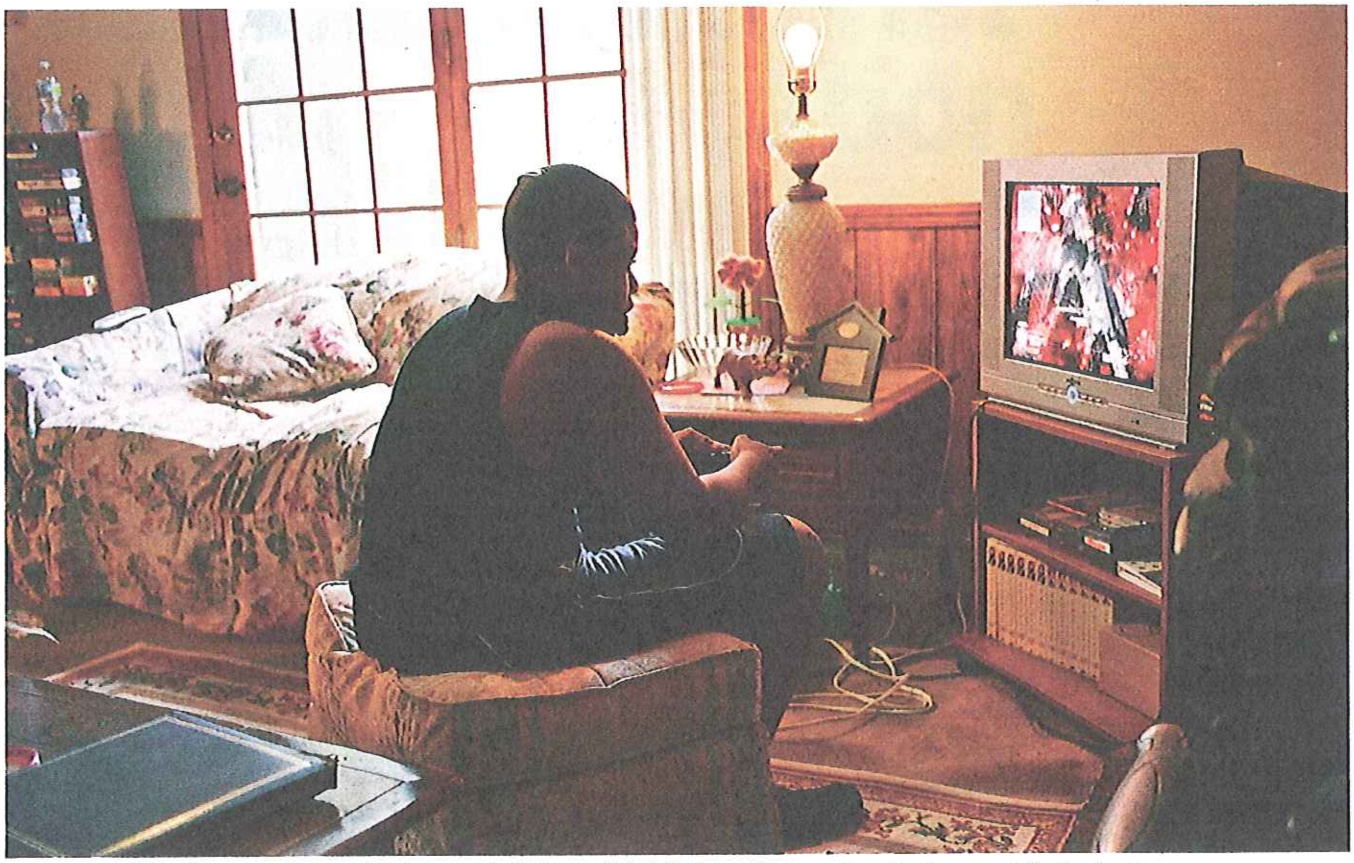
Dull summers take a steep toll, as researchers have been documenting for more than a century. Deprived of healthy stimulation, millions of low-income kids lose a significant amount of what they learn during the school year. Call it "summer learning loss," as the academics do, or "the summer slide," but by any name summer vacation is among the most pernicious—if least acknowledged—causes of achievement gaps in America's schools. Children with access to high-quality experiences keep exercising their minds and bodies at sleepaway camp, on family vacations, in museums and libraries and enrichment classes. Meanwhile, children without resources languish on street corners or in front of glowing screens. By the time the bell rings on a new school year, the poorer kids have fallen weeks, if not months, behind. And even well-off American students may be falling behind their peers around the world.

By ninth grade, summer learning loss could be blamed for roughly two-thirds of the achievement gap separating income groups

The problem of summer vacation, first documented in 1906, compounds year after year. What starts as a hiccup in a 6-year-old's education can be a crisis by the time that child reaches high school. After collecting a century's worth of academic studies, summer-learning expert Harris Cooper, now at Duke University, concluded that, on average, all students lose about a month of progress in math skills each summer, while low-income students slip as many as three months in reading comprehension, compared with middle-income students. Another major study, by a team at Johns Hopkins University, examined more than 20 years of data meticulously tracking the progress of students from kindergarten through high school. The conclusion: while students made similar progress during the school year, regardless of economic status, the better-off kids held steady or continued to make progress during the summer—but disadvantaged students fell back. By the end of grammar school, low-income students had fallen nearly three grade levels behind, and summer was the biggest culprit. By ninth grade, summer learning loss could be blamed for roughly two-thirds of the achievement gap separating income groups.

During a June visit to the Argentine neighborhood of Kansas City, Kans., I

Idyllic view *Summer outings like this one in Frenchtown, N.J., punctuate a season of boredom*



Downtime *Jalil Stephens, 13, who attends a day camp in Indianapolis to help stave off summer learning loss, unwinds after hours*

received a quick tutorial on the realities of summer. I met a group of teenagers who were being paid through a private foundation to study writing and music and history for about 10 hours per week, and I asked them what they would be doing if the program weren't available. They told me about the swimming pool—one public pool for all of Wyandotte County (pop. 155,000). They noted that their working-class neighborhood had a basketball hoop. And a soda machine. And that's about it.

"There is an idyllic view of summer, but we've known for decades that the reality is very different for a lot of underprivileged kids," says Ron Fairchild, CEO of a nonprofit organization in Baltimore called the National Summer Learning Association. "We expect that athletes and musicians would see their performance suffer without practice. Well, the same is true of students."

Fairchild and his organization are part of a growing movement to stop the summer slide by coordinating, expanding and improving summer enrichment programs—especially for low-income children. Supporters range across the political spectrum from Republican Senator Richard Lugar of Indiana to Democrats in the Department of Education under President Obama, who has created a National Summer Learning Day to call attention to the issue. Some of the nation's largest private donors—including the Bill & Melinda Gates Foundation, the Wallace Foundation, the Charles Stewart Mott Foundation and the Atlantic Philanthropies—are putting their muscle into the cause.

The romance of summer is so ingrained that this flock of reformers might remind some readers of another character from Tom Sawyer's world, the wealthy Widow Douglas, who "introduced [Huckleberry Finn] into society—no, dragged him into it, hurled him into it—and his sufferings were almost more than he could bear. The widow's servants kept him clean and neat, combed and brushed ... The bars and shackles of civilization shut him in and bound him hand and foot." As our modern-day reformers strive to civilize summer as an educational resource, the trick is to seize the opportunity without destroying what's best about the season: the possibility of fun and freedom and play.

Barriers of Cost and Culture

EXPERTS BELIEVE THAT A MAJORITY OF THE 30 million American kids poor enough to qualify for free or reduced-price school lunches do not attend any kind of summer enrichment program. The obvious way to reach that large a group is through the public schools. And indeed, education reformers have been talking about lengthening the school year—to make America's students more competitive—for at least a generation, going back to the publication in 1983 of the blockbuster report on our troubled schools *A Nation at Risk.* Long summer holidays are the legacy of our vanished agrarian past, when kids were needed in the fields during the growing season. Leaders in a number of states have tried to add days or even weeks to the academic calendar, but they quickly run into barriers of cost and culture. In this bad economy, state and local governments are cutting, not growing, their school budgets. And entire industries depend on the rhythms of summer—think travel, camping, sports and theme parks. They use their influence to keep summers as long as possible. In fact, the statute that

CASS BIRD FOR TIME

prevents Virginia schools from reconvening early in August is known as the Kings Dominion Law, in honor of an amusement park north of Richmond.

For these reasons, many summer-learning initiatives fall to an informal alliance of education entrepreneurs. In the bare basement of an old church on the Near Eastside of Indianapolis, a group of kids whose world is normally measured in city blocks were experiencing Italy one late-June morning. Some of the children were quietly writing newspaper articles about Italian life. Others were attempting the Italian tradition of family conversation at the dinner table. Still others were making cannoli, stuffing pastry tubes with a creamy, sweet cheese mixture. There's a summer discovery for you: Who ever heard of sweet cheese?

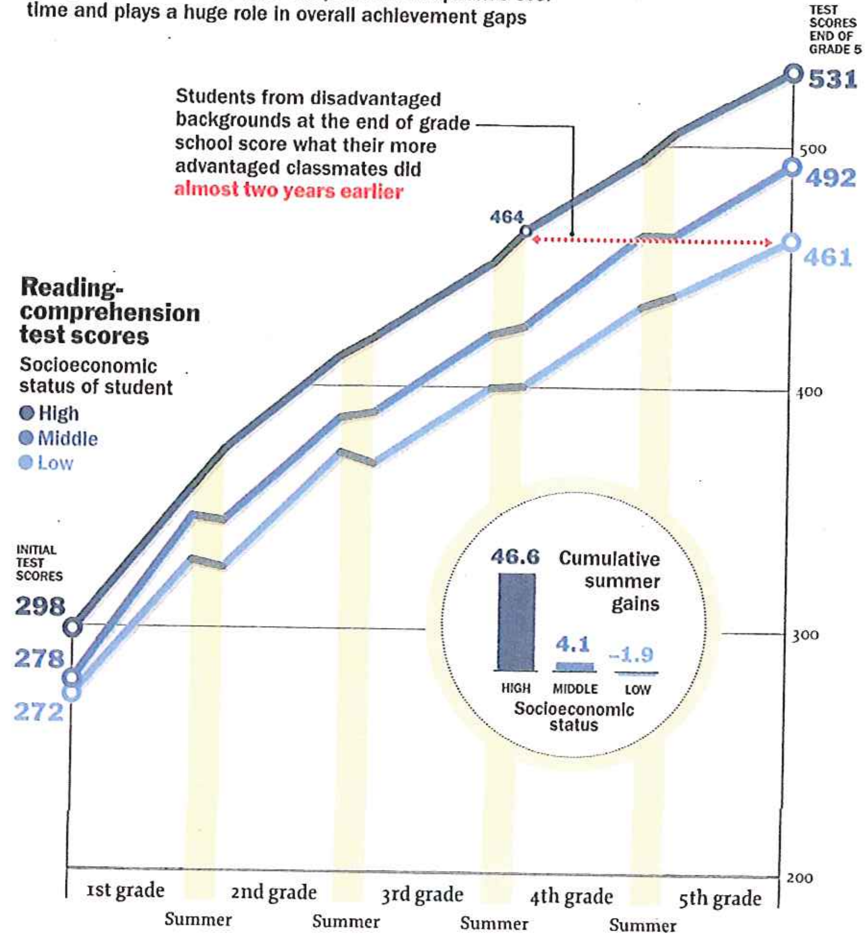
For some 80 elementary-school children in this low-income neighborhood, the summer of 2010 is as close to world travel as they've ever been. The all-day program at the East 10th United Methodist Church is built this year around a World Cup theme. Each week the focus turns to another country, and while the kids are exploring foods and landmarks and cultural traditions, they are, unwittingly, doing math as they measure ingredients and learning science as they raise vegetable gardens with plants native to each land. Fridays are for field trips; to study Australia's *Great Barrier Reef*, the kids rode buses to the aquarium in Chicago.

Mike Bachman is the executive director, a young man with clear eyes and obvious enthusiasm. "Everything that happens is enrichment. It all has an educational purpose, but we don't want the kids to think that they're in school," he explains. "We infuse the education into everything we do." That can mean sneaking leadership lessons into afternoon soccer games, teaching principles of fitness during outings to the local swimming pool or wrapping planning skills into preparations for a picnic at a state park. "It was the first time some of them had ever seen charcoal," Bachman says.

Indianapolis is ahead of most cities in making better use of summer, according to Fairchild of the National Summer Learning Association. And that's mainly because a group of local philanthropies, led by the Lilly Endowment, decided in the 1990s to coordinate their efforts to provide safe places for children to go when they were out of school. In recent years, says Lilly's Willis Bright, the focus

The Summer Slide

Test scores show that all students' learning skills improve at similar rates during the school year, but higher-income kids keep up the pace during the summer while lower-income kids plateau or lose ground. The problem compounds over time and plays a huge role in overall achievement gaps



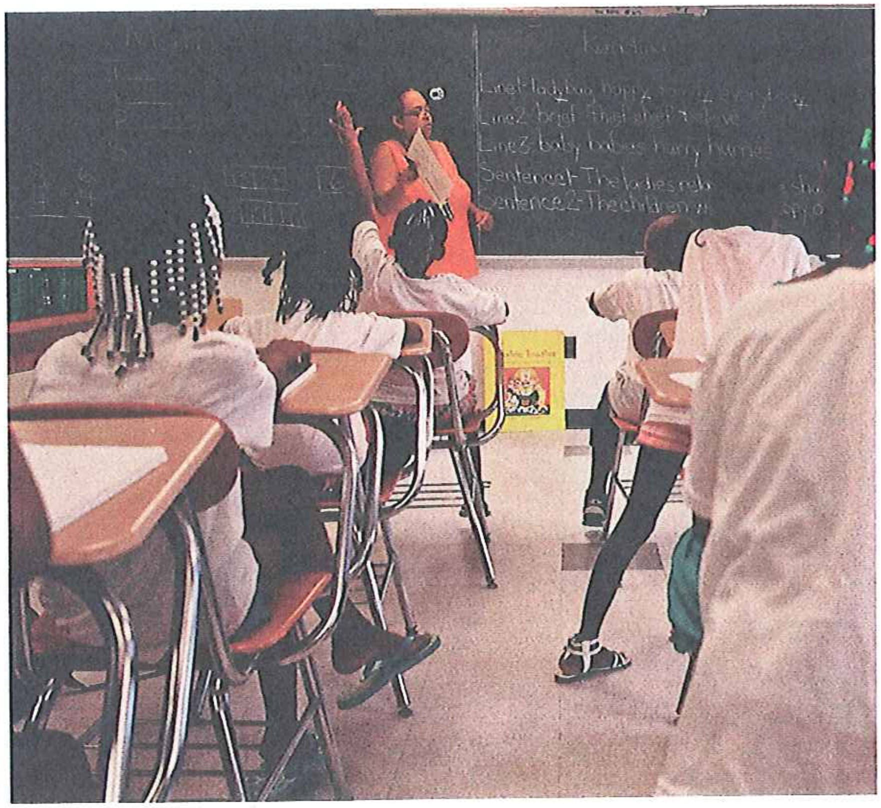
Desk days

Although U.S. students have longer summer breaks, they spend more total hours in the classroom. Yet U.S. math scores still fall below those in many other industrialized countries

	DAYS IN SCHOOL YEAR (MEDIAN)	TOTAL INSTRUCTIONAL HOURS	MATH SCORES, 15-YEAR-OLDS
South Korea	204 days	545	547
Denmark	200	648	513
Japan	200	600	523
Mexico	200	1,047	406
Brazil	200	800	370
Australia	197	815	520
New Zealand	194	968	522
Germany	193	758	504
Norway	190	654	490
U.S.	180	1,080	474
Luxembourg	176	642	490
Spain	176	713	480
Russia	169	845	476
Italy	167	601	462

Sources: *American Sociological Review*; Karl L. Alexander, Johns Hopkins University; Organization for Economic Cooperation and Development; National Center for Educational Statistics. Reported by Ruchika Tulshyan

A New Kind of Summer School. Finding fun ways to infuse learning



Baltimore *The Parks & People Foundation's six-week SuperKids camp boosts reading skills during sailboat rides and trips to the Maryland Zoo*
Indianapolis *The eight-week leadership camp at St. Florian Center includes daily calisthenics—and a lesson from firefighters on how to rappel from a building*

has increasingly been on "the learning element"—a critical need, given that the Indianapolis public schools graduate fewer than half of their students. "But that doesn't mean you make it just another classroom," Bright adds. "You can teach physics with a basketball."

Together, 11 charitable organizations—ranging from United Way to small family foundations—pool about $3 million per year to support nearly 200 summer programs around Indianapolis. Not all of the programs are educational, but that's where the emphasis lies. Grants support everything from those buses to the Chicago aquarium to salaries of certified teachers to day-camp visits by professional artists and musicians to an urban garden created by retired biochemist Aster Bekele, where city kids explore plant science alongside Bekele's former colleagues from the Eli Lilly pharmaceutical labs.

Rather than engineer a vast new initiative, the strategy is to build on the city's existing patchwork of day camps, community centers, sports camps and summer-jobs programs. The activists hope to improve quality while keeping costs low, coordinate training for staff members and encourage a philosophy of educational enrichment. Over the years, Bright has seen a volunteer tutoring effort by 100 Black Men of Indianapolis grow into an all-day summer academy for some 200 students from kindergarten to eighth grade. Supported by the pool of grant money, academy students receive innovative math training through Project SEED, study music through the Young Audiences' Summer Arts for Youth and practice reading through an interactive software program called Ticket to Read. But it's not all desk work. The students know it's summer when they burst outside for tennis lessons and when they study the stars to understand how slaves navigated the Underground Railroad. Total tuition: $125 for seven weeks.

