Madison
ECONOMIC DEVELOPMENT

Economic Dashboard Report

As of: September 25, 2009

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Madison ECONOMIC DEVELOPMENT

U.S. current = **9.6%**

WI current = **8.4%**

8 county region, THRIVE = July **7.9%**

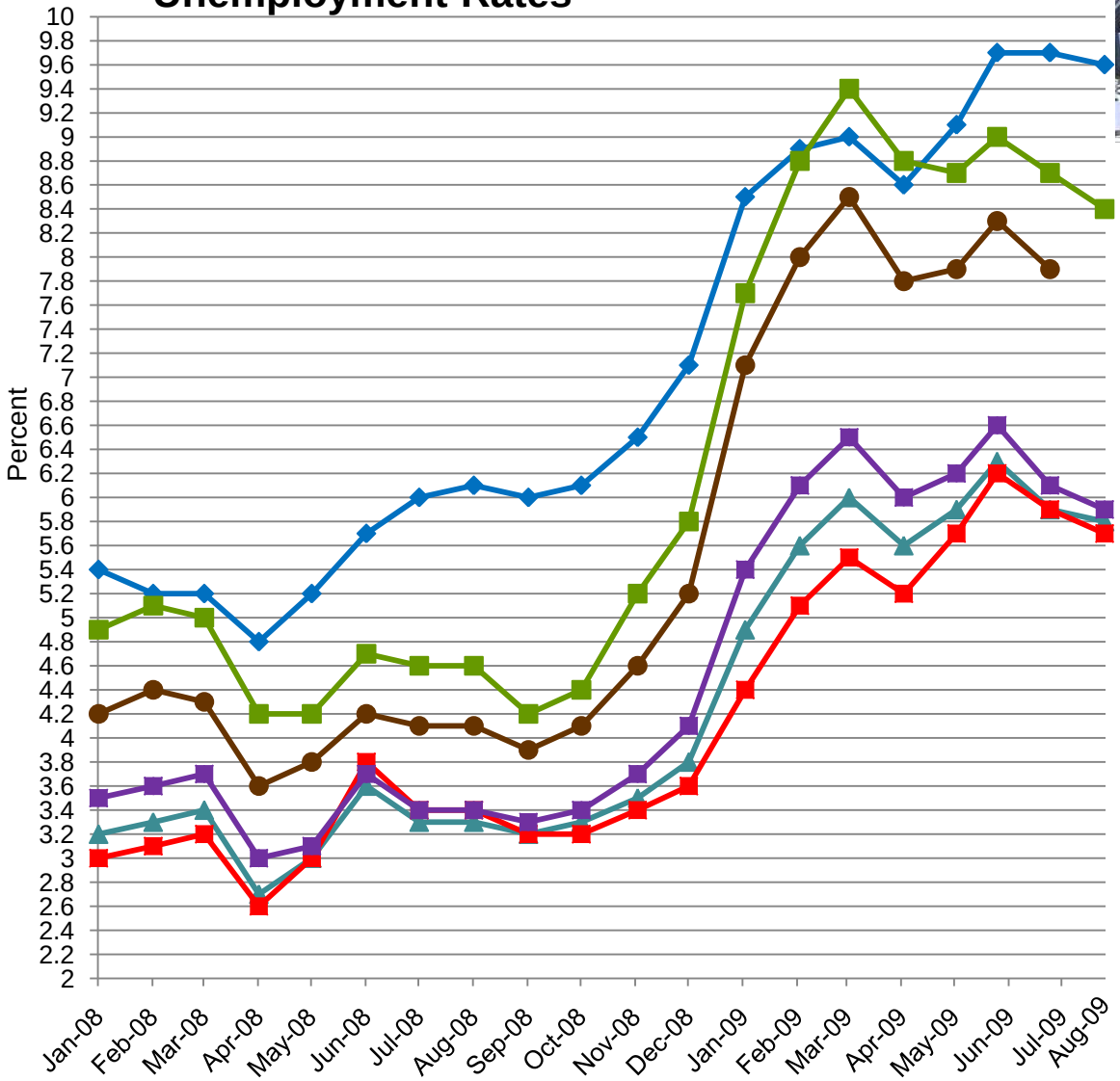
MSA current = **5.9%**

DANE current = **5.8%**

Madison ECONOMIC DEVELOPMENT

August 2009 UNEMPLOYMENT

Unemployment Rates

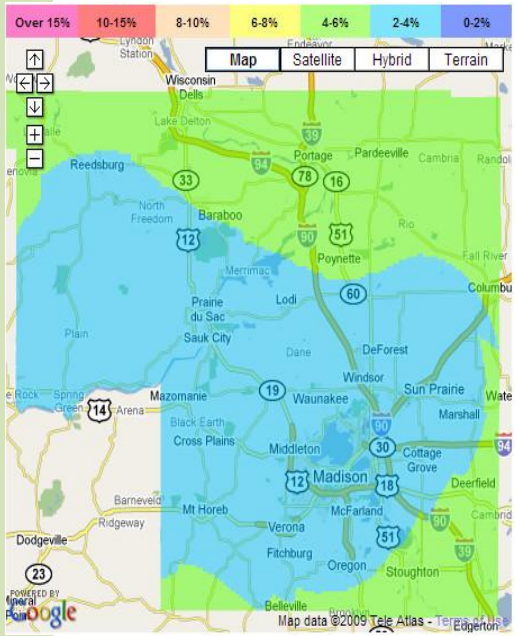


Source: Wis. Dept of Workforce Development, THRIVE