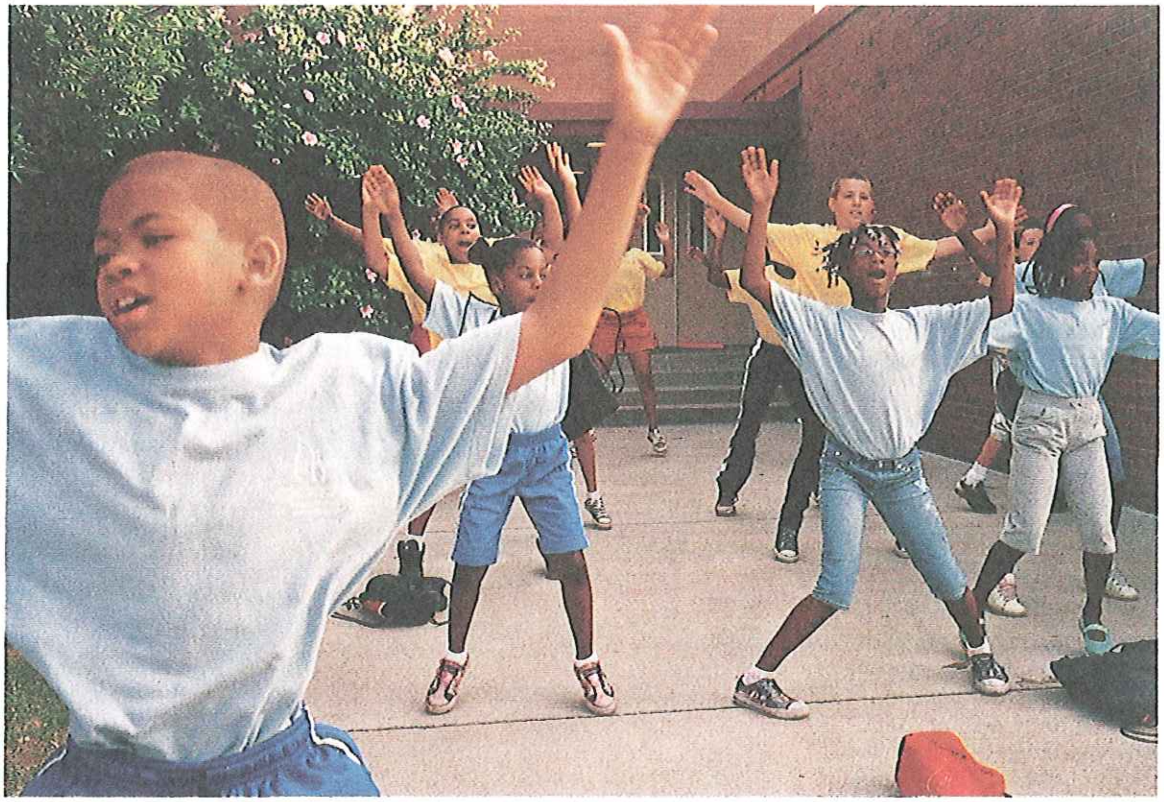
'We're not the Grinch that stole summer vacation.'
—RON FAIRCHILD, CEO, NATIONAL SUMMER LEARNING ASSOCIATION

Meanwhile, a group of Indianapolis firefighters have gone from volunteering on ball fields to enrolling more than 100 students in an eight-week summer leadership camp named for St. Florian, the patron saint of firefighters. Each morning, the camp "cadets" study math, science, creative writing and public speaking. Afternoons are reserved for sports and field trips. Senior cadets—high schoolers—focus on learning the skills they need for a job hunt: writing résumés, impressing an interviewer, dressing for success. "We keep up our learning so we don't fall behind," says Isaiaah Quarles, a buoyant 12-year-old with a cascade of dreadlocks. As Quarles escorted me through the camp, whip smart and charming, I could picture him persuading his friends to paint Aunt Polly's fence. I asked him how he would spend his summer if St. Florian Center didn't exist. Dismayed, he answered, "I would just be sitting at home."

Stealth Learning

I SAW A LOT OF EAGER, ENGAGED KIDS IN Indianapolis and met a number of vibrant teachers and volunteers. But every camp and academy I visited had dozens of children stranded on a waiting list. And for each of those students, there were no doubt hundreds of kids whose parents had not even bothered to find a summer program and fill out an application.

A recent study sponsored by the Wallace Foundation estimated that only 25% of students currently participate in organized summer learning programs, although a majority of parents said they would enroll their children if more programs were available. Fortunately, some public schools have begun to tackle the problem of summer learning loss. In Cincinnati, Ohio, a program called Fifth Quarter offers an additional month of classes, specially tailored for summer, at 16 schools serving low-income students. Houston schools offer four weeks of math and science education for at-risk students and report that participants average a boost of more than 10% in their test scores.



In the Appalachian town of Corbin, Ky.—home of Harland Sanders and his famous fried chicken—there was no one but the school district to fend off summer slide. Karen West, director of Corbin's Redhound Enrichment program, says, "Eighty-eight percent of our children live in latchkey families, and we have no YMCA, no Boys & Girls Clubs. Really, there was almost nothing for them to do." Hired in 2006 by the Corbin independent school district, West began building what is now a 10-week operation, running 10 hours per day, from the day after school lets out until the day before classes resume. Lessons in reading, math, science and social studies fill much of the day, but nothing about Redhound Enrichment feels like dreaded summer school.

Each summer, West builds on a theme. This year it's "Lights, camera, action!" Every week revolves around a subtheme, and for the week when *Toy Story 3* was to open, West picked "To infinity—and beyond!" On Monday, students took a field trip to watch the movie. Throughout the week, teachers integrated space exploration into their classrooms. On Friday, the kids put on a science fair, and a mobile planetarium paid a visit.

The entire community of Corbin pitches in. Restaurants host meals at which students can practice etiquette. The swimming pool invites the kids each Wednesday. Baptist Regional Medical Center organizes the Longest Day of Play to promote health and fitness. The department of fish and wildlife leads a session on conservation—then takes all the students fishing. As the kids weigh and measure their catch, they think they're just trying to win first prize, but West notes that they are also doing a day's worth of math. Summer educators like to call this sort of thing "stealth learning."

"We have over 30 partners," West says, and their in-kind contributions nearly match her annual budget of $60,000. "When everyone gives a little, we can do miracles." The proof: students in the Corbin program not only don't fall behind through the summer; they move ahead. More than half of the participants improve by a full letter grade or more in both reading and math.

For Fairchild, successes like the ones in Cincinnati, Houston and Corbin show the possibilities in a new approach to summer school. "That phrase has such a bad ring to it," he notes. "We need to push school districts to frame summer school as a good thing, something extra—not a punishment. There is a cultural barrier that we have to overcome. We're not the Grinch that stole summer vacation." With billions of dollars for improved education bulging from last year's economic-stimulus package, Fairchild hopes to persuade school districts across the country to steer some of the money into the neglected months of June, July and August.

But a report by Education Sector, a nonpartisan research group in Washington, highlights a problem with relying on public schools for summer enrichment. "In the best schools, there would be an ample increase in academic learning time," author Elena Silva wrote. "But in poorly managed schools, with inexperienced teachers and a host of other challenges," a longer school year just means more lost days. If school districts fail during the traditional year, what are the chances that competence and creativity will suddenly blossom when the weather turns hot? In the best summer-only programs, bureaucracy is lean and change is easy. There's an informality to the summer culture—maybe it's those

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Beating the Summer Doldrums
See how different programs keep kids' minds sharp at time.com/summer

bare feet and damp swimsuits and homemade lanyards—that fosters easy innovation and rapid improvement. As Terry Ogle, a former middle-school principal who runs the Indianapolis Algebra Project, told me, things happen more quickly outside school systems: "A few years ago, we were teaching kids at two summer sites. Now we're in 29."

It was during a summer vacation from Harvard Law School that Earl Phalen had his first teaching experience, as a volunteer at an impoverished school in Jamaica. He says he knew immediately that "this was what I wanted to do with my life." But like many other big thinkers drawn to education in recent years, Phalen saw the existing public schools as a roadblock, not a career path.

So Phalen has become one of the country's leading education reformers by seizing opportunities to reach kids outside the traditional school day. One of his nonprofit ventures, Reach Out and Read, engages pediatricians to evangelize for literacy. His latest project, sponsored by an innovative Indiana undertaking called the Mind Trust, uses summer to make an end run around the ingrained habits and intractable bureaucracies of inadequate schools.

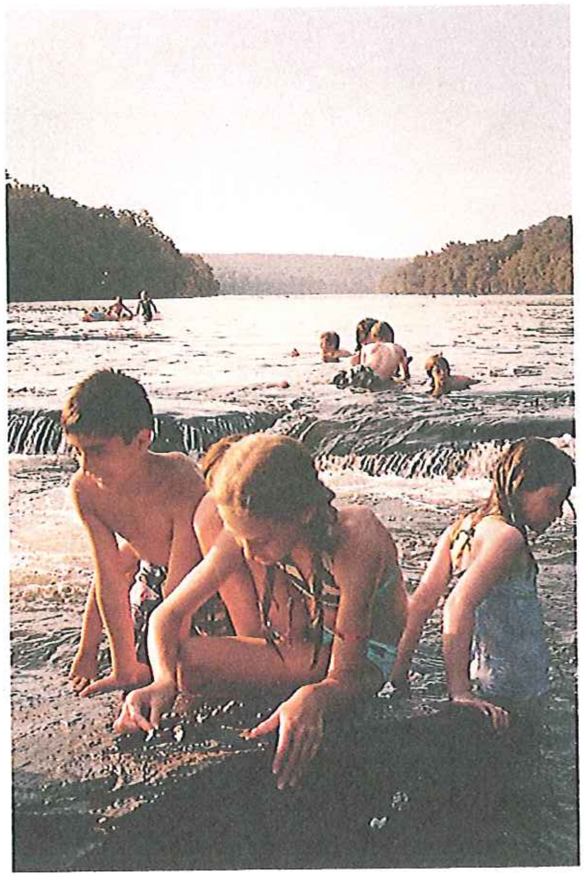
Called Summer Advantage, the program offers five weeks of intensive, all-day education to children from kindergarten to eighth grade. Phalen hires only certified teachers and chooses them on the basis of talent, not seniority. The curriculum ranges from math, reading and writing to cooking, dance and music—but the consistent element is strong teachers working in small groups with excited students. I visited a Summer Advantage school in Indianapolis, and perhaps the best way to describe it is to say, first, that all the students are in economic and academic need and, second, that I wasn't there five minutes before a boy looked me in the eye and announced, "I'm going to be an aeronautical engineer."

Summer Advantage is operating at a dozen sites across Indiana this year, serving some 3,100 "scholars," as Phalen insists his students be called. His goal is to enroll 100,000 scholars five years from now and to be "part of the cadre that changes the way this country does education." He has support from Washington, where a friend from Harvard Law now sits in the Oval Office. The U.S. Department of Education has put money into Summer Advantage, Phalen says, "because we're part of their agenda to prove that hiring teachers based on quality instead of seniority will produce good results." So far, the data look promising. Summer Advantage launched last year, and its scholars improved their performance on state math and reading tests by an average of 14 percentage points, Phalen says. On the basis of that, he projects that scholars who spend three seasons with Summer Advantage will raise their scores from an average baseline in the low 30th percentiles into the 70th percentiles in math and reading.

"If you want to drive the dropout rate even higher, just extend the school year by another 30 days," says Phalen. Instead, he argues, we should embrace the fact that summer is the opposite of school to make it the season of true educational reform. But here's the hard part: if summer enrichment is the innovative, cost-effective answer to one of the nation's thorniest problems—the failure to educate many of our neediest kids—how do we address so large a problem without creating another stultifying version of the failed status quo? How do we increase participation and raise standards without crushing creativity and imposing bureaucracy? Can we really entrust something so important to a haphazard network of camp counselors, volunteers and entrepreneurs?

Well, maybe. In places all over the country—from inner cities to Appalachia, inside rec centers and church basements, on bumpy ball fields and pocked playgrounds—kids are learning this summer, and they're having a blast. While it's true that NASA runs one of the largest summer enrichment programs in the country, this isn't rocket science. If ever there was a movement suited to local experiments, informal innovations and seat-of-the-pants efforts, surely it's the campaign to squeeze more from summer. Because revolutions come from the grass roots, and everyone knows when grass is thickest.

In summer. ■



CASS BIRD FOR TIME

Primary Sources

For a jaw-dropping video showing how much of the achievement gap can be attributed to lack of stimulation during the summer, watch summerlearning's **Two Steps Forward** *on YouTube.*

Or dive deep into the data in **Lasting Consequences of the Summer Learning Gap,** *a 2007 study led by Johns Hopkins sociology professor Karl L. Alexander.*

Parents and caregivers can take simple steps to help prevent summer learning loss:

The **American Library Association** *posts excellent reading lists, including one for reluctant readers, at ala.org.*

The nonprofit Reading Is Fundamental delivers **free books to low-income families** *and has games and activities to motivate young readers at rif.org/kids.*

And to keep math skills from getting rusty over the summer, check out the aptly named **coolmath-games.com.**

Cooley

Kauffman Foundation Research Series:
Firm Formation and Economic Growth

The Importance of Startups in Job Creation and Job Destruction

July 2010

Tim Kane
Ewing Marion Kauffman Foundation

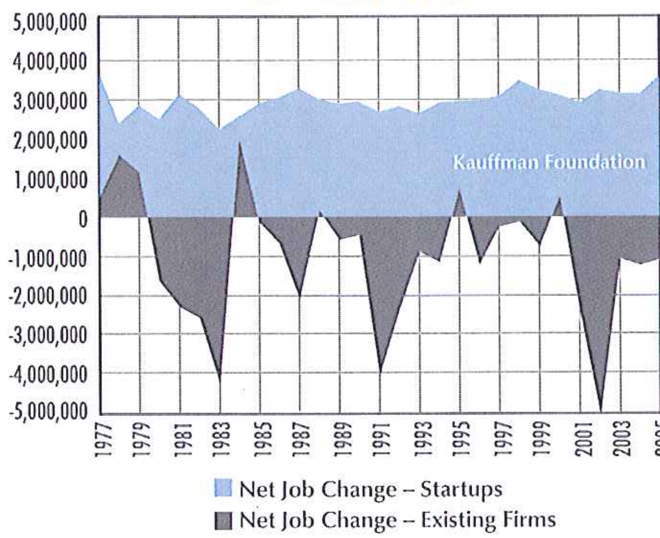
The oft-quoted American sports slogan, "Winning isn't everything. It's the only thing!" could well be attributed to the economic importance of firm formation in creating jobs. A relatively new dataset from the U.S. government called Business Dynamics Statistics (BDS) confirms that startups aren't everything when it comes to job growth. They're the only thing.

By now it is well understood that firms large and small are continuously and simultaneously destroying and creating jobs. Even a mild level of this creative-destructive churn points to a dynamic economy much different than static economic models can describe. However, beyond the job churn at existing firms, there is a dynamic in firm birth that seems to be very important for understanding job creation—specifically, the unique effect of new firms, or startups. Put simply, this paper shows that without startups, there would be no net job growth in the U.S. economy. This fact is true on average, but also is true for all but seven years for which the United States has data going back to 1977.

The BDS is the first publicly available dataset that incorporates the age of firms in a dynamic format (Haltiwanger, Jarmin, and Miranda, 2008). Figure 1 presents summary data from the BDS,[1] showing that firms in their first year of existence add an average of 3 million jobs per year. By construction, the BDS defines an *existing firm*—age one up to age twenty-six and beyond—such that it can both create and lose jobs. In contrast, a *startup*, or age zero firm, only creates jobs because it experiences no gross job destruction. We might anticipate that the net job gain also would be positive at existing firms, but that is decisively not the case during most years on record. Notably, the figure shows that, during recessionary years, job creation at startups remains stable, while net job losses at existing firms are highly sensitive to the business cycle.

An important caveat is that existing firms are so diverse that it can be misleading to think of a "typical" firm. For example, there are two simple categories of existing firms: those that go out of business (Deaths) and those that continue

Figure 1: Startups Create Most New Net Jobs in the United States



Source: Business Dynamics Statistics, Tim Kane

1. See http://webserver03.ces.census.gov/index.php/bds/bds_database_list.

(Survivors). On balance, existing firms lose more jobs than they create. But once Deaths are set aside, Survivors usually create more net jobs than startups do. Among Survivors, so-called gazelle firms are certainly more important still.

For a technical note on the construction of the data in this paper, see Appendix 1. One needs to be careful when glancing at the economy-wide BDS tables, because categories are described in terms of establishments rather than firms. Since a firm can have multiple establishments, there can be confusion between continuing *firms* (which may experience establishment births and deaths) and continuing *establishments*. This paper focuses on firms, since that is how startups are defined, and so reconfigures BDS aggregates using sub-aggregate numbers. To avoid confusion I introduce the term Survivors to describe continuing firms

In sum, the new firm-level summary data in Figure 1 reveal that startup firms are responsible for all net job creation during most years, while existing firms (aged one year and older) are usually net job losers. To be fair, startups have a definitional advantage because they can't lose jobs, and some of their created jobs will surely be lost by next year's age one firms. Only a closer annual look will clarify that matter. Also, these are counts of jobs within the firm itself, not its impact on other firms (which could cut either way). What Figure 1 doesn't reveal then is the gross flows within the firm age categories, which is the inspiration for this study. We would like to know whether age one firms are net job creators. Ideally, we would like to pinpoint the transition year when firms become net job destroyers, or find if a consistent pattern even exists.

The seminal study of the BDS data by Haltiwanger, Jarmin, and Miranda (2008) describes the data in great detail and provides this context: "The annual job creation rate is about 18 percent (as a percent of employment), suggesting that, on average in any given year, about 18 percent of jobs are newly created. About one-third of the annual job-creation rate is due to establishment entry. The very high rate of gross job creation is balanced with a very high rate of gross job destruction. The gross job destruction rate is around 16 percent on average, indicating that about 16 percent of jobs that existed one year prior no longer exist. About one-third of the job destruction is accounted for by establishment exit."

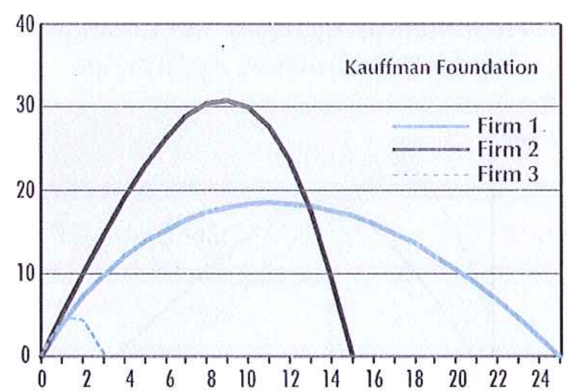
The vital role of startups, distinct from new firms ages one to five, can be revealed by taking a close look at the time series of job creation and destruction. The next section provides a cursory theoretical view of such a time series, followed by a section on the empirical patterns found in the BDS.

Theory

Describing aggregate job creation and job destruction curves over the age of firms is essentially summing up the life cycle of all firms in the economy, but doing so at a point in time. Most business executives might imagine the aggregate pattern of job creation as a large-scale version of a highly simplified life cycle of a typical firm: a bell-shaped curve with rapid net employment growth during the first phase, followed by stability and then a slow decline.