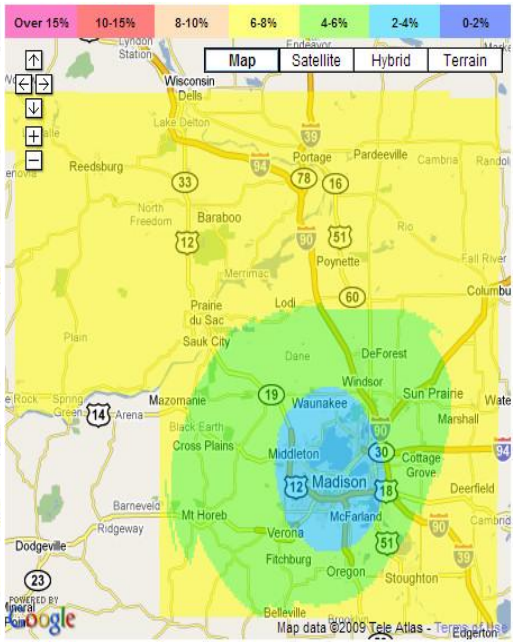
CITY OF MADISON current 5.7%

Madison MSA Unemployment Heat Maps

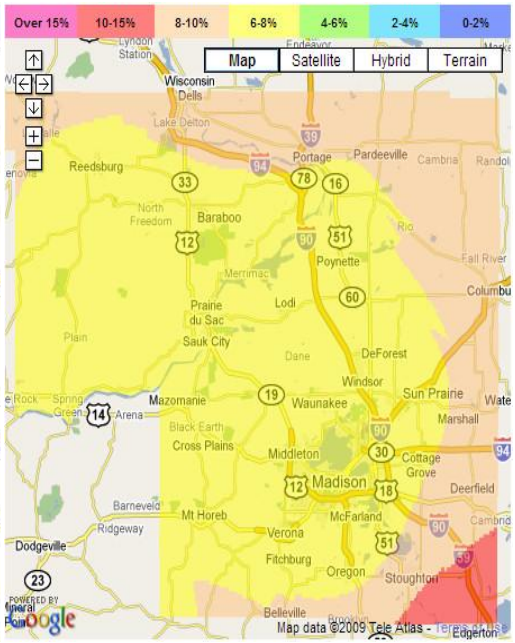
No Change from 8/28/09



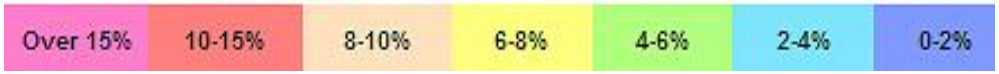
JUNE 2008



JANUARY 2009



JUNE 2009

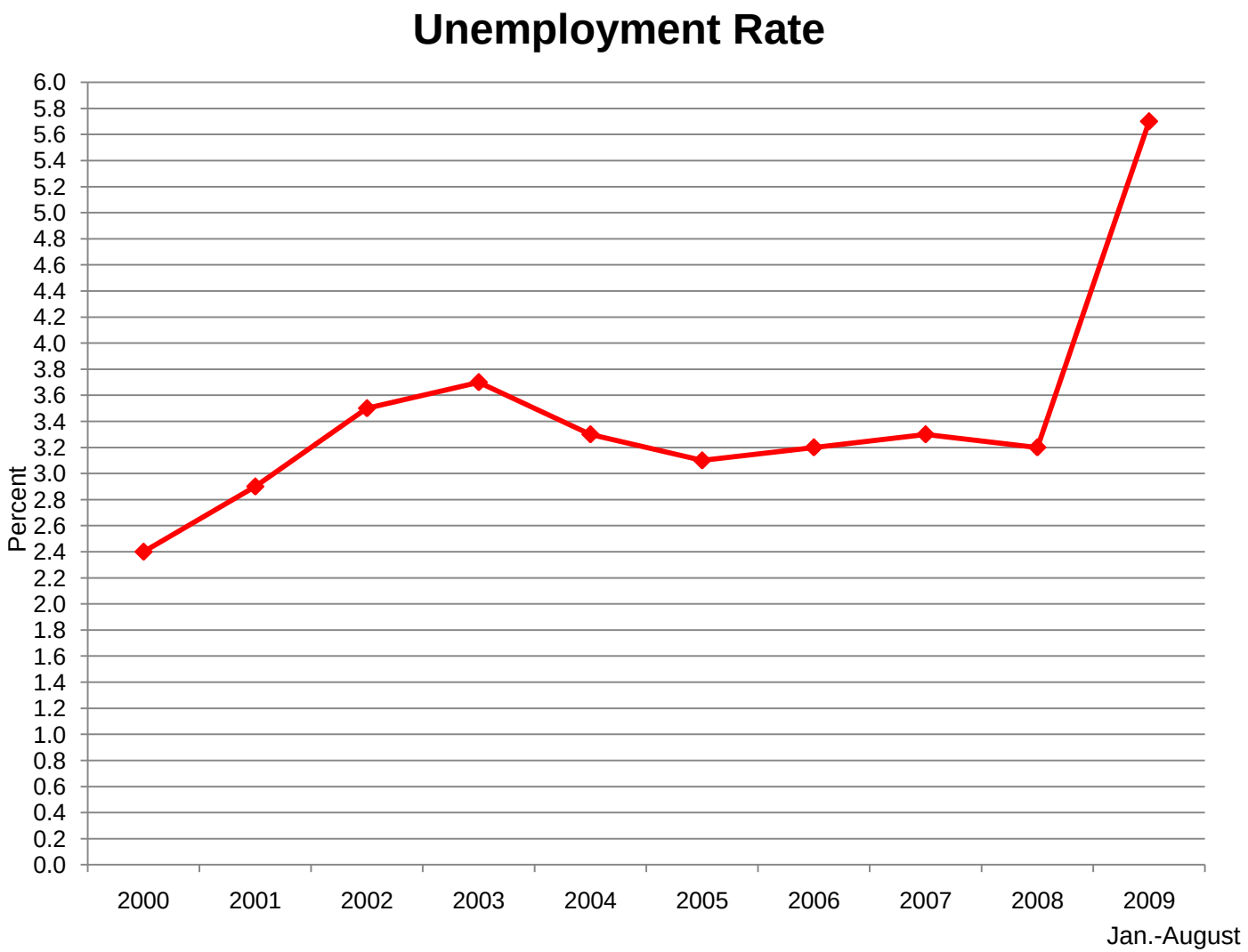


Source: US Bureau of Labor Statistics

http://www.localetrends.com/metro/madison_wisconsin_home.php?MAP_TYPE=curr_ue

Madison ECONOMIC DEVELOPMENT

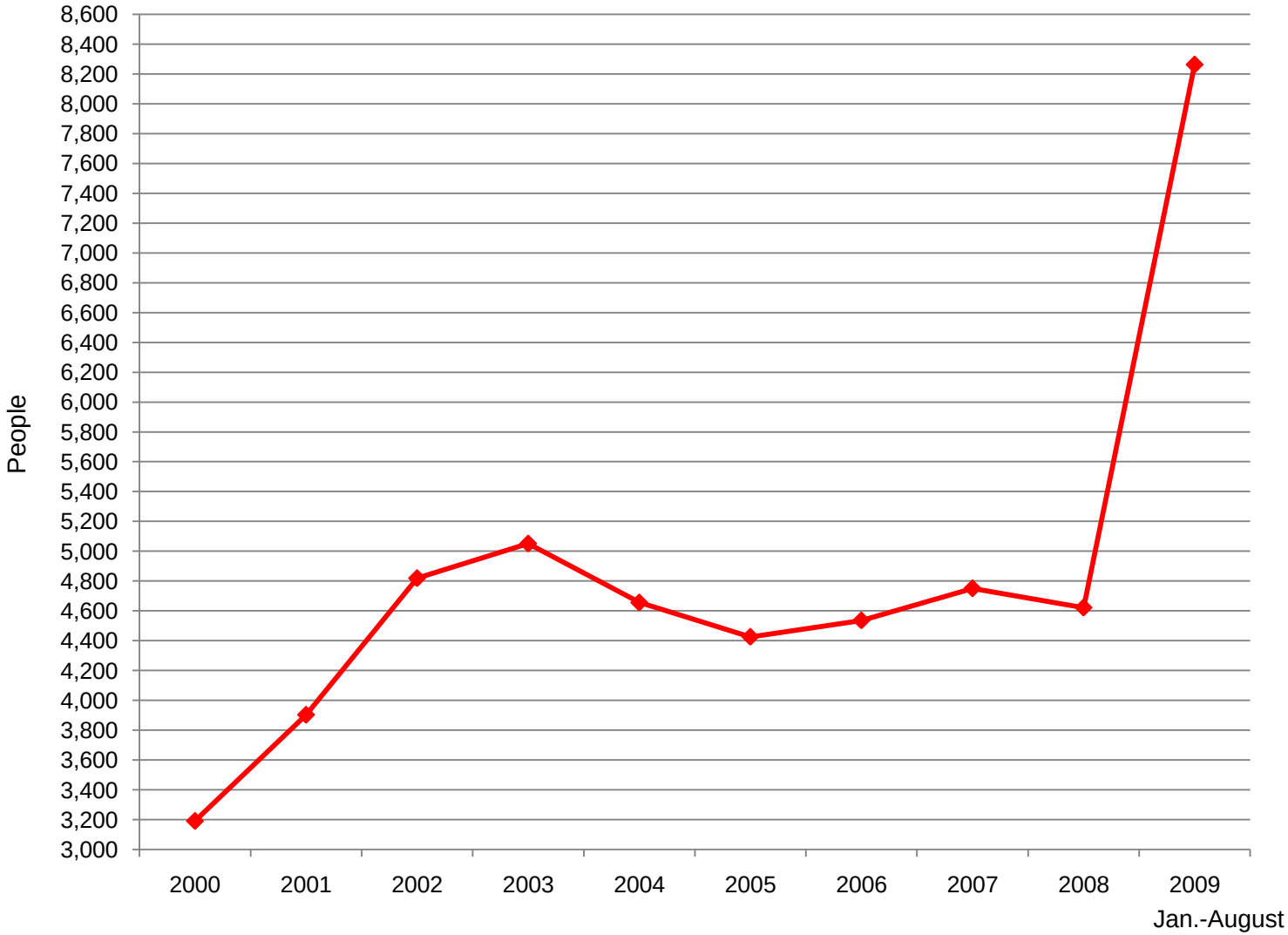
City of Madison Unemployment Rate (U-3)