Jovanovic (1982) presented one of the first models of a firm's life cycle, which shows a more complex growth path. We know that firms start and end with zero employees, but there is no "typical" pattern to hiring given the various factors that influence each

Figure 2:
Employment Over Time at Three Theoretical Firms

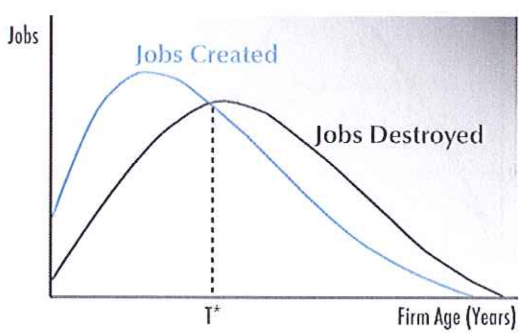


Source: Business Dynamics Statistics, Tim Kane individual firm. The sketch provided here in Figure 2 is highly simplified for purposes of discussion, using a life cycle pattern that is mathematically described by a concave function. Firm 1 peaks at nineteen employees and closes after twenty-five years. Firm 2 peaks higher at the nine-year point with more than thirty employees, but is shuttered six years later. Firm 3 has five employees, but closes within three years of its founding. If we summed up net job creation across all firms, we would get a concave curve, as well, but it would skew left toward the origin.

Next, we can imagine separate curves for aggregate job creation (JC) and aggregate job destruction (JD). Figure 3 shows what the theoretical national job creation and job destruction curves might look like over a given period. Logically, JD is greater than JC at the end of the aggregate life cycle, and vice versa. There must be a transition time, T*, when the number of jobs created at the aggregate, or "average," firm equals the number destroyed. Before T*, the firm was a net creator of jobs, but after T* it becomes a net destroyer. Surely, a firm will hire even while in decline, just as it lays off employees during the growth phase, so both curves will have non-zero values during the life cycle of the typical firm.

With the BDS, we should be able to reveal the shape of such aggregate curves based on empirical data, as well as how the curves shift during periods of economic recession and recovery.

Figure 3: Hypothetical Aggregate Job Creation and Job Destruction, by Firm Age



Source: Business Dynamics Statistics, Tim Kane

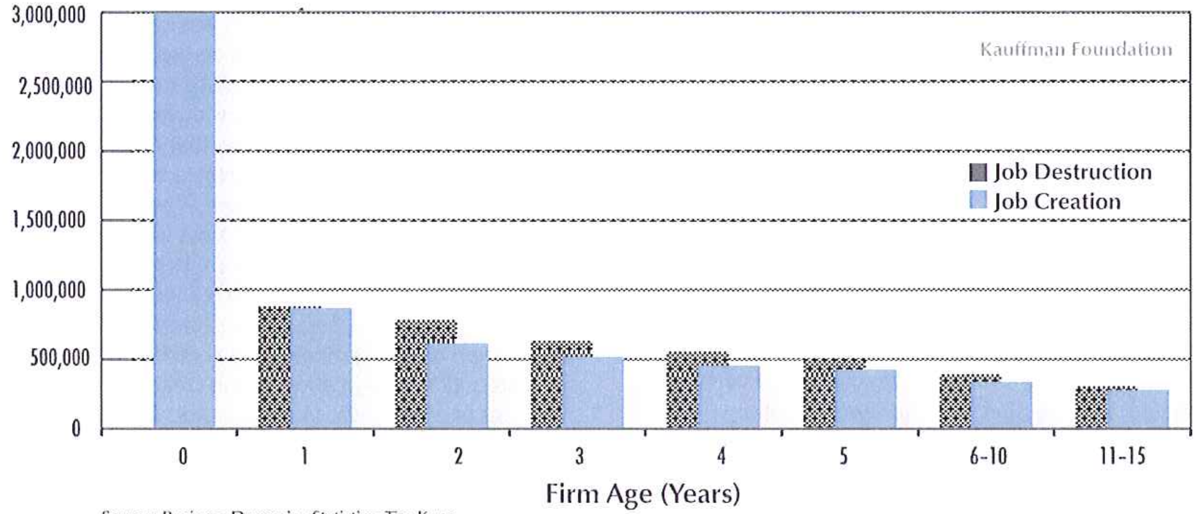
Empirics

The most "novel aspects" of the BDS, per Haltiwanger, et al., are its treatments of business dynamics by firm age. In any given year, BDS has disaggregated job flows for all firms that originate that year (i.e., year 0), as well as prior years one, two, three, four, five, and then five-year aggregates of years six to ten, eleven to fifteen, etc., through twenty-six plus. The first year of data availability is 1977, so all firms established in prior years are left uncategorized.

By averaging the time series of gross flows across all firms of the same age, researchers can map out an empirically-based aggregate JC–JD curve like the theoretical Figure 3. Haltiwanger, et al., did this in terms of JC and JD rates (see their charts 8–13). However, their comparative JC–JD rates do not allow analysis of startup firms, because each one has a combined churn rate of 200 percent, by construction. The authors do provide a chart showing net job creation (their chart 15) that includes a dimension for firm size as well, then show separate gross measures (their charts 16 and 17).

In Figure 4, I present gross aggregate job flows by firm age from the BDS years 1992–2005, which show JC and JD together with just the age dimension. Cropping the data at the years 1992–2005 allows for complete age groups up to the eleven- to fifteen-year bracket. To make the age brackets comparable, I divided bracket sums by the number of years in each bracket. Doing so reveals that gross job creation at startups in the United States averaged more than 3 million jobs per year during 1992–2005, four times higher than any other yearly age group. For comparison, there are an average of 800,000 jobs created at firms in their first *full* year and 500,000 at firms in their third full year. In a given year, firms in the age group six to ten total 335,000 gross jobs created, for a typical year. That means that *all firms in a latter age group create one-tenth the jobs created by startups.* For example, in 2005, startups created 3.5 million jobs, compared to the 355,000 gross jobs created that year by firms founded in 1995. However, the 1995 firms also lost a gross 422,000 jobs. Indeed, existing firms in all year groups have gross job losses that are larger than gross job gains.

Figure 4: Job Creation and Loss by Firm Age
(Average per year, by year-group, 1992–2006)



Source: Business Dynamics Statistics, Tim Kane

This paints a picture surprisingly different from what informed, conventional wisdom presumably imagines. In other words, Figure 3 is wrong. The reality is that the JC and JD curves are (or appear to be, based on BDS data) convex rather than concave. Moreover, the transition point T* is distinctly at or below year one. This means that early assessments of the BDS claiming that all net job growth comes from firms less than five years old is correct, but now appear pessimistic. The five-year claim is based on aggregating firm ages zero to five. A closer analysis presented here indicates net job growth in the United States comes from firms less than *one* year old, formally defined as startups. Since the BDS uses annualized data, we can measure T* only as precisely as the first year, but it stands to reason that it lies at the three- to nine-month point after firm founding.

It must be said that Figure 4 is not inclusive of all possible firms since it leaves out those aged sixteen and above. The BDS shows that older firms (those founded prior to 1977) have large relative JC and JD flows. However, this older category includes firms that are twenty-five, fifty, and even 100 years old, so we can only guess that their specific year groups would have continually declining measured flows if included in Figure 4, which clearly shows a monotonic decline of gross flows with firm age. What we can say from the BDS aggregate of these older firms is that their total JD flow exceeds JC, similar to the pattern identified here.

Analysis

This paper presents a newly constructed national time series of job creation by startup firms, using annual data from the BDS for age zero firms. Startups create an average of 3 million new jobs annually. All other ages of firms, including companies in their first full years of existence up to firms established two centuries ago, are net job destroyers, losing 1 million jobs net combined per year. Patterns of job growth at startups and existing firms are both pro-cyclical, although existing firms have much more cyclical variance.

The implication of this finding could, and perhaps should, shift the standard employment policy paradigm. Policymakers tend to reflect common media stereotypes about job changes in the economy, which is to say a focus on the very large aggregate picture (such as the national or state unemployment rate) or on news of very large layoffs by individual companies. That attention is almost certainly misplaced. Nationwide measures are a blunt tool for analysis, and net employment growth reveals little that policy can affect.

Similarly, the common zero-sum attempts to incentivize firm relocation are oblivious to the important pattern of gross job creation revealed by the BDS. States and cities with job creation policies aimed at luring larger, older employers can't help but fail, not just because they are zero-sum, but because they are not based in realistic models of employment growth. Job growth is driven, essentially entirely, by startup firms that develop organically. To be sure, Survivors create zero to 7 million net jobs (half of which are at establishment births), while Deaths account for a net loss of 4 million to 8 million jobs, which are large flows for the context of the steady job creation of 3 million startup jobs. But, in terms of the life cycle of job growth, policymakers should appreciate the astoundingly large effect of job creation in the first year of a firm's life. In other words, the BDS indicates that effective policy to promote employment growth must include a central consideration for startup firms.

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Appendix 1. Constructing JC-JD Data by Firm Age

Business Dynamics Statistics (BDS) are made publicly available in a variety of ways through the government Web site http://www.ces.census.gov/index.php/bds. The data are described this way:

> BDS are created from the Longitudinal Business Database (LBD), a confidential database available to researchers throughout the network of Census Research Data Centers. BDS development at CES was partially funded by the Kauffman Foundation. A unique feature of the BDS is its longitudinal source data that permit tracking establishments and firms over time. The public-use BDS tabulations are an effort to make information from the confidential LBD accessible to a broad range of data users. Other efforts under way include creating a fully synthetic microdata file based on the LBD. The BDS series provides annual statistics for 1976–2005.

The "economywide" spreadsheet, which can be found at http://www.ces.census.gov/index.php/bds/bds_database_list, has a column for annual "Job_Creation" (which I will abbreviate JC) and its subcomponents in columns "JC_Births" and "JC_Continuers." The BDS definition of JC_Births is not the same as JC at startups, however, since births include new establishments at existing firms (e.g., the Sears store at a newly constructed shopping mall). I constructed a new series called JC_Startups by culling the gross job creation from the annual BDS spreadsheet table titled "Firm Age." An example of 1997 Firm Age data is presented in Table 1.

The cell for JC_Births of Firm Age 0 in 1997 is 3,059,236. I culled this cell from each annual table for the entire series to make a column comparable to the economy-wide data. Note, Table 1 shows JC_Births for firms age one, age two, and all the way up to age bracket sixteen to twenty, as well as uncategorized (i.e., "left uncensored") firms that were founded prior to the BDS series (1977).

Next, I created a second new series for *net job change of continuing firms*. This includes JC_Continuers (which is limited to existing establishments at existing firms) as well as JC from

Table 1: Annual BDS Data for 1997 by Firm Age

Firm Age	Estabs	Employment	Job_ Creation	JC_ Births	JC_ Continuers	Job_ Destruction	Job_ Destruction Deaths	Job_ Destruction Continuers
a) 0	526,670	3,072,093	3,059,236	3,059,236	0	0	0	0
b) 1	401,523	2,926,411	912,142	115,507	796,635	861,247	506,110	355,137
c) 2	342,514	2,664,950	620,174	84,505	535,669	789,865	438,741	351,124
d) 3	291,957	2,489,348	521,568	82,156	439,412	628,216	312,872	315,344
e) 4	250,710	2,218,589	426,307	71,334	354,973	535,341	243,660	291,681
f) 5	225,278	2,242,027	422,028	69,240	352,788	459,255	201,106	258,149
g) 6–10	969,745	11,077,695	1,842,539	383,615	1,458,924	2,027,856	772,626	1,255,230
h) 11–15	745,874	9,879,301	1,552,703	367,340	1,185,363	1,582,429	578,638	1,003,791
i) 16–20	617,835	10,110,977	1,564,806	455,928	1,108,878	1,478,215	444,970	1,033,245
l) Left Censored	1,679,212	56,743,897	7,631,252	2,169,939	5,461,313	7,377,465	2,436,215	4,941,250
m) ALL	6,051,318	103,425,288	18,552,755	6,858,800	11,693,955	15,739,889	5,934,938	9,804,951

Source: Business Dynamics Statistics.

births not at startups (i.e., new establishments at existing firms) less JD_Deaths. Job creation at births, not at startups, averages around 2 million jobs annually. My two series, Net Job Change at Startups (identical to JC at startup, since JD is zero) and Net Job Change at Existing Firms, are presented in Table 2, as well as in Figure 1. To confirm the accuracy of my counts, I checked the sum of these two series against net job creation overall, and they aligned perfectly.

Table 2:
U.S. Job Growth at Startups versus Existing Firms, 1977–2005

Year	Net Job Change – Startups	Net Job Change – Existing Firms
1977	3,678,254	505,053
1978	2,389,561	1,584,463
1979	2,839,666	1,143,865
1980	2,493,488	-1,615,875
1981	3,126,098	-2,271,818
1982	2,759,993	-2,554,516
1983	2,235,799	-4,227,716
1984	2,558,051	1,994,505
1985	2,878,640	-132,860
1986	3,036,472	-663,117
1987	3,261,050	-2,060,647
1988	2,988,404	169,818
1989	2,878,562	-572,196
1990	2,919,266	-458,161
1991	2,666,705	-4,008,737
1992	2,802,951	-2,341,570
1993	2,623,685	-888,863
1994	2,902,461	-1,142,396
1995	2,935,062	710,181
1996	2,953,276	-1,193,941
1997	3,059,236	-246,371
1998	3,455,186	-130,450
1999	3,220,463	-744,582
2000	3,086,508	524,335
2001	2,890,248	-2,397,512
2002	3,223,919	-5,021,578
2003	3,125,422	-1,067,903
2004	3,116,725	-1,226,832
2005	3,569,440	-1,088,343

Source: Business Dynamics Statistics, reconfigured by Tim Kane, The Kauffman Foundation.

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Job Growth in U.S. Driven Entirely by Startups, According to Kauffman Foundation Study

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New firms add an average of 3 million jobs in their first year, while older companies lose 1 million jobs annually

(KANSAS CITY, Mo.), July 7, 2010 – When it comes to U.S. job growth, startup companies aren't everything. They're the only thing. It's well understood that existing companies of all sizes constantly create – and destroy – jobs. Conventional wisdom, then, might suppose that annual net job gain is positive at these companies. A study released today by the Ewing Marion Kauffman Foundation, however, shows that this rarely is the case. In fact, net job growth occurs in the U.S. economy only through startup firms.

The new study, The Importance of Startups in Job Creation and Job Destruction, bases its findings on the Business Dynamics Statistics, a U.S. government dataset compiled by the U.S. Census Bureau. The BDS series tracks the annual number of new businesses (startups and new locations) from 1977 to 2005, and defines startups as firms younger than one year old.

The study reveals that, both on average and for all but seven years between 1977 and 2005, existing firms are net job destroyers, losing 1 million jobs net combined per year. By contrast, in their first year, new firms add an average of 3 million jobs.
Further, the study shows, job growth patterns at both startups and existing firms are pro-cyclical, although existing firms have much more cyclical variance. Most notably, during recessionary years, job creation at startups

remains stable, while net job losses at existing firms are highly sensitive to the business cycle.

"These findings imply that America should be thinking differently about the standard employment policy paradigm," said Robert E. Litan, vice president of Research and Policy at the Kauffman Foundation. "Policymakers tend to focus on changes in the national or state unemployment rate, or on layoffs by existing companies. But the data from this report suggest that growth would be best boosted by supporting startup firms."

Because startups that develop organically are almost solely the drivers of job growth, job-creation policies aimed at luring larger, established employers will inevitably fail, said the study's author, Tim Kane, Kauffman Foundation senior fellow in Research and Policy. Such city and state policies are doomed not only because they are zero-sum, but because they are based in unrealistic employment growth models.

And it's not just net job creation that startups dominate. While older firms lose more jobs than they create, those gross flows decline as firms age. On average, one-year-old firms create nearly one million jobs, while ten-year-old firms generate 300,000. The notion that firms bulk up as they age is, in the aggregate, not supported by data.

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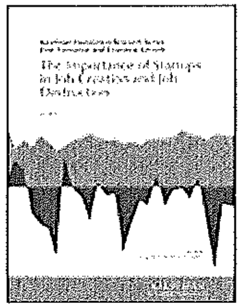
- 

Read *The Importance of Startups in Job Creation and Job Destruction* (PDF)

Research

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FOR IMMEDIATE RELEASE

Challenger Index: Start-Up Activity
LOWEST START-UP RATE ON RECORD AS JOBS, FRAGILE ECONOMY DETER ENTREPRENEURISM

CHICAGO, July 19, 2010 – A new survey shows that start- up activity plummeted in the first half of 2010 as would-be entrepreneurs were either scooped up by employers or scared off by fragile economic conditions, a tight lending market and uncertainty over the sustainability of the recovery.

Results of a survey of job seekers released Monday by global outplacement and executive coaching firm Challenger, Gray & Christmas, Inc., show that an average of 3.7 percent opted to start their own business in the first half of 2010. That was down from 7.6 percent in the first half of 2009 and the 9.6 percent start-up rate averaged over the last two quarters of 2009.

The 3.4 percent start-up rate in the first quarter and the 3.9 percent rate in the second quarter represent the lowest two-quarter average on record, according to Challenger, which began tracking in 1986. The highest two-quarter average on record occurred in the first half of 1989, when 21.5 percent of job seekers ended up starting a business.

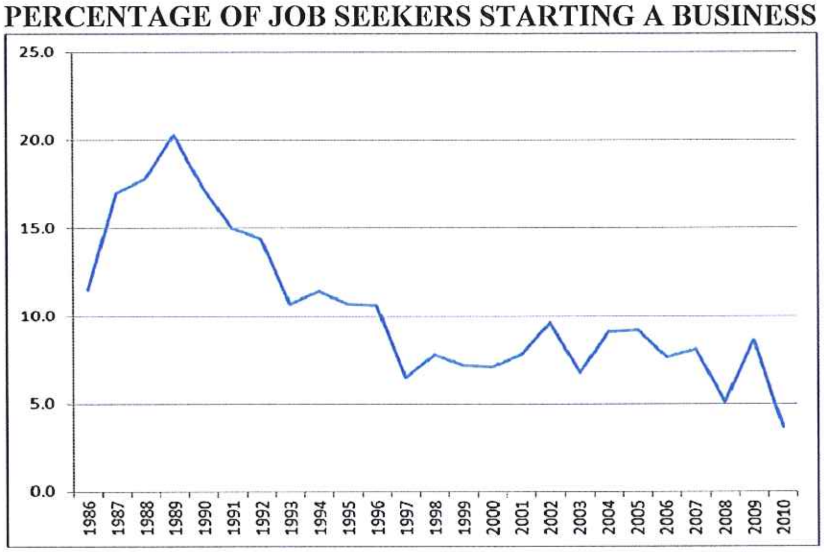
-more-

The start-up activity figures are part of the Challenger Job Market Index, a quarterly survey of approximately 3,000 job seekers, many of whom were former managers and executives from a wide variety of industries nationwide.