Source: Wisconsin Dept of Workforce Development

Madison ECONOMIC DEVELOPMENT

City of Madison Unemployed (U-3)



Source: Wisconsin Dept of Workforce Development

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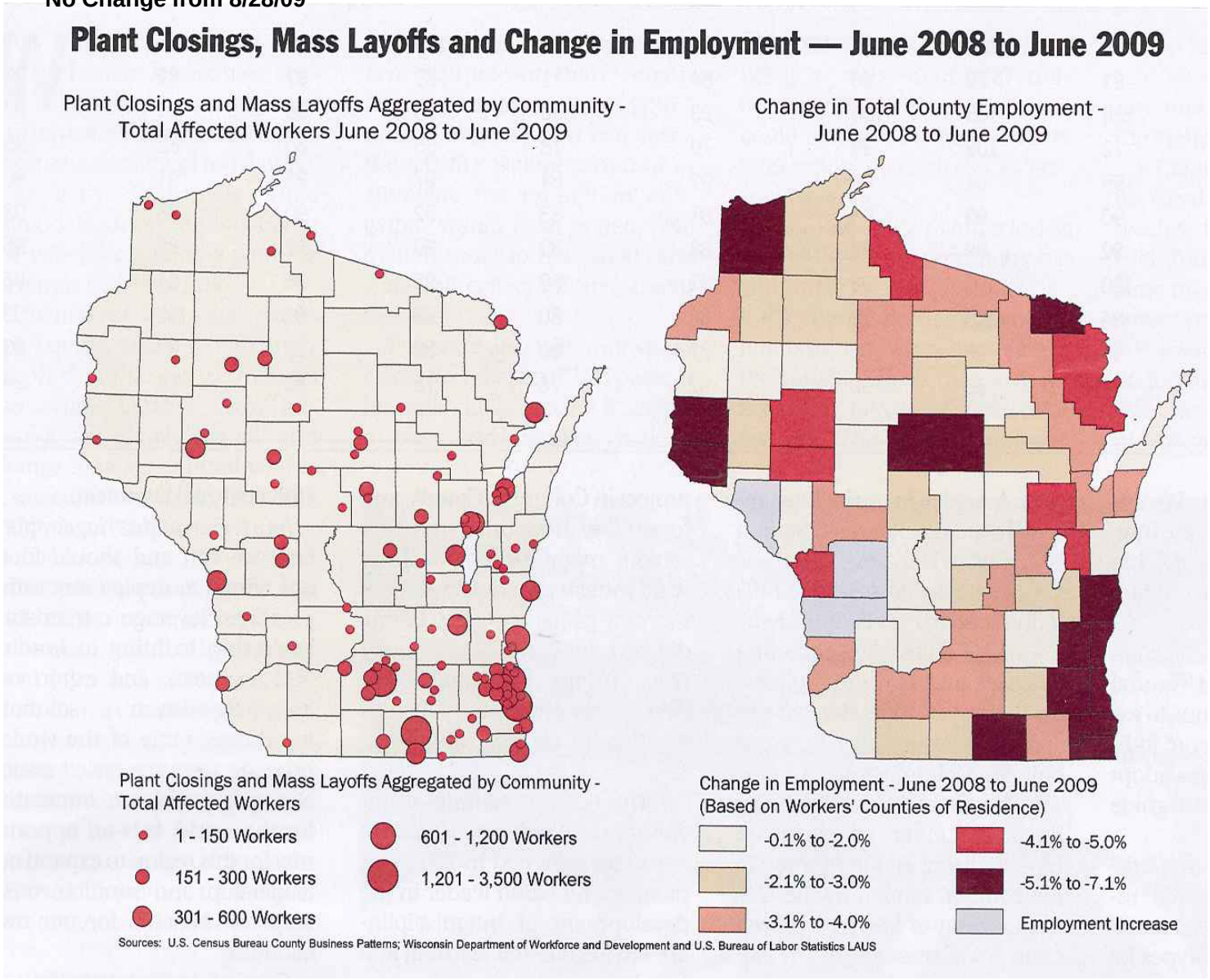