"It is difficult to pinpoint the exact reason behind the decline in start-up activity among former managers and executives. On one hand, it could be that the job market has improved to the point that many do not feel compelled to take the risk of going it alone. Then there is the fragility of the recovery and the uncertainty that comes with it. Many small business owners are increasingly pessimistic about business conditions and still find it difficult to get a loan," noted John A. Challenger, chief executive officer of Challenger, Gray & Christmas.

"The decision of starting a business involves so many factors, that trying to identify one or two is an exercise in futility. However, the trends over time suggest that start-up activity is at its lowest just as a recession hits. In the months immediately following the end of the recession, when unemployment is at its highest and hiring is virtually non-existent, we see a spike in job seekers starting businesses," said Challenger.

PERCENTAGE OF JOB SEEKERS STARTING A BUSINESS



"When the recovery reaches the point when employers begin hiring, but the economy remains relatively fragile, we tend to see a drop in entrepreneurism as job seekers start to see success in their searches. As the economy continues to gain strength, start-up activity begins to grow again, as conditions for such ventures become more inviting," he continued.

"Right now, we are in the early stages of recovery when the fundamentals of the economy are still pretty shaky, but employers are just starting to add workers back to their payrolls."

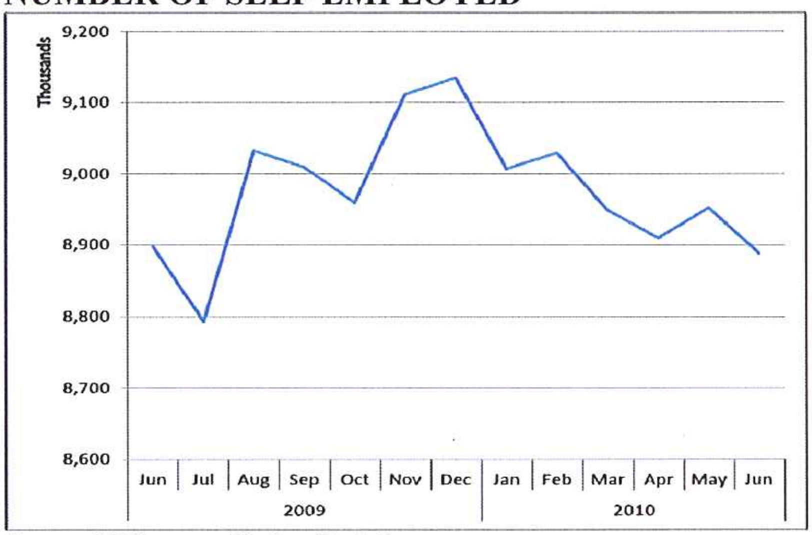
The instability of the economy at this stage of the recovery is impacting the outlook of those already running small businesses. In the latest reading of small business confidence conducted by the National Federation of Independent Business (NFIB), the optimism index fell from 92.2 in May to 89 in June. The NFIB optimism index found that a net of just 1 percent of small firms are planning to hire in the coming months.

Making matters worse for small business owners is a dramatic decline in the amount of lending to these firms. *The New York Times* recently cited federal data showing that lending to such small businesses fell to less than $670 billion in the first quarter of 2010, down from a pre-banking-collapse level of more than $710 billion in the second quarter of 2008.

"Those who might have considered starting a business are looking at these statistics and deciding to seek traditional job opportunities," said Challenger.

The latest figures on self-employment from the Bureau of Labor Statistics reveal a similar downward trend in entrepreneurism. Seasonally-adjusted data show that after the number of self-employed reached a pre-recession peak of 9,773,000 in June 2007, it has since fallen 9.0 percent to 8,889,000, as of June 2010. There was a slight surge in self-employment in the second half of 2009, which saw the number of people in this category increase nearly 3.0 percent from 8,898,000 in June to 9,135,000 in December.

NUMBER OF SELF EMPLOYED



Source: US Bureau of Labor Statistics

"Since reaching 9.1 million in December, the number of self-employed has steadily declined through the first six months of 2010. During the same period, payroll employment grew by 889,000 jobs in the first stretch of steady job-creation since the recovery began, thus offering support to the notion that the decision to start a business is being impacted by the availability of jobs," said Challenger.

\# # #

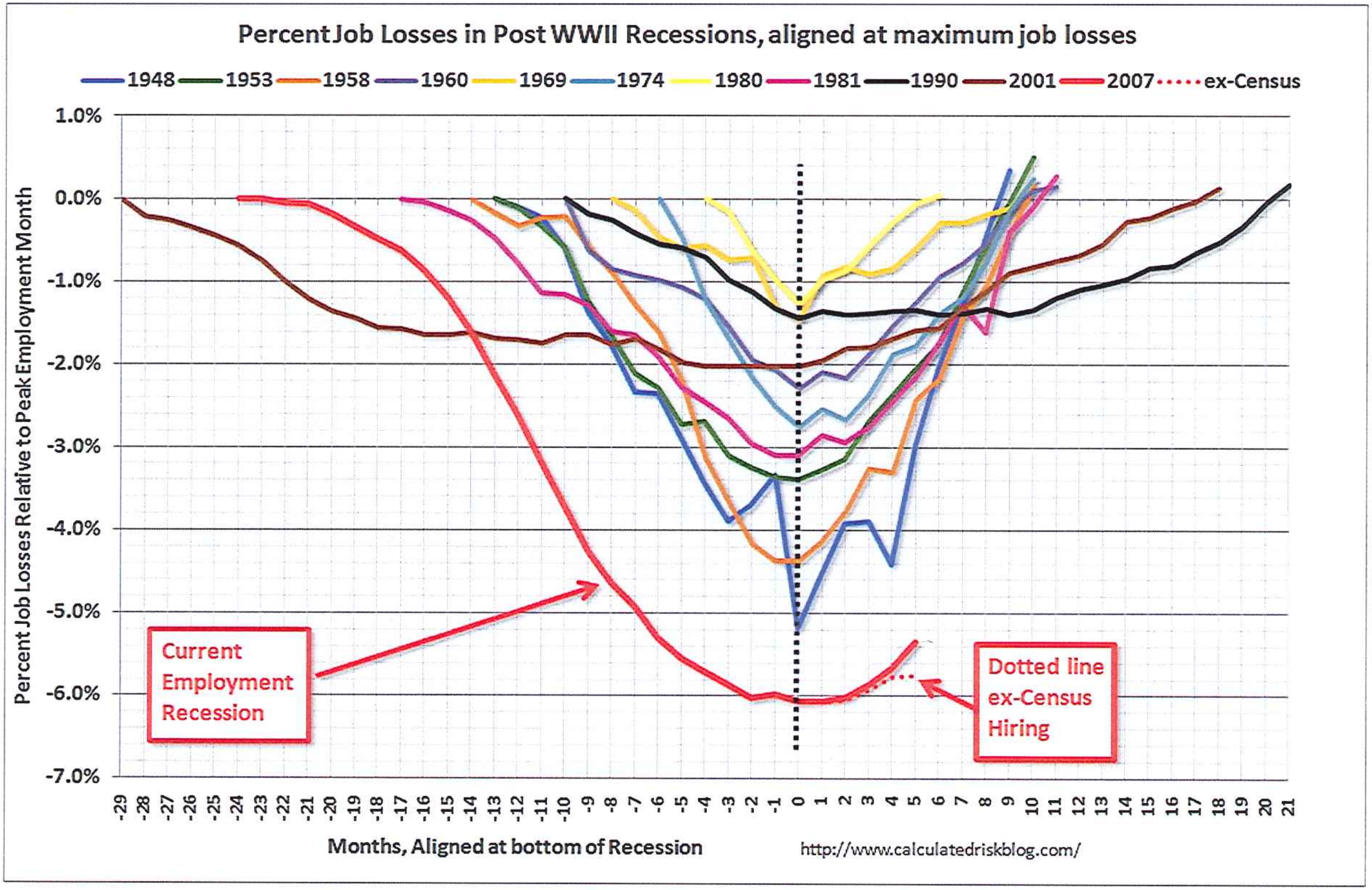
Challenger, Gray & Christmas, Inc.
The original outplacement company

July 19, 2010

PERCENTAGE OF JOB SEEKERS STARTING BUSINESS
By Quarter, 2000 - 2010

	Q1	Q2	Q3	Q4	Annual Average
2000	9.3%	7.8%	7.7%	3.5%	7.1%
2001	7.8%	8.0%	6.5%	9.0%	7.8%
2002	11.5%	11.2%	10.6%	5.2%	9.6%
2003	5.7%	7.1%	7.8%	6.7%	6.8%
2004	10.1%	9.9%	9.8%	6.5%	9.1%
2005	9.2%	13.1%	7.9%	6.6%	9.2%
2006	8.2%	6.2%	7.0%	9.2%	7.7%
2007	10.6%	6.0%	10.1%	5.7%	8.1%
2008	7.2%	4.3%	6.1%	2.7%	5.1%
2009	6.5%	8.7%	11.8%	7.3%	8.6%
2010	3.4%	3.9%			3.7%

Source: Challenger, Gray & Christmas, Inc.


Percent Job Losses in Post WWII Recessions, aligned at maximum job losses
1948
1953
1958
1960
1969
1974
1980
1981
1990
2001
2007
ex-Census
Percent Job Losses Relative to Peak Employment Month
1.0%
0.0%
-1.0%
-2.0%
-3.0%
-4.0%
-5.0%
-6.0%
-7.0%
Current Employment Recession
Dotted line ex-Census Hiring
-29 -28 -27 -26 -25 -24 -23 -22 -21 -20 -19 -18 -17 -16 -15 -14 -13 -12 -11 -10 -9 -8 -7 -6 -5 -4 -3 -2 -1 0 1 2 3 4 5 6 7 8 9 10 11 12 13 14 15 16 17 18 19 20 21
Months, Aligned at bottom of Recession
http://www.calculatedriskblog.com/

Memo: $2.5B budget shortfall looms in Wisconsin

By RYAN J. FOLEY | Posted: Friday, July 9, 2010 4:47 pm

Whoever is elected the next governor of Wisconsin will get sobering news just days after the election: a stack of plans by state agencies to slash spending.

The Legislature's top fiscal analyst warned Friday that the state will face a $2.5 billion shortfall in the two-year budget that starts July 1, 2011. That means the next governor and Legislature will be required to make deep spending and service cuts, pass fee and tax increases or do a combination of the two to balance the budget.

Outgoing Gov. Jim Doyle, a Democrat, ordered state agencies to continue holding open vacant positions and freezing compensation for employees. He said they should develop their budget requests not expecting any increase in revenue, and develop plans to cut their core budgets by 10 percent by Nov. 8, only a few days after the election.

"By staying the course on spending restraint, my successor and the next Legislature should be able to focus on identifying ways to address key priorities in the next state budget and grow Wisconsin's economy," Doyle said in a letter to state agency leaders.

Administration Secretary Dan Schooff said Friday's memo from the Legislative Fiscal Bureau showed that Doyle's spending restraint was working because the budget has a projected $45 million surplus for this year.

News of the budget shortfall quickly reverberated Friday through the campaigns of those looking to replace Doyle, who is not running for re-election after two terms.

During an appearance in Madison, Republican Mark Neumann said the news means he may need to cut spending deeper than he earlier believed. He declined to say specifically what he would cut, but he said he would impose spending caps of 1 percent below inflation, "and we'd work from there depending on how bad the numbers are."

All three candidates have called for a variety of cuts to state spending, but not enough to address the projected deficit.

Both Neumann and Milwaukee County Executive Scott Walker have promised to repeal nearly $2 billion in tax increases that affect large, multistate corporations, those who own capital gains and couples earning more than $300,000 a year. Neumann said Friday that he believed he could still provide unspecified tax cuts in his first year in office.

The Democratic candidate, Milwaukee Mayor Tom Barrett, said the Republicans' "massive tax giveaways to the richest 1 percent and big corporations" would only add to the massive budget shortfall.

Small companies denied credit as big firms thrive

AP Associated Press

By JEANNINE AVERSA, AP Economics Writer
Mon Jul 12, 5:41 pm ET

WASHINGTON – Big companies are building up cash and are expected to report strong earnings starting this week. Not so for small businesses that can't get loans — or hire freely until they do.

The gap helps explain why the economic rebound isn't stronger and could even stall. Federal Reserve Chairman Ben Bernanke stepped up pressure Monday on banks to break the logjam and lend more to smaller firms, which employ at least half of American workers.

Small business owners are relying on personal credit cards or raiding retirement accounts to stay afloat, the Fed chairman said.

Bernanke and other regulators have urged banks for months to lend more to smaller companies. Lawmakers have complained that small businesses that want loans are having trouble getting them. Banks have countered by saying demand remains weak.

The Fed does have authority to create programs to increase lending, such as providing low-cost loans to banks. But economic conditions would probably have to weaken considerably before the Fed would propose such a move. One such program set up during the 2008 financial crisis was recently closed.

The Fed chief's latest comments came as legislative efforts to spur small-business lending have languished, and as the recovery has lost momentum. Bernanke spoke at a Fed conference held to explore ways to loosen lending to small companies.

"Making credit accessible to sound small businesses is crucial to our economic recovery," Bernanke said. "More must be done."

Some small business leaders say they would hire more if only they had easier access to loans. One of them is Marilyn Landis of Basic Business Concepts Inc. of Pittsburgh, which compiles financial documents for other small businesses.

Landis says she would like to hire one or two more people for her 10-person firm and wants to expand into New England. Yet even though she says she's never missed a payment, Landis says her line of credit was cut about 18 months ago.

She relies on credit cards to pay for everything from supplies to payrolls. Without additional credit, she says, "It is impossible to expand, and I can't hire."

Nearly one-third of small business borrowers report difficulty arranging credit, the National Federation of Independent Businesses says.

By contrast, big businesses, which start reporting their second-quarter earnings this week, have enjoyed easier access to loans and low interest rates.

Analysts expect companies in the Standard & Poor's 500 to report a 42 percent jump in profit by one measure, S&P says. For the current quarter, which ends Sept. 30, they expect a 31 percent rise.

The big companies also benefit from something available to fairly few small businesses: plenty of cash.

In March, cash at S&P 500 companies hit a record $837 billion — about a year and a half's worth of profits. And S&P senior analyst Howard Silverblatt says he expects cash to rise to a new record for the April-to-June quarter when figures are released later this summer.

Yet even as the economy has improved, lending to small businesses has declined. It's dropped from around $710 billion in the second quarter 2008 to less than $670 billion in the first quarter of this year.

The Fed and other regulators have urged banks to step up lending to creditworthy small businesses. Despite the push, such lending is still tight.

The impact on the economy is severe because small businesses tend to drive job growth during recoveries. They employ roughly half of all Americans and account for about 60 percent of job creation, Bernanke said.

And newer small businesses — those less than two years old — are especially vital. Over the past 20 years, these startups accounted for roughly a quarter of all job creation, even though they employed less than 10 percent of the work force, he added.

The Obama administration in early May sent Congress a proposal to create a $30 billion program to unfreeze credit for small businesses. The fund would provide money to small and medium-sized banks to encourage them to lend to small businesses. The legislation has yet to pass the Senate.

Bernanke said it's hard to tell whether the problem is banks refusing to lend to small businesses or a lack of demand from those companies. Each company faces different economic conditions and complex relationships with customers, suppliers and creditors, Bernanke said.

Some lenders say they have restored more traditional standards after a period of lax lending that contributed to the financial crisis.

Several big banks say they're already lending more to small businesses. Bank of America lent $19.4 billion to small and medium-sized businesses in the first three months of 2010, an increase of nearly $3 billion from last year. JPMorgan Chase and Citigroup have pledged to lend more, too.

Combined, though, the dollar amounts are relatively tiny compared with how much banks would lend in a healthy economy, said Robert DeYoung, a finance professor at the University of Kansas.

"These numbers would be dwarfed by the increase in lending after the economy starts recovering, and the economy hasn't really started to recover," DeYoung said.

Banks will be able to increase lending significantly, DeYoung said, only after businesses feel confident enough to take on more debt. Prodding banks to lend before then raises the risk that they'll make bad loans, he said.

"I wish I could conclude this wrap-up with a list of the three or four things we could do to immediately unlock small business lending," Fed Governor Elizabeth Duke said at the conference. "But the problems are numerous and complex, and they will require creativity and persistence to solve."

AP Business Writers Bernard Condon and Stevenson Jacobs in New York and Daniel Wagner in Washington contributed to this report.

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Investment Outlook

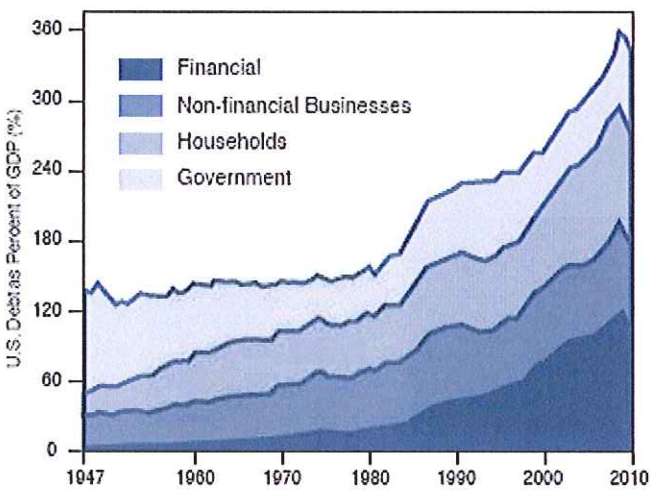
Bill Gross | July 2010

Alphabet Soup

Global financial market returns stand at the threshold of mediocrity. With bonds priced not for recession but near depression, most major global bond indices now yield less than 3%, surely a forerunner of returns to come. Stocks, long the volatile vamp of investor optimism, have not yet adjusted to the New Normal of half-size economic growth induced by deleveraging, reregulation, and deglobalization and have low single digit prospects as well. Yet, what has seemed obvious to those of us collectively at PIMCO for several years now is less than standard fare in the trading rooms of institutional money managers. While the phrase "New Normal" has been welcomed into the lexicon of reporters and commentators alike, the willingness of investors to accept its realities is fog-ridden and whispered, or perhaps softly whistled, much like midnight passersby at a graveyard. Our "New Normal" two-word duality seems to resonate more on the "normal" than the "new" to economists whose last names aren't Roubini, Reinhart, Rogoff, or Rosenberg. It's as if "R" has been eliminated from the financial alphabet, and "new" from investors' dictionaries worldwide.

Perhaps the enigma arises from a multi-generational acceptance of debt as common scrip, available for the asking and seemingly forever productive in boosting living standards – until, that is, liabilities became so large that the interest burden and probability of repayment overwhelmed borrower and lender alike in near unison. To understand why debt may have become a burden instead of a boon it is instructive as Philip Coggan points out in a recent *Economist* article, to ask why people, companies and countries borrow in the first place.

RRRRR...



Source: Bureau of Economic Analysis, Federal Reserve, *The Economist*, June 24,2010

They do so, he intelligently argues, to boost their standard of living, to bring consumption forward instead of languishing in the present. How could almost any of us have afforded a home without a mortgage? By the time we would have saved enough money we'd have been close to retirement with the kids grown and facing a similar predicament. And so we turned to the wizardry of borrowing on time to be able to purchase and then repay in full. Crucially, since debt is a handshake between at least two parties, the lender had to believe that it would be repaid, and that belief or "credere," was based on several rather rational expectations when observed on a macro level from 30,000 feet.

First of all, capitalistic innovation fostered productivity, and an increasing standard of living through technology and innovation. Debts could be paid back via profits and higher wages if only because of rising prosperity itself. Secondly, the 20th century, which fathered the debt supercycle, was a time of global population growth despite its interruption by tragic world wars and periodic pandemics. Prior debts could be spread over an ever-increasing number of people, lessening the burden and making it possible to assume even more debt in a seemingly endless cycle which brought consumption forward – anticipating that future generations could do the same.

But while technological innovation – much like Moore's law – seems to have endless promise, population growth in numerous parts of the developed world is approaching a dead end. Not only will it become more difficult to transfer high existing debt burdens onto the smaller shoulders of future generations, but the overlevered, aging "global boomers" themselves will demand a disproportionate piece of stunted future goods and services – without, it seems, the ability to pay for it. Creditors, sensing the predicament, hold back as they recently have in Greece and other southern European peripherals, or in the U.S. itself, as lenders demand larger down payments on new home mortgages, and other debt extensions.

Aging and population change of course are just part of the nemesis. We could have "saved" for this moment much like squirrels in wintertime but humanity's free will is infected with greed, avarice and in a majority of instances, hope as opposed to commonsense. We overdid a good thing and now the financial reaper is at the door, scythe and financial bill in one hand, with the other knocking on door after door of previously unsuspecting households and sovereigns to initiate a "standard of living" death sentence.

What is harder to understand in this demographic/psychological/sociological explanation of the crisis is why it should morph into a global phenomenon. There are 6.5 billion people in the world and will soon be 1 billion more. Many of them are debt-free and have never used a credit card or assumed a home mortgage. Why can't lenders like PIMCO lend to them, allowing developing nations to bring their consumption forward, developed nations to supply the goods and services, and the world to resume its "old normal" path toward future profits, prosperity and increasing standard of living? To a certain extent that is what should gradually happen, promoting more rapid growth in the emerging nations and a subdued semblance of it in the G-7 – a "new normal."

But they – the developing nations – are not growing fast enough, at least internally, to return global growth to its old standards. Their financial systems are immature and reminiscent of a spindly-legged baby giraffe, having lots of upward potential but still striving for balance after a series of missteps, the most recent of which was the Asian crisis over a decade ago. And so they produce for export, not internal consumption, and in the process leave a gaping hole in what is known as global aggregate demand. Developed nation consumers are maxed out because of too much debt, and developing nations don't trust themselves to stretch their necks for the delicious leaves of domestic consumption just above.

It is this lack of global aggregate demand – resulting from too much debt in parts of the global economy and not enough in others – that is the essence of the problem, which only economists with names beginning in R seem to understand (there is no R in PIMCO no matter how much I want to extend the metaphor, and yes, Paul _Rugman fits the description as well!). If policymakers could act in unison and smoothly transition maxed-out indebted consumer nations into future producers, while simultaneously convincing lightly indebted developing nations to consume more, then our predicament would be manageable. They cannot. G-20 Toronto meetings aside, the world is caught up as it usually is in an "every nation for itself" mentality, with China taking its measured time to consume and the U.S. refusing to acknowledge its necessity to invest in goods for export.

Even if your last name doesn't begin with R, the preceding explanation is all you need to know to explain what is happening to the markets, the global economy, and perhaps your own wobbly-legged standard of living in recent years. **Consumption when brought forward must be financed, and that financing is a two-way bargain between borrower and creditor. When debt levels become too high, lenders balk and even lenders of last resort – the sovereigns, the central banks, the supranational agencies – approach limits beyond which private enterprise's productivity itself is threatened.** We have arrived at a New Normal where, despite the introduction of 3 billion new consumers over the past several decades in "Chindia" and beyond, there is a lack of global aggregate demand or perhaps an inability or unwillingness to finance it. Slow growth in the developed world, insufficiently high levels of consumption in the emerging world, and seemingly inexplicable low total returns on investment portfolios – bonds and stocks – lie ahead. Stop whispering (and start shouting) the words "New Normal" or perhaps begin to pronounce your last name with an RRRRRRRRRRR. Our global economy, our use of debt, and our financial markets have changed – not our alphabet or dictionary.

William H. Gross
Managing Director

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Unemployment rate falls in 39 states in June

Associated Press

By CHRISTOPHER S. RUGABER, AP Economics Writer
58 mins ago 7/19/10

WASHINGTON – The unemployment rate fell in most states in June, mainly because more people gave up searching for work and were no longer counted.

Fewer states saw job increases, the latest evidence that the economic recovery is slowing.

The jobless rate declined in 39 states and Washington, D.C. last month, the Labor Department said Tuesday. That's a slight improvement from May, when 37 states saw their rates decline.

But only 21 states saw net job gains in June, the government said. That compared to 41 the previous month and is the fewest this year.

The decline in job creation reflects the layoff of thousands of temporary census workers. Those jobs inflated total payrolls in May and then reduced them in June.

Still, the report also indicated that businesses aren't hiring many new workers. Nationwide, private employers added a net gain of only 83,000 jobs last month. The national unemployment rate dropped to 9.5 percent in June from 9.7 percent the previous month, as about 650,000 people stopped looking for work.

New York's unemployment rate fell to 8.2 percent from 8.3 percent the previous month. But the state lost 8,500 private-sector jobs, the second-straight decline in private employment. California's unemployment rate also declined, but the state gained just 1,300 private-sector jobs.

Wisconsin, meanwhile, saw its jobless rate fall to 7.9 percent from 8.2 percent the previous month. But the state's work force fell by 13,600, suggesting the decline was the result of people giving up job hunts. Furthermore, the state lost 1,000 private-sector jobs last month.

Nevada, battered by a housing slump and a drop in tourism, posted the nation's highest unemployment rate of 14.2 percent. That's the state's highest since records began in 1976.

In May, Nevada displaced Michigan from the top spot for the first time in more than four years. Michigan's unemployment rate fell to 13.2 percent in June, the nation's second-highest. It was followed by California with 12.3 percent and Rhode Island with 12 percent.

The report did include some bright spots. New Hampshire reported the largest drop in unemployment, to 5.9 percent from 6.4 percent. That was due in part to a net gain of 1,900 jobs.

The state added jobs in manufacturing, education and health services, and professional and business services, which includes temporary jobs.

Texas, Kentucky, Arkansas, Louisiana and North Carolina reported the largest job gains last month.

Texas added 14,000 jobs, with big gains in manufacturing, construction and professional and business services. Kentucky gained 6,200 jobs, mostly in manufacturing, construction and education and health services.

North Dakota continued to post the lowest unemployment rate, with 3.6 percent. It was followed by South Dakota at 4.5 percent and Nebraska at 4.8 percent.

Cox

newgeography

The Need to Expand Personal Mobility

by Wendell Cox 07/08/2010

Few books in recent memory have started from as optimistic or solid a foundation as *Reinventing the Automobile: Personal Urban Mobility for the 21st Century*. *Reinventing the Automobile* conveys a strong message that *improved* personal mobility is necessary and desirable:

"Have we reached the point where we now must seriously consider trading off the personal mobility and economic prosperity enabled by automobile transportation to mitigate its negative side effects? Or, can we take advantage of converging 21st century technologies and fresh design approaches to diminish those side effects sufficiently while preserving and enhancing our freedom to move about and interact? This book concludes the latter."

The authors include William J. Mitchell, Professor of Architecture, and Media Arts and Sciences at the Massachusetts Institute of Technology directs the Smart Cities research group at the MIT Media Lab, Christopher Boroni-Bird, Director of Advance technology Vehicle Concepts at General Motors and Lawrence D. Burns, who consults on transportation, energy and communications systems and technology. The book is published by the MIT Press.

Getting Urban Economics Right

The authors start with getting the urban economics right. They recognize that the "freedom and prosperity benefits" of the automobile "have been substantial." They note that the automobile industry "set the stage for the growth of the middle class," something that has been labeled the "democratization of prosperity." The authors say that the car "enabled modern suburbia" and "powered a century of economic prosperity." This refreshing treatment is consistent with the overwhelming economic evidence that links personal mobility with prosperity, such as by Remy Prud'homme and Chang-Wong Lee, David Hartgen and M. Gregory Fields and others. It is also at considerable odds with the widely accepted, somewhat nostalgic planning orthodoxy that rejects private automotive transport as "unsustainable", unaesthetic and anti-social. This ideology embraces the illusion that forcing people to travel longer, with less personal flexibility somehow will improve the economy and raise the standard of living.

The Future of the Automobile?

The authors envision a automobile characterized by a new "DNA." It starts with smaller cars, fueled by electricity and hydrogen (fuel cell technology). It also begins with an understanding that the cars used in many mundane urban operations today – for example getting to the market or pick up the kids at school – are over-engineered. They are far larger than is needed for most trips, their capacity for speed exceeds urban requirements and their range between refueling is also more than needed.

The authors would re-engineer urban vehicle to the needs of metropolitan dwellers, an "ultra-small vehicle" (USV). The designs proposed include far lighter cars that can be easily "folded" up to minimize parking space requirements. Cars would be connected to one another by wireless technology, all but eliminating the possibility of collisions. The cars would be small enough that they could be assigned special dedicated lanes on current freeways and streets. Travel would be less congested because the dedicated lanes would have a far higher vehicle capacity, while the interconnectedness would allow cars to safely operate closer to one another.

The combination of electricity, hydrogen, wireless technology and the USV would bring additional benefits. This would permit improved vehicle routing, as drivers would be advised take alternate less congested routes. This would also, in time, lead to self-drive cars, about which Randal O'Toole has recently written, made possible by the use of wireless technology and that dedicated lanes would make possible.

Empowering Transit Riders through Car Sharing

Car sharing is an important part of this future, for dwellers of dense urban cores, according to *Reinventing the Automobile*. The author's note that car sharing can solve the "first mile-last mile" problem making it possible for transit users to speed up their trips by not having to walk long distances to and from transit stops. Indeed, car sharing programs are set to be adopted in urban cores with some of the world's best transit systems, such as Paris, and London. Privately operated car sharing systems have been established in a number of US metropolitan areas, such as Atlanta, Denver and San Francisco.

Progress with Conventional Strategies

The longer term vision of the MIT Press authors may take a while to unfold, but we can already see potential for progress. Just this week, "super-car" developer Gordon Murray announced development of an urban car (the T25), smaller than the "Smart," which would achieve nearly 60 miles per gallon, with plans for marketing within two years. Volkswagen has developed a "1-litre" car, which would achieve 235 miles per gallon on diesel fuel. All of this makes the 51 mile per gallon Toyota Prius seem gluttonous by comparison

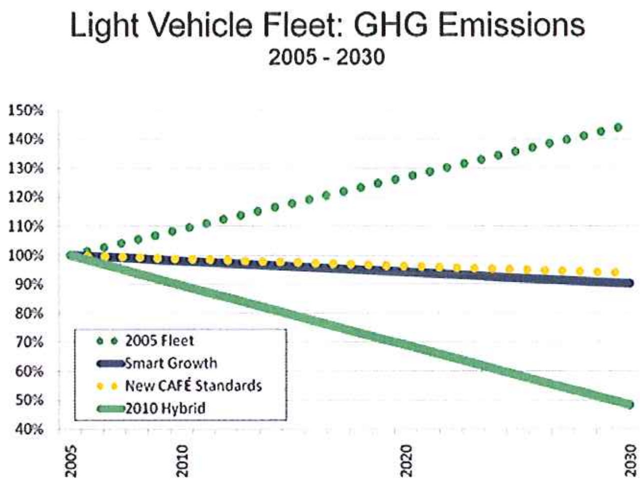
These developments and the *Reinventing the Automobile* vision show that it is unnecessary to tell people in America (or Europe or the developiung world) that they must give up their automobiles. That is good news. The social engineering approaches requiring people to move from the suburbs to dense urban cores and travel by slower, less frequent transit are incapable of achieving serious environmental gains (see below) and can not seriously be considered progress or desirable by most people in advanced countries.

The Superiority of Technology

This is illustrated by recent developments in automobile technology and research (Figure).

- Before the adoption of the new 2020 and 2016 new car fuel economy standards, the US light vehicle fleet was on track to increase its greenhouse gas (GHG) emissions nearly 50% from 2005 to 2030 (the green dotted line in the figure).
- As a result of the new fuel economy standards, Department of Energy projections indicate that greenhouse gas emissions from light vehicles will be one-third less by 2030 compared to the 2005 fleet (the yellow dotted line), and this is at the standard projected driving increase rates that could well be high.

- The smart growth strategies of land rationing, densification and discouraging driving would produce, at best, a marginal reduction in GHG emissions, using the mid-point of the recent proponent research (*Moving Cooler*), indicated by the solid blue line. Actually, this overstates the impact of smart growth, since it discounts the substantial GHG emissions gains that result from higher fuel consumption in more congested traffic produced by densification.
- The potential for technological advance is illustrated by the green solid line, which estimates the GHG emissions from light vehicles in 2030 if the average fuel economy were equal to today's best hybrid technology.



Overall auto-centered technology-based strategies – such as the improved fuel economy standards and the hybrid fuel economy – would each produce about 15 times as much benefit as the smart growth strategies proposed by such studies as *Moving Cooler*. This approach would not only be far more productive in terms of environmental improvement but would not require interfering with people's lives in ways that would require longer trips times, less convenience, seriously retarded job access and, inevitably, fewer jobs and lower levels of economic growth.

Technology: The Only Way

It would be a mistake – and likely political folly – to force a re-engineering our way of life in order to enact strategies with dubious environmental benefits. In the final analysis, personal mobility must be retained and expanded, because there is no alternative that is acceptable to people, whatever system of government they happen to live under. *Reinventing the Automobile* paints the most optimistic picture to date and, if given due serious treatment, could prove a debate changer.

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Cooley

newgeography

The Myth of the Back-to-the-City Migration

This article originally appeared in the Wall Street Journal.

by Joel Kotkin 07/06/2010

Pundits, planners and urban visionaries—citing everything from changing demographics, soaring energy prices, the rise of the so-called "creative class," and the need to battle global warming—have been predicting for years that America's love affair with the suburbs will soon be over. Their voices have grown louder since the onset of the housing crisis. Suburban neighborhoods, as the Atlantic magazine put it in March 2008, would morph into "the new slums" as people trek back to dense urban spaces.

But the great migration back to the city hasn't occurred. Over the past decade the percentage of Americans living in suburbs and single-family homes has increased. Meanwhile, demographer Wendell Cox's analysis of census figures show that a much-celebrated rise in the percentage of multifamily housing peaked at 40% of all new housing permits in 2008, and it has since fallen to below 20% of the total, slightly lower than in 2000.

Housing prices in and around the nation's urban cores is clear evidence that the back-to-the-city movement is wishful thinking. Despite cheerleading from individuals such as University of Toronto Professor Richard Florida, and Carole Coletta, president of CEOs for Cities and the Urban Land Institute, this movement has crashed in ways that match—and in some cases exceed—the losses suffered in suburban and even exurban locations. Condos in particular are a bellwether: Downtown areas, stuffed with new condos, have suffered some of the worst housing busts in the nation.

Take Miami, once a poster child for urban revitalization. According to National Association of Realtors data, the median condominium price in the Miami metropolitan area has dropped 75% from its 2007 peak, far worse than 50% decline suffered in the market for single family homes.

Then there's Los Angeles. Over the last year, according to the real estate website Zillow.com, single-family home prices in the Los Angeles region have rebounded by a modest 10%. But the downtown condo market has lost over 18% of its value. Many ambitious new projects, like Eli Broad's grandiose Grand Avenue Development, remain on long-term hold.

The story in downtown Las Vegas is massive overbuilding and vacancies. The Review Journal recently reported a nearly 21-year supply of unsold condominium units. MGM City Center developer Larry Murren stated this spring that he wished he had built half as many units. Mr. Murren cites a seminar on mixed-use development—a commonplace event in many cities over the past few years—as sparking his overenthusiasm. He's not the only developer who has admitted being misled.

Behind the condo bust is a simple error: people's stated preferences. Virtually every survey of opinion, including a 2004 poll co-sponsored by Smart Growth America, a group dedicated to promoting urban density, found that roughly 13% of Americans prefer to live in an urban environment while 33% prefer suburbs, and another 18% like exurbs. These patterns have been fairly consistent over the last several decades.

Demographic trends, including an oft-predicted tsunami of Baby Boom "empty nesters" to urban cores, have been misread. True, some wealthy individuals have moved to downtown lofts. But roughly three quarters of retirees in the first bloc of retiring baby boomers are sticking pretty close to the suburbs, where the vast majority now reside. Those that do migrate, notes University of Arizona Urban Planning Professor Sandi Rosenbloom, tend to head further out into the suburban periphery. "Everybody in this business wants to talk about the odd person who moves downtown, but it's basically a 'man bites dog story,'" she says. "Most retire in place."

Historically, immigrants have helped prop up urban markets. But since 1980 the percentage who settle in urban areas has dropped to 34% from 41%. Some 52% are now living in suburbs, up from 44% 30 years ago. This has turned places such as Bergen County, N.J., Fort Bend County, Texas, and the San Gabriel Valley east of Los Angeles into the ultimate exemplars of multicultural America.

What about the "millennials"—the generation born after 1983? Research by analysts Morley Winograd and Mike Hais, authors of the ground-breaking "Millennial Makeover," indicates this group is even more suburban-centric than their boomer parents. Urban areas do exercise great allure to well-educated younger people, particularly in their 20s and early 30s. But what about when they marry and have families, as four in five intend? A recent survey of millennials by Frank Magid and Associates, a major survey research firm, found that although roughly 18% consider the city "an ideal place to live," some 43% envision the suburbs as their preferred long-term destination.

Urban centers will continue to represent an important, if comparatively small, part of the rapidly evolving American landscape. With as many as 100 million more Americans by 2050, they could enjoy a growth of somewhere between 10 million and 20 million more people. And in the short run, the collapse of the high-end condo market could provide opportunity for young and unmarried people to move into luxurious urban housing at bargain rates.

But lower prices, or a shift to rentals, could prove financially devastating for urban developers and their investors, who now may be slow to re-enter the market. And for many cities, the bust could represent a punishing fiscal blow, given the subsidies lavished on many projects during the era of urbanist frenzy.

The condo bust should provide a cautionary tale for developers, planners and the urban political class, particularly those political "progressives" who favor using regulatory and fiscal tools to promote urban densification. It is simply delusional to try forcing a market beyond proven demand.

Rather than ignore consumer choice, cities and suburbs need to focus on basic tasks like creating jobs, improving schools, developing cultural amenities and promoting public safety. It is these more mundane steps—not utopian theory or regulatory diktats—that ultimately make successful communities.

Joel Kotkin is executive editor of NewGeography.com and is a distinguished presidential fellow in urban futures at Chapman University. He is author of The City: A Global History. His newest book is The Next Hundred Million: America in 2050, released in Febuary, 2010.

Cooley

SPECIAL REPORT: Move to Suburbs (and Beyond) Continues

by Wendell Cox 07/13/2010

Anyone who challenges the notion that the long predicted exodus of people from the suburbs to the city has been wildly overstated is sure to generate some backlash from urban boosters. Alan Berube of the Brookings Institution contends in a *New Republic* column that "head counts" better reveal city trends than property trends or the massive condo bust. He points to a Brookings Institution analysis by Bill Frey, entitled "Texas Gains, Suburbs Lose in 2010 Census Review," which compares trends in major cities and suburbs, but offers not a sentence demonstrating any actual population "loss" in suburbs (his point is that their *growth rates* have declined).

However, Berube has a point. Head counts are the issue. The annual Bureau of the Census "head count" of domestic migration reveals that the suburban to urban core exodus is as elusive as it has ever been. Gross population totals reveal nothing with respect to movements between the suburbs and the core. There is no doubt that core city population trends have improved, and this is a good thing. However, there is not a shred of evidence that suburbanites are picking up and moving to the cores.

Domestic Migration: This is indicated by a "head count" of migration trends during the decade and during the last year. Each year, the Bureau of the Census estimates the number of people who move between counties (domestic migration) and the number of people who move into metropolitan areas from outside the nation (international migration). The data is estimated at the county (equivalent) level, which means that, except where cities are counties (such as Baltimore, San Francisco and others), individual core city data is not available. Thus, the analysis has to rely on core versus suburban counties in metropolitan areas (Note 1).

In short, the nation's urban cores continue to lose domestic migrants with a vengeance, however are doing quite well at attracting international migration. Thus, core growth is not resulting from migration from suburbs or any other part of the nation, but is driven by international migration.

The following analysis covers all but four (48) metropolitan areas with more than 1,000,000 population as of 2009. San Diego, Las Vegas and Tucson are excluded because they include only one county, so there is only a core county and no suburban county. New Orleans is excluded due to the special circumstances of the huge population losses from Hurricane Katrina.

Generally, domestic migrants are leaving the nation's largest metropolitan areas. Between 2000 and 2009, a net 1,900,000 domestic migrants moved to areas of the nation outside the largest metropolitan areas (Table 1). Domestic migration losses occurred 24 of the 48 metropolitan areas. In the last year (2008-2009), the net domestic out-migration for all 48 regions in total was 22,000, 90% below the 2000-2008 annual rate. A somewhat smaller number of metropolitan areas, 22, experienced domestic migration losses in the last year. Most observers, including Berube, trace this diminishing loss to the recession, which has made movement in any direction more difficult over the past two years.

Table 1

Domestic Migration: Major Metropolitan Areas

		2000-2009			2008-2009		
Core County Classification	**Metropolitan Area**	**Metropolitan Area**	**Core**	**Suburban**	**Metropolitan Area**	**Core**	**Suburban**
1	New York	(1,920,745)	(1,222,290)	(698,455)	(110,278)	(77,381)	(32,897)
3	Los Angeles	(1,337,522)	(1,102,202)	(235,320)	(79,900)	(76,674)	(3,226)
2	Chicago	(547,430)	(705,403)	157,973	(40,389)	(31,114)	(9,275)
4	Dallas-Fort Worth	307,907	(262,982)	570,889	45,241	(7,494)	52,735
1	Philadelphia	(112,071)	(154,338)	42,267	(7,577)	(5,496)	(2,081)
4	Houston	242,573	(69,736)	312,309	49,662	19,002	30,660
4	Miami-West Palm Beach	(284,860)	(297,637)	12,777	(29,321)	(25,142)	(4,179)
1	Washington	(110,775)	(39,814)	(70,961)	18,189	4,454	13,735
3	Atlanta	412,832	3,243	409,589	17,479	7,579	9,900
1	Boston	(232,984)	(100,485)	(132,499)	6,813	(32)	6,845
2	Detroit	(361,632)	(306,467)	(55,165)	(45,488)	(34,794)	(10,694)
4	Phoenix	530,579	404,840	125,739	12,441	4,651	7,790
2	San Francisco-Oakland	(343,834)	(245,796)	(98,038)	7,977	(207)	8,184
4	Riverside-San Bernardino	457,430	375,055	82,375	(616)	13,174	(13,790)
3	Seattle	42,424	(27,407)	69,831	17,035	11,053	5,982
2	Minneapolis-St. Paul	(22,865)	(138,395)	115,530	(2,503)	(1,989)	(514)
1	St. Louis	(42,151)	(62,990)	20,839	(4,532)	(3,197)	(1,335)
4	Tampa-St. Petersburg	254,650	89,385	165,265	4,663	2,630	2,033
1	Baltimore	(35,938)	(74,328)	38,390	(3,687)	(4,883)	1,196
2	Denver	61,108	(44,839)	105,947	19,831	6,369	13,462
2	Pittsburgh	(49,438)	(57,532)	8,094	1,144	401	743
2	Portland	120,437	3,811	116,626	16,320	7,053	9,267
2	Cincinnati	(18,313)	(87,976)	69,663	(384)	(2,833)	2,449

4	Sacramento	135,038	32,369	102,669	4,733	(1,185)	5,918
2	Cleveland	(133,679)	(151,448)	17,769	(10,191)	(10,875)	684
4	Orlando	218,108	46,341	171,767	(4,279)	(6,275)	1,996
4	San Antonio	175,552	96,856	78,696	18,984	10,797	8,187
3	Kansas City	30,181	(33,910)	64,091	3,929	(417)	4,346
4	San Jose	(233,133)	(226,545)	(6,588)	(5,361)	(4,829)	(532)
3	Columbus	32,087	(36,024)	68,111	5,018	1,907	3,111
4	Charlotte	243,399	104,402	138,997	19,211	8,299	10,912
3	Indianapolis	70,271	(53,039)	123,310	7,034	(1,209)	8,243
4	Austin	224,227	52,842	171,385	25,654	10,484	15,170
2	Norfolk-Virginia Beach	(19,172)	(19,391)	219	(8,052)	(3,559)	(4,493)
2	Providence	(50,151)	(38,129)	(12,022)	(6,736)	(4,939)	(1,797)
3	Nashville	120,684	(20,101)	140,785	10,826	128	10,698
2	Milwaukee	(72,668)	(89,476)	16,808	(2,336)	(3,585)	1,249
4	Jacksonville	125,881	17,866	108,015	1,758	(3,415)	5,173
4	Memphis	(8,834)	(61,325)	52,491	(5,276)	(7,867)	2,591
3	Louisville	33,700	(7,692)	41,392	2,122	262	1,860
2	Richmond	74,650	(4,839)	79,489	2,751	3	2,748
3	Oklahoma City	41,523	(8,164)	49,687	8,798	3,236	5,562
3	Hartford	(9,385)	(22,089)	12,704	(1,847)	(1,949)	102
3	Birmingham	26,420	(26,550)	52,970	2,418	(1,424)	3,842
3	Salt Lake City	(32,760)	(43,779)	11,019	(164)	(911)	747
4	Raleigh	190,438	150,583	39,855	20,095	16,070	4,025
2	Buffalo	(53,191)	(47,780)	(5,411)	(1,711)	(1,806)	95
2	Rochester	(42,163)	(35,354)	(6,809)	(1,937)	(1,224)	(713)
	Total	(1,903,595)	(4,548,659)	2,645,064	(22,439)	(199,153)	176,714

Major metropolitan areas: Population over 1,000,000 in 2009

Core county classifications: See Table 2

The core counties lost domestic migrants, often at very high rates. Between 2000 and 2009, more than 4,500,000 people moved out of the core counties. This is more people than live in the cities of Los Angeles and Washington, DC combined. The suburban counties did substantially better *gaining* more than 2,600,000 domestic migrants (nearly as many people as live in the city of Chicago), but not enough to negate the core losses. Over the past year, the core counties lost 200,000 domestic migrants, an annual rate approximately two-thirds less than the rate from 2000 to 2008. Suburban counties gained 175,000, a more than 40% reduction from the 2000-2008 annual rate. All of these rate changes are consistent with expectations in a recession, as fewer people move.

If anything, the trends of the past decade indicate a *further* dispersal of America's metropolitan population, with an additional 200,000 domestic migrants moving to the exurban counties adjacent to and beyond the major metropolitan areas (Note 2). Reflecting the effects of the recession, exurban areas lost 4,000 domestic migrants in the last year. This one year loss rate is less than 1/10th of the core county domestic migration loss rate over the same period. Another nearly 1.7 million domestic migrants left the major metropolitan areas and their exurbs altogether, moving to smaller metropolitan areas, smaller urban areas and rural areas.

Between 2000 and 2008, 36 cores experienced domestic migration losses, compared to 10 suburban areas. The cores did better in the last year, with 29 losing domestic migrants, while 13 suburban areas lost domestic migrants. Further, more people moved into (or fewer moved out of) the suburbs from other parts of the country than to the cores in 42 of the 48 metropolitan areas between 2000 and 2009 and in 2008-2009.

Moreover, not all urban cores are the same. Some, including most of the fast growing areas, are far more suburban than others. This is illustrated by a classification of core counties (Table 2) based upon the share of owner occupant housing built after 1949 (For for statistical purposes the beginning of automobile oriented suburbanization was with the census of 1950).

Table 2

Core County Classifications (Extent of Suburbanization)

Core County Classification	Share of Owner-Occupied Houses Built After 1949
Dominant Urban Cores	Less than 50%
Moderately Suburban	50% = <75%
Substantially Suburban	70% = <85%
Predominantly Suburban	85% & Over

Data from 2000 US Census

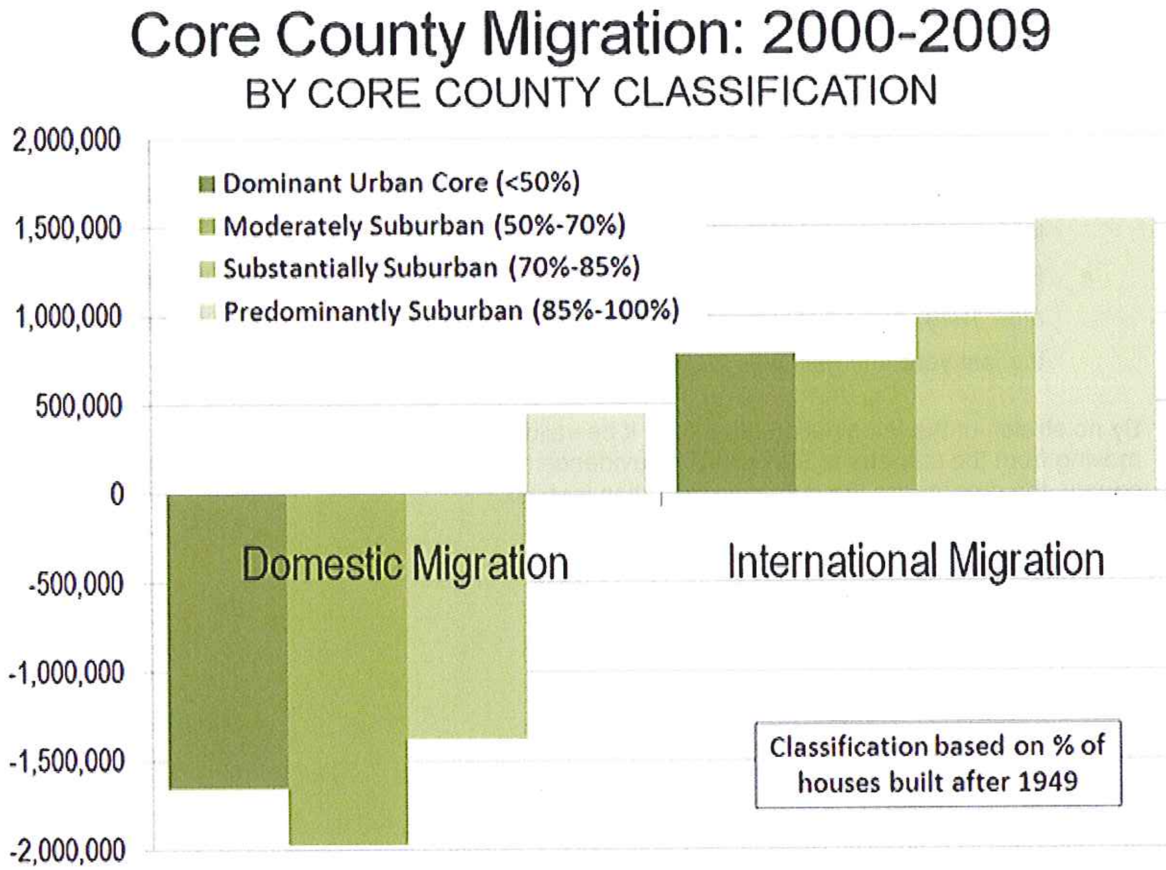
For example, in the core counties of the St. Louis and Boston metropolitan areas, there is little suburbanization, with more than 70% of houses having been built before 1950. Their growth truly reflects the attractiveness of traditional, relatively dense urban living. On the other hand, in the core county of the Austin metropolitan area, less than 10% of the houses were built before 1950, while in Phoenix, the figure is 3%. In these and other core counties that encompass large suburban areas, the vast majority of "urban" growth follows a highly suburbanized, auto-oriented model.

The domestic migration results by core county classification are as follows:

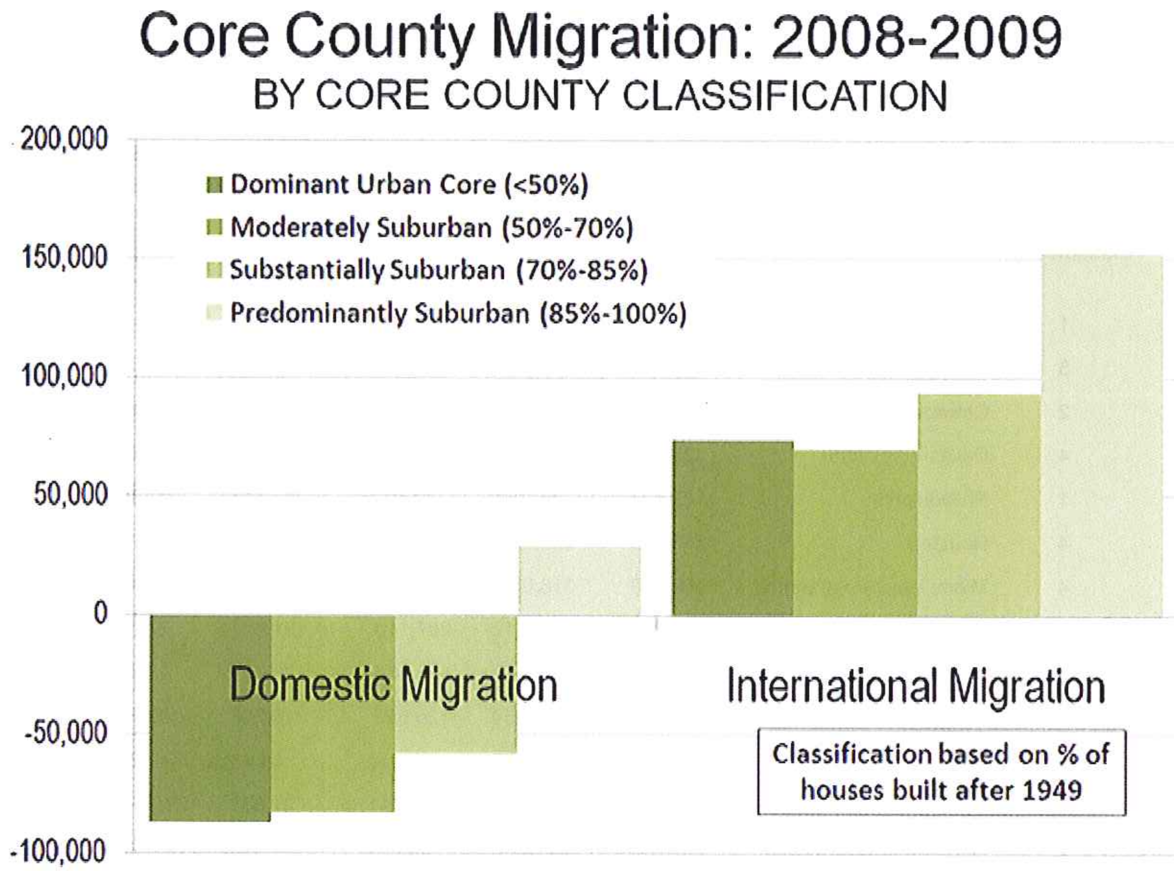
- Dominant Urban Core Central Counties (less than 50% of the housing stock built after 1949) lost 1.650 million domestic migrants, or 14.0% of their 2000 population. In the last year, the loss was 87,000.

- Moderately Suburban Core Central Counties (50% to 69% of the housing stock built after 1949) lost 1.970 million domestic migrants, or 10.0% of their 2000 population. In the last year, the loss was 83,000.
- Substantially Suburban Core Central Counties (70% to 84% of the housing stock built after 1949) lost 1.380 million domestic migrants, or 7.2% of their 2000 population. In the last year, the loss was 58,000.
- Predominantly Suburban Core Central Counties (85% and more of the housing stock built after 1949) *gained* 450 thousand domestic migrants, or 2.0% of their 2000 population. In the last year, the gain was 29,000.

By no stretch of the imagination, then, can it be validly claimed that the overall trend is people moving from the suburbs to the core. The evidence suggests that the more urban the core county, the greater are the domestic migration losses.



Core County Migration: 2000-2009
BY CORE COUNTY CLASSIFICATION
2,000,000
1,500,000
1,000,000
500,000
0
-500,000
-1,000,000
-1,500,000
-2,000,000
Dominant Urban Core (<50%)
Moderately Suburban (50%-70%)
Substantially Suburban (70%-85%)
Predominantly Suburban (85%-100%)
Domestic Migration
International Migration
Classification based on % of houses built after 1949



International Migration: The real story with respect to core growth is international migration. The 48 metropolitan areas gained 6.4 million international migrants from 2000 to 2009 and 620,000 in 2008-2009. International migration, also impacted by recession, dropped by nearly a 15% drop from the 2000-2008 annual rate (Table 3).

Table 3

International Migration: Major Metropolitan Areas

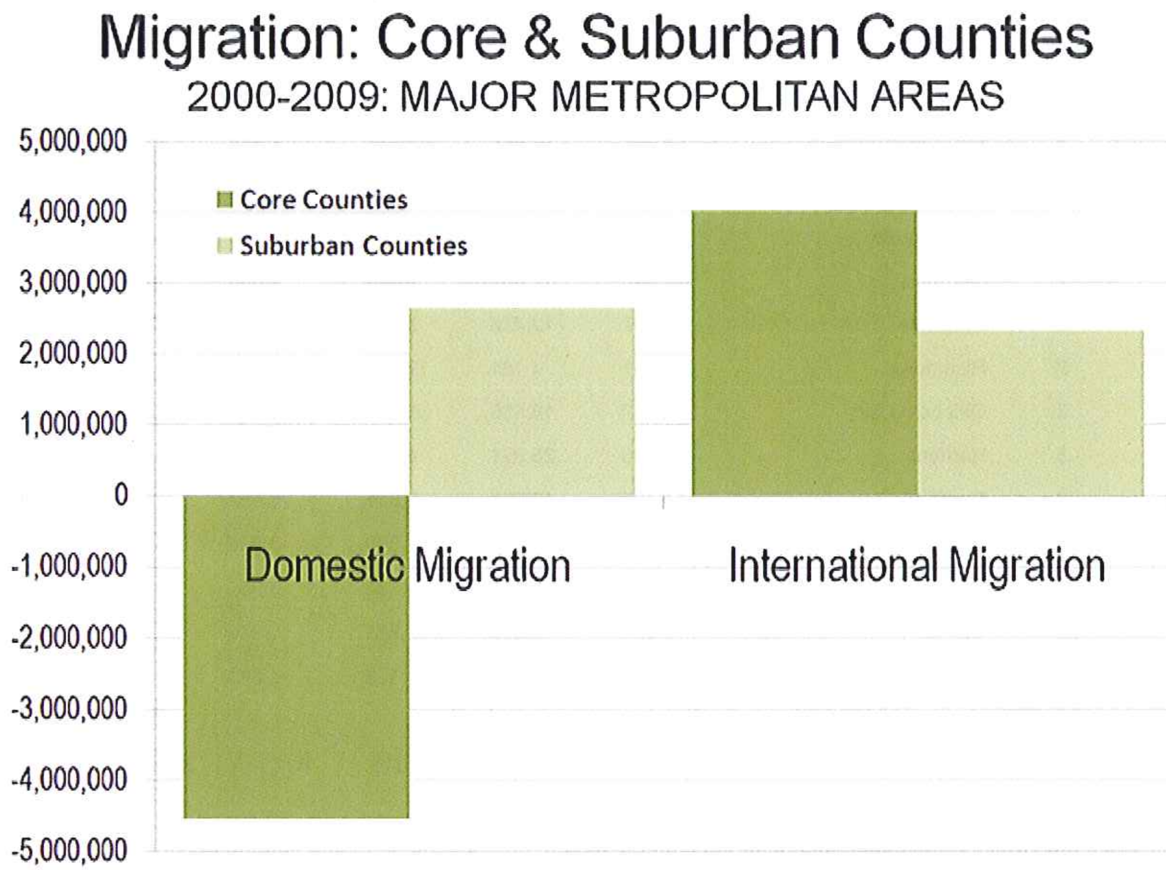
		2000-2009			2008-2009		
Core County Classification	Metropolitan Area	Metropolitan Area	Core	Suburban	Metropolitan Area	Core	Suburban
1	New York	1,075,016	622,538	452,478	100,669	57,674	42,995
3	Los Angeles	803,614	628,303	175,311	75,062	58,557	16,505
2	Chicago	363,134	265,156	97,978	33,363	24,236	9,127
4	Dallas-Fort Worth	323,941	203,732	120,209	31,571	19,785	11,786
1	Philadelphia	122,733	50,761	71,972	12,944	5,560	7,384
4	Houston	289,648	252,098	37,550	27,996	24,371	3,625
4	Miami-West Palm Beach	506,423	318,888	187,535	51,548	32,380	19,168
1	Washington	310,222	23,112	287,110	31,904	2,096	29,808
3	Atlanta	207,238	42,082	165,156	20,288	4,093	16,195
1	Boston	191,014	64,359	126,655	19,250	6,522	12,728
2	Detroit	93,625	44,177	49,448	8,723	4,132	4,591
4	Phoenix	214,067	209,326	4,741	21,833	21,364	469
2	San Francisco-Oakland	257,318	161,324	95,994	24,376	15,373	9,003
4	Riverside-San Bernardino	90,652	46,829	43,823	8,464	4,313	4,151
3	Seattle	126,973	98,983	27,990	12,919	9,971	2,948
2	Minneapolis-St. Paul	84,440	69,262	15,178	8,234	6,756	1,478
1	St. Louis	29,782	11,794	17,988	2,928	1,112	1,816
4	Tampa-St. Petersburg	74,173	42,568	31,605	8,045	4,762	3,283
1	Baltimore	43,949	10,852	33,097	4,604	1,125	3,479
2	Denver	93,916	45,338	48,578	8,738	4,251	4,487
2	Pittsburgh	19,225	16,326	2,899	1,901	1,596	305
2	Portland	70,901	28,755	42,146	6,680	2,677	4,003
2	Cincinnati	22,364	12,754	9,610	2,245	1,260	985
4	Sacramento	64,275	47,169	17,106	6,056	4,420	1,636
2	Cleveland	28,002	20,168	7,834	2,826	1,987	839
4	Orlando	95,500	61,171	34,329	11,720	7,381	4,339
4	San Antonio	31,595	28,157	3,438	3,303	2,940	363
3	Kansas City	34,339	12,613	21,726	3,404	1,262	2,142
4	San Jose	170,452	168,009	2,443	16,347	16,116	231
3	Columbus	39,755	38,261	1,494	4,063	3,915	148
4	Charlotte	48,176	34,522	13,654	4,678	3,332	1,346
3	Indianapolis	27,676	22,058	5,618	2,809	2,239	570

4	Austin	65,958	56,828	9,130	6,406	5,516	890
2	Norfolk-Virginia Beach	421	(1,546)	1,967	867	81	786
2	Providence	34,926	25,547	9,379	3,753	2,741	1,012
3	Nashville	36,570	26,208	10,362	3,850	2,760	1,090
2	Milwaukee	26,814	22,612	4,202	2,706	2,292	414
4	Jacksonville	15,066	12,046	3,020	1,760	1,397	363
4	Memphis	19,845	17,801	2,044	2,093	1,874	219
3	Louisville	16,437	12,778	3,659	1,685	1,291	394
2	Richmond	17,061	4,161	12,900	1,805	440	1,365
3	Oklahoma City	23,717	18,698	5,019	2,394	1,878	516
3	Hartford	30,266	25,871	4,395	3,230	2,784	446
3	Birmingham	14,485	10,644	3,841	1,557	1,151	406
3	Salt Lake City	41,216	39,416	1,800	3,855	3,684	171
4	Raleigh	36,923	32,141	4,782	3,560	3,103	457
2	Buffalo	9,671	8,387	1,284	940	814	126
2	Rochester	12,796	11,657	1,139	1,243	1,123	120
	Total	6,356,310	4,024,694	2,331,616	621,195	390,487	230,708

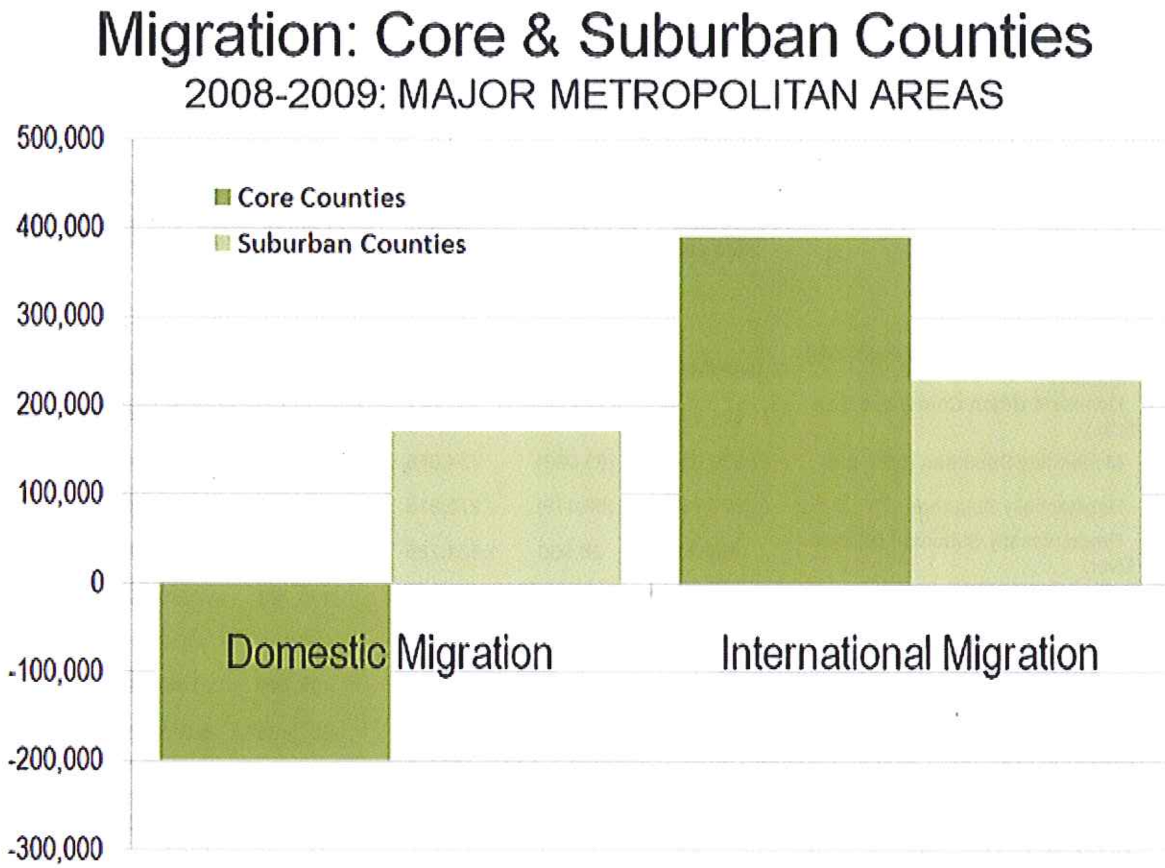
Major metropolitan areas: Population over 1,000,000 in 2009

Core county classifications: See Table 2

The core counties gained 4.0 million net international migrants between 2000 and 2009. The international migration gains in the dominant urban and moderately suburban core counties were not sufficient to compensate for the domestic migration losses (Figure 3). Surprisingly, the strongest gain in international migration from 2000 to 2009 was not in the more urban core counties, but rather was in the predominantly suburban core counties, at a 6.8% rate compared to 2000 populations.



In 2008-2009, the core county gain was 390,000, approximately 15% below the 2000-2008 annual rate (Figure 4). The suburban counties gained international migrants, though fewer than the cores, adding a net 2.3 million between 2000 and 2009. Between 2008 and 2009, the suburbs added a net 230,000 international migrants, a 12% decline from the 2000-2008 annual rate.



This of course measures only initial international migration. Over time many immigrants likely will head for the suburbs, which now are home to a majority. Core cities may be playing more of a "revolving door" role where they take in immigrants (and young people) for several years, then lose them, but replace the loss with newcomers.

The Exodus: Elusive as Ever: The much ballyhooed suburban hegira has not begun, despite it having been announced repeatedly (Table 4). There is no doubt that the cores are doing better than in recent decades, particularly since the deep recession began. But the relative better urban performance may have more to do with stagnation than anything endlessly alluring about inner city life.

Table 4

Domestic, International & Total Migration: Major Metropolitan Areas

PERSONS	**Net Domestic Migration: 2000-2009**	**Net Domestic Migration: 2008-2009**	**Net International Migration: 2000-2009**	**Net International Migration: 2008-2009**	**Net Total Migration: 2000-2009**	**Net Total Migration: 2008-2009**
Core Counties (Share of Post-1949 Housing)	(4,548,659)	(199,153)	4,024,694	390,487	(523,965)	191,334
Dominant Urban Core (Less than 50%)	(1,654,245)	(86,535)	783,416	74,089	(870,829)	(12,446)
Moderately Suburban (50%-69%	(1,969,014)	(83,099)	734,078	69,759	(1,234,936)	(13,340)
Substantially Suburban (70%-84%)	(1,377,714)	(58,419)	975,915	93,585	(401,799)	35,166
Predominantly Suburban (85% & Over)	452,314	28,900	1,531,285	153,054	1,983,599	181,954
Suburban Counties	2,645,064	176,714	2,331,616	230,708	4,976,680	407,422
48 Major Metropolitan Areas	(1,903,595)	(22,439)	6,356,310	621,195	4,452,715	598,756
Exurban Counties	198,294	(4,053)	364,498	36,740	562,792	32,687
48 Metropolitan Areas & All Exurban Counties	(1,705,301)	(26,492)	6,720,808	657,935	5,015,507	631,443
4 Excluded Metropolitan Areas	19,958	14,553	225,767	23,400	245,725	37,953
All (52) Major Metropolitan Areas & Exurban Counties	(1,685,343)	(11,939)	6,946,575	681,335	5,261,232	669,396
Smaller Metropolitan & Rural	1,685,343	11,939	1,678,369	173,570	3,363,712	185,509
United States	0	0	8,624,944	854,905	8,624,944	854,905

Major metropolitan areas: Population over 1,000,000 in 2009
Excluded metropolitan areas: San Diego, Las Vegas & Tucson (no suburban county) and New Orleans (due to Hurricane Katrina)
Exurban counties of excluded metropolitan areas are included (Las Vegas and New Orleans)

As in Europe, people are moving to the urban cores. But also, as in Europe, they are moving there from across national borders, rather than from the suburbs (Figures 3 & 4). This will surprise urbanites who cannot imagine meaningful lives in the suburbs, but will not shock the many millions more suburban residents content enough not to move. The exodus from the suburbs to the core will not have begun until more moving vans head away from the suburbs than to them. To this point, this is simply not occurring. And when the economy recovers, history suggests that the gap between suburban and core growth rates may begin expanding again.

Note: There is one core county in each metropolitan area, which is the county containing the first named city, except for in New York, where all five counties (boroughs) are included, in San Francisco-Oakland, where Alameda County (Oakland) is also included and in Minneapolis-St. Paul, where Ramsey County (St. Paul) is also included.

Note: The exurban counties are those included in combined statistical areas (as designated by the Bureau of the Census), which have major metropolitan areas as their core.

Photo: Suburban Minneapolis-St. Paul

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LURING COMPANIES TO Stay Put

Is the decision to relocate an operation from a community realistic — or just an attempt to receive benefits or incentives to remain?

By Jonathan Sangster, CBRE – Economic Incentives Group

Elected officials, economic development professionals, and corporate decision-makers have long debated the merits and value that economic incentives play in the strategic location decision process. Most agree that attracting new business provides a positive economic impact driven by new job creation, quality wages/payroll creation, and capital investment.

As a result, states and communities have designed their statutory and discretionary incentive programs to support these drivers. Historically, the success stories have outnumbered the failures...especially in economic conditions when growth is abundant, and job creation and investment is the norm, resulting in strong state and local tax revenue positions.

But what happens when economic conditions deteriorate, resulting in job losses, high unemployment, and tight capital markets? In recent years, economic challenges — including increased domestic and global competition, offshoring and near-shoring, and global recession — have forced business leaders to re-evaluate their business models to be more flexible and cost-competitive in both the near term and long term. These conditions have driven plant closures, significant corporate downsizing, layoffs, and consolidation of operations. Few communities and states have escaped the impact of these corporate withdrawals.

Focus on Costs

While there are industry sectors that have been recently experiencing growth, the vast majority of project activity in 2009 and 2010 continues to focus on cost-reduction initiatives through consolidations and right sizing of state, regional, and even national operations. The corporate location decision is expected to continue to focus on the total cost of doing business over the long term and is validated by the recent release of *Area Development*'s 24th Annual Corporate Survey results. These results indicate that seven of the top-10 site selection factors are related to business costs (labor, energy, real estate/construction, shipping) and the availability of incentives to support the financial business case (tax exemptions, state and local incentives). So what can be inferred from this?

1. The cost of doing business (labor, energy, real estate, transportation, taxes and incentives to offset start-up and operating costs) will continue to drive corporate leadership's decision process.

2. Business consolidations will continue and will result in winners and losers. Corporate decision-makers will be closely evaluating existing operations across their platform to determine if those operations can be cost-competitive and remain open. Communities and states will be competing to retain existing operations.

3. The role of flexible incentives may become more important as companies are seeking ways to offset start-up costs, new investment, and long-term operating costs. Incentive programs that have traditionally targeted new job creation and investment become ineffective or a non-factor in the retention evaluation process.

4. States and communities that recognize the value of retention incentives during these challenging times may have an advantage in the competition to retain their operations.

A Job Retained is Just as Good as a Job Gained

Existing jobs and investment currently are contributing to state and local coffers through ongoing tax-revenue generation, primarily including payroll withholding, corporate income taxes, property taxes, and sales taxes. The economic and fiscal impact cannot be ignored.

Consider a financial services company located in the Rust Belt with 1,000 existing jobs and an average salary of $62,000. Due to the recirculation of wages throughout an economy, this company has a net effect of 3,577 jobs and $159 million annual payroll. From a tax revenue perspective, the state collects $9.1 million annually from this company. The city and county collect about $10.5 million annually. If this financial services company leaves, these ongoing tax revenues are gone and upward of 3,577 jobs are likely lost. (See Exhibit 1.)

From an economic development perspective, the question becomes, "What level of incentives should be considered to hold on to the $10.5 million in annual state tax revenues?" Any community or state in this situation will need to decide if crafting a retention incentive package of $1 million, for example, is worth saving $10.5 million in recurring revenue flow to the general fund.

There are states that have recognized the value in trying to retain jobs and reward job creation at the same time.

Retention strategies require creativity and an economic way of thinking, with particular focus on "no opportunity cost" solutions. No opportunity cost simply means that a state is not giving away more money than it is reasonably generating from the economic activity. Redirecting existing, recurring revenues to "keep" quality jobs is the path to being economically smart and fulfilling the responsibility of "doing the people's business" by keeping residents employed.

Who is "Showing the Money" to Retain Quality Jobs?

The reality is, today, there are few states and communities that are proactively offering incentives to retain existing businesses or operations. Economic prosperity has driven economic incentive policies and strategies toward attraction versus retention, especially in geographic regions including the southeastern and south-central United States and the Eastern Seaboard.

However, there are regions of the United States that are demonstrating trends of higher job loss due to a variety of factors, including a high cost of living, a high cost of doing business, less-than-favorable tax environments, and work-force challenges such as declining population trends. Thus, there are states that have recognized the value in trying to retain jobs and reward job creation at the same time.

So while there are a number of states that may subtly consider the retention of jobs in their incentive programs, most focus on job creation, new payroll, and new capital investment. However, there are at least five effective state incentive programs designed to target business retention. A brief description of these follows:

Illinois EDGE

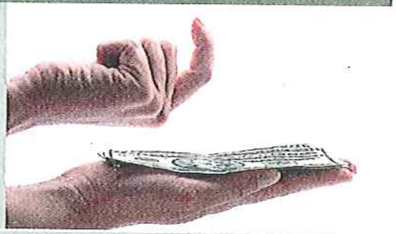
The retention incentive program in Illinois is called EDGE (Economic Development for a Growing Economy). It is a discretionary incentive program that awards corporate income tax credits equal to up to 100 percent of withholding taxes for up to 10 years. The percentage of withholding taxes and term of the incentive are dependent on the number of jobs and average wage compared to the county average wage.

Retention incentive offers are tied to basic industries. An eligible company must retain at least 25 jobs, pay an average wage equal to at least the

Exhibit 1

Existing Company Operations

Industry	Financial Services
Current Jobs	1,000
Average Salary	$62,000
Annual Payroll	$62,000,000



Ongoing Economic and Fiscal Impact

	Existing Company	Total Impact (with ripple effect)
Jobs	1,000	3,577
Annual Payroll	$62,000,000	$159,000,000
Annual Tax Revenues		
State	$3,300,000	$9,100,000
City/county	$2,900,000	$10,500,000

Source: CBRE Economic Incentives Group

county average, and invest $5 million in new capital investment into the existing facility. Companies receiving EDGE tax credits will be required to maintain operations and retain a pre-determined number of jobs for a period of time. Penalties are negotiable on a case-by-case basis.

Indiana EDGE

The retention incentive program in Indiana is also called EDGE. It rewards job creation and recognizes retention. The EDGE Program is a discretionary incentive program that awards corporate income tax credits equal to up to 100 percent of withholding taxes for up to 10 years. The percentage of withholding taxes and term of the incentive are dependent on the number of jobs and average wage compared to the county average wage.

Retention incentive offers are tied to manufacturing, business services, and R&D only. An eligible company must retain at least 35 jobs and pay an average wage equal to at least 105 percent of the county average. Companies receiving EDGE tax credits will be required to maintain operations and retain a pre-determined number of jobs for two years beyond the term of the EDGE award.

Kentucky Reinvestment Act

The retention incentive program in Kentucky is called the Kentucky Reinvestment Act (KRA). The KRA program is a discretionary incentive program that awards corporate income tax credits up to 10 years and equal to (a) not more than 50 percent of approved capital costs and (b) not more than 100 percent of training costs to upgrade the skills of existing employees. The approved tax credit benefits are dependent on the number of jobs and average wage compared to the county average wage.

Retention incentive offers are tied to manufacturing and related operations. An eligible company must retain at least 85 percent of the employment level in the previous year and incur at least $2.5 million in new capital investment. Companies receiving KRA tax credits will be required to maintain operations and retain a pre-determined number of jobs for a negotiated retention period. Clawbacks are negotiable.

Michigan MEGA Retention Tax Credit Program

The Michigan Economic Growth Authority (MEGA) program is a discretionary incentive program of corporate income tax credits equal to up to 100 percent of withholding taxes for up to 20 years. This program is dependent on the number of jobs and average wages as well as the economic impact of the company on the state and community. Offers are tied to key industry sectors including manufacturing, mining, film and digital media, and office operations. Projects must maintain 50 jobs and pay 150 percent of federal minimum wage with an investment of at least $50,000 per retained jobs. Clawbacks are negotiable.

New Jersey BRRAG

Business Retention and Relocation Assistance Grant (BRRAG) is a discretionary incentive program with corporate income tax credits equal up to $1,500 per retained job. Eligible companies must maintain 50 jobs and pay at least county average wages. Companies receiving tax credits must maintain operations and retain a pre-determined number of jobs for five years. Clawbacks include 100 percent recapture of tax credits if job retention is not met.

Ohio Job Retention Tax Credit Program

The Ohio JRTC (Job Retention Tax Credit) program is a discretionary tax credit program equal to up to 75 percent of withholding taxes for up to 10 years. The percentage is dependent on the number of jobs and average wages.

Retention is tied to jobs in key clusters and projects must retain at least 500 jobs with an investment of $50 million for manufacturing facilities and $20 million for headquarters/administration operations. Clawbacks are negotiable.

Show Me the Money...Maybe

The 2007–2009 recession has revealed structural problems with state and regional economies and, thus, tax revenue stability. Strategically maintaining existing industries and attracting high-quality prospects should be given equal attention. Economic conditions of a state or community are not static and require re-evaluation of economic development strategy including incentive programs.

Incentives and economic development policy should provide long-term benefits to a community and state's residents through new job creation and retention, enhancement of the overall tax base, expansion and diversification of the state's economic base, and increase in tax revenue to the state. Incentives and economic development policy should increase the economic competitiveness of a state in attracting and retaining industries and jobs relative to other states that have historically defined and carried out business assistance more aggressively.

Each state and community approaches the retention incentive discussion and decision based upon their circumstances and economic environment. In doing so, the following best practices should be considered and recognized by companies considering those locations:

- Retention incentives should be connected with specific industries and projects that align with the state and community's economic development policies.
- Incentives should be performance-based with penalties/clawbacks negotiated to protect the stakeholders and taxpayers.
- Retention incentives should be discretionary — funded by programs like withholding taxes, with governing agencies having flexibility to reward amounts based upon the strength of the project and its economic impact on the state and community
- If tax credits are utilized, programs that can be monetized or converted to cash should be created.

The decision to withdraw an operation from a community and state is not an easy one for companies. Creating a business case and solution to retain the jobs and investment should be a collaborative effort between the company and the economic development community.

INVESTORS BUSINESS DAILY

The Tax Tsunami On The Horizon

Posted 07/21/2010 06:41 PM ET

Fiscal Policy: Many voters are looking forward to 2011, hoping a new Congress will put the country back on the right track. But unless something's done soon, the new year will also come with a raft of tax hikes — including a return of the death tax — that will be real killers.

Through the end of this year, the federal estate tax rate is zero — thanks to the package of broad-based tax cuts that President Bush pushed through to get the economy going earlier in the decade.

But as of midnight Dec. 31, the death tax returns — at a rate of 55% on estates of $1 million or more. The effect this will have on hospital life-support systems is already a matter of conjecture.

Resurrection of the death tax, however, isn't the only tax problem that will be ushered in Jan. 1. Many other cuts from the Bush administration are set to disappear and a new set of taxes will materialize. And it's not just the rich who will pay.

The lowest bracket for the personal income tax, for instance, moves up 50% — to 15% from 10%. The next lowest bracket — 25% — will rise to 28%, and the old 28% bracket will be 31%. At the higher end, the 33% bracket is pushed to 36% and the 35% bracket becomes 39.6%.

But the damage doesn't stop there.

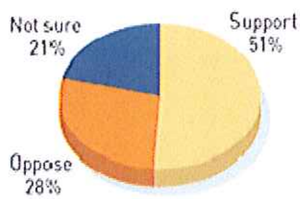
The marriage penalty also makes a comeback, and the capital gains tax will jump 33% — to 20% from 15%. The tax on dividends will go all the way from 15% to 39.6% — a 164% increase.

Both the cap-gains and dividend taxes will go up further in 2013 as the health care reform adds a 3.8% Medicare levy for individuals making more than $200,000 a year and joint filers making more than $250,000. Other tax hikes include: halving the child tax credit to $500 from $1,000 and fixing the standard deduction for couples at the same level as it is for single filers.

Letting the Bush cuts expire will cost taxpayers $115 billion next year alone, according to the Congressional Budget Office, and $2.6 trillion through 2020.

Q Do you support or oppose making Bush tax cuts permanent?

Overall



By party	Support	Oppose	Not sure
Democrats	38%	40%	22%
Republicans	65%	15%	20%
Independents	54%	26%	20%
By income			
Under $30k	45%	25%	30%
$30k-$50k	51%	29%	20%
$50k-$75k	51%	30%	20%
$75k +	59%	30%	12%

Source: IBD/TIPP poll, 852 adults, July 6-11

But even more tax headaches lie ahead. This "second wave" of hikes, as Americans for Tax Reform puts it, are designed to pay for ObamaCare and include:

The Medicine Cabinet Tax. Americans, says ATR, "will no longer be able to use health savings account, flexible spending account, or health reimbursement pretax dollars to purchase nonprescription, over-the-counter medicines (except insulin)."

The HSA Withdrawal Tax Hike. "This provision of ObamaCare," according to ATR, "increases the additional tax on nonmedical early withdrawals from an HSA from 10% to 20%, disadvantaging them relative to IRAs and other tax-advantaged accounts, which remain at 10%."

Brand Name Drug Tax. Makers and importers of brand-name drugs will be liable for a tax of $2.5 billion in 2011. The tax goes to $3 billion a year from 2012 to 2016, then $3.5 billion in 2017 and $4.2 billion in 2018. Beginning in 2019 it falls to $2.8 billion and stays there. And who pays the new drug tax? Patients, in the form of higher prices.

Economic Substance Doctrine. ATR reports that "The IRS is now empowered to disallow perfectly legal tax deductions and maneuvers merely because it judges that the deduction or action lacks 'economic substance.'"

A third and final (for now) wave, says ATR, consists of the alternative minimum tax's widening net, tax hikes on employers and the loss of deductions for tuition:

• The Tax Policy Center, no right-wing group, says that the failure to index the AMT will subject 28.5 million families to the tax when they file next year, up from 4 million this year.

• "Small businesses can normally expense (rather than slowly deduct, or 'depreciate') equipment purchases up to $250,000," says ATR. "This will be cut all the way down to $25,000. Larger businesses can expense half of their purchases of equipment. In January of 2011, all of it will have to be 'depreciated.'"

• According to ATR, there are "literally scores of tax hikes on business that will take place," plus the loss of some tax credits. The research and experimentation tax credit will be the biggest loss, "but there are many, many others. Combining high marginal tax rates with the loss of this tax relief will cost jobs."

• The deduction for tuition and fees will no longer be available and there will be limits placed on education tax credits. Teachers won't be able to deduct their classroom expenses and employer-provided educational aid will be restricted. Thousands of families will no longer be allowed to deduct student loan interest.

Then there's the tax on Americans who decline to buy health care insurance (the tax the administration initially said wasn't a tax but now argues in court that it is) plus a 3.8% Medicare tax beginning in 2013 on profits made in real estate transactions by wealthier Americans.

Not all Americans may fully realize what's in store come Jan. 1. But they should have a pretty good idea by the mid-term elections, and members of Congress might take note of our latest IBD/TIPP Poll (summarized above).

Fifty-one percent of respondents favored making the Bush cuts permanent vs. 28% who didn't. Republicans were more than 4 to 1 and Independents more than 2 to 1 in favor. Only Democrats were opposed, but only by 40%-38%.

The cuts also proved popular among all income groups — despite the Democrats' oft-heard assertion that Bush merely provided "tax breaks for the wealthy." Fact is, Bush cut taxes for everyone who paid them, and the cuts helped the nation recover from a recession and the worst stock-market crash since 1929.

Madison's office market struggles amid plenty of empty space

By JUDY NEWMAN | jdnewman@madison.com | 608-252-6156 | Posted: Saturday, July 24, 2010 4:15 pm

Madison's office market is struggling to recover from what landlords and brokers call the worst spell of vacancies in decades. And at least one expert said it will be 2011 before the market starts to come back. Others said things are starting to improve, if only slightly.

"Do I like what I see? No. I think it might get a bit worse before it gets better," said George Gialamas, president and chief executive officer of The Gialamas Co.

Construction of non-owner-occupied office buildings is at a virtual halt. Sales of office buildings are few and far between. All over the area, office pods sit dark and bare.

Although it is a grim time for commercial property owners, Madison is not alone. In fact, the vacancy rates are higher in many other cities, including Milwaukee.

The deals have been attractive for renters, especially in late 2009. "One landlord was offering one year's free rent on a five-year lease," said Chase Brieman, commercial real estate broker with CB Richard Ellis, Madison. Offers now are not quite so generous, but there are still bargains to be had, he said.

Gialamas said while his firm's buildings at Old Sauk Trails Park are more than 90 percent filled, he has never seen so many empty offices in the area. It is, by far, the worst vacancy situation the Madison area has experienced, he said.

"I still see corporations that we deal with cutting back on the number of employees," said Gialamas, who controls about 1 million square feet of office space. "It's not fun out there, but we'll survive it."

Some buildings lost their prime tenants due to corporate downsizing in 2009 as a result of the recession.

• The former GE Healthcare Lunar moved production to Milwaukee and consolidated other functions at GE Healthcare's building on Ohmeda Drive, abandoning its 160,000-square-foot building at 726 Heartland Trail, in the Old Sauk Trails business park.

• EMD Chemicals closed its Madison operation, formerly Novagen, emptying a 35,000-square-foot building at 441 Charmany Drive in the University Research Park. Two biotechnology companies, Exact Sciences and Aldevron, have since moved into about half the space.

Vacancies soared in 2009

Xceligent, a commercial real estate research firm based in Independence, Mo., pegs the office vacancy rate in the Madison area at 15.8 percent as of June 30, down slightly from 16.1 percent on March 31.

Grubb & Ellis-Oakbrook, a Madison firm that also assesses the office marketplace, thinks those figures are a bit low.

In its annual survey, Oakbrook said office vacancies soared to 17.3 percent by the end of 2009 — the highest since the firm began tracking the data 13 years ago, said senior real estate associate Christian Caulum. It is two percentage points above the rate at the peak of the 2001 recession.

"It has not changed too dramatically (since December). We've had a lot of tenants who have shifted places in the market. Some have grown, some have shrunk. The net result is not much change," said Caulum, who estimated the current vacancy rate at above 16 percent.

While that is high for Madison, it is lower than many other cities. For example, Milwaukee, Chicago and Austin, Texas, all had office vacancy rates of more than 20 percent in December 2009; Detroit's rate neared 25 percent, according to the Oakbrook survey.

Area landlord hit hard

Terrence Wall, whose T. Wall Properties is the largest local office landlord with about 2.5 million square feet, said only 6 percent of his firm's holdings were empty in 2008 but that climbed to 16 percent or more last year when a number of tenants fell victim to the lousy economy.

"We lost about 15 small companies that closed their doors — 2009 was a rough year. That was our bottoming-out year," Wall said. As a result, he cut his own company's expenses by $1.5 million, eliminating the jobs of 15 of his 50 employees and giving up perks such as sporting event tickets and magazine subscriptions.

Other moves are going on as well, significantly affecting the local office market.

Epic Systems has been moving out of large chunks of office space the company rented. Epic is consolidating operations in Verona, where its four-building Campus 2 is nearly complete.

In December, Epic vacated the 107,000-square-foot former TDS building at 301 S. Westfield Road. Quincy Bioscience recently took over about one-fourth of the space, but the rest remains empty. In June, Epic departed offices in Fitchburg at 2908 Marketplace Drive.

Also, some companies are deciding they no longer need to be Downtown, said Bradley Mullins, vice president of Mullins Group. Two law firms downsized and moved out of Mullins' building at 22 E. Mifflin St. in recent years. One moved to the West Side.

Filling the space has been "very, very slow. There was a time when certain businesses wanted to be Downtown," Mullins said, but now there are not so many.

'Can't go much lower'

Some commercial landlords are seeing a bit of improvement in 2010.

T. Wall completed new leases with 27 companies for a total of 145,000 square feet of offices, mainly in February and March, Wall said. Some of it is "musical chairs" as companies move into smaller spaces and take advantage of lower-priced rents, he said.

Wall said he is offering a couple of months of free rent as an incentive to some potential tenants. Other tenants are bargaining for larger allowances to remodel their space.

Brieman, of CB Richard Ellis, said his phone is ringing a bit more than it was six months ago, lured by the bargains. "We're seeing a lot of tenants right now who have been on the sidelines," Brieman said.

Gialamas said while some companies are growing a bit, the overall market is still declining. "We'll see a good year, next year, I think," he said.

Caulum said one factor in Madison's favor is that developers here have not been putting up buildings without substantial anchor tenants, for the most part, in recent years.

Brieman said he thinks the market will start tilting up a bit during the second half of the year. "My thought is, we really can't go much lower," he said. "There's a lot of empty space but I wouldn't call it dismal. We're better off than a lot of other markets with (speculative) buildings that never got filled."