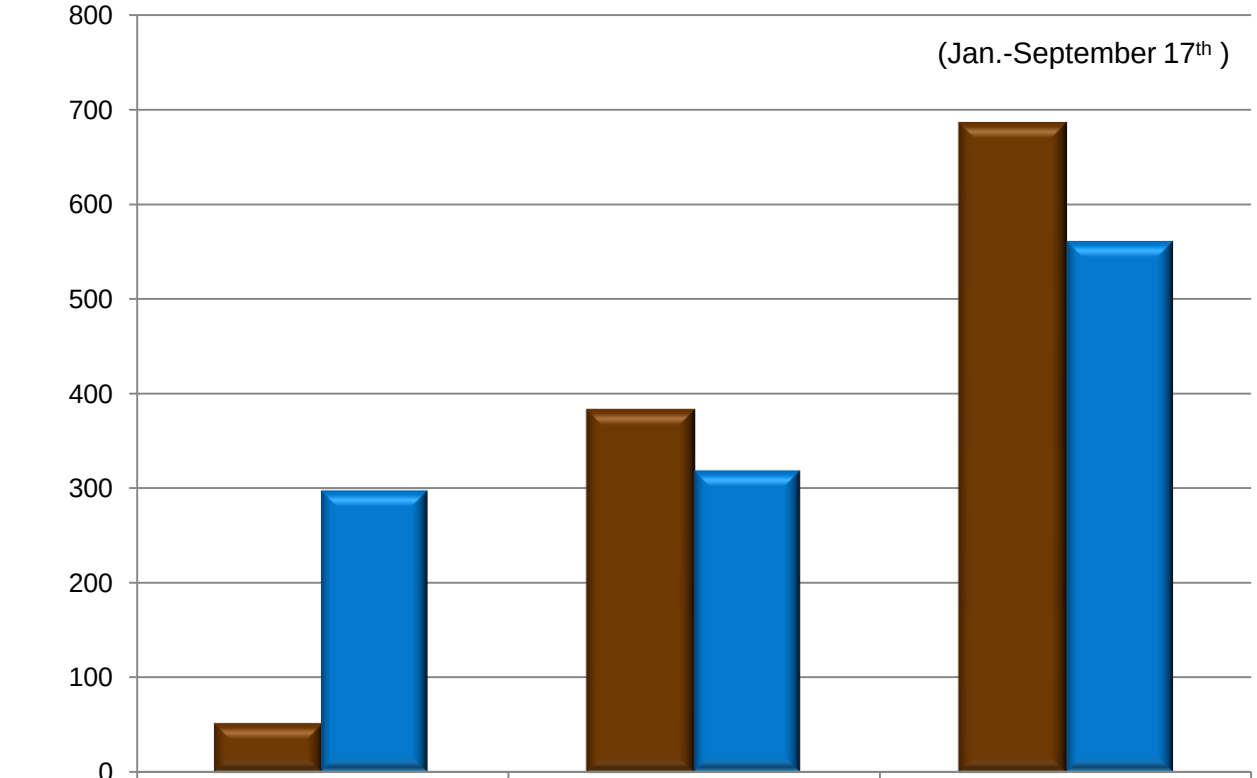
No Change from 8/28/09



Source: Capital Region Business Journal, September 2009

Madison ECONOMIC DEVELOPMENT

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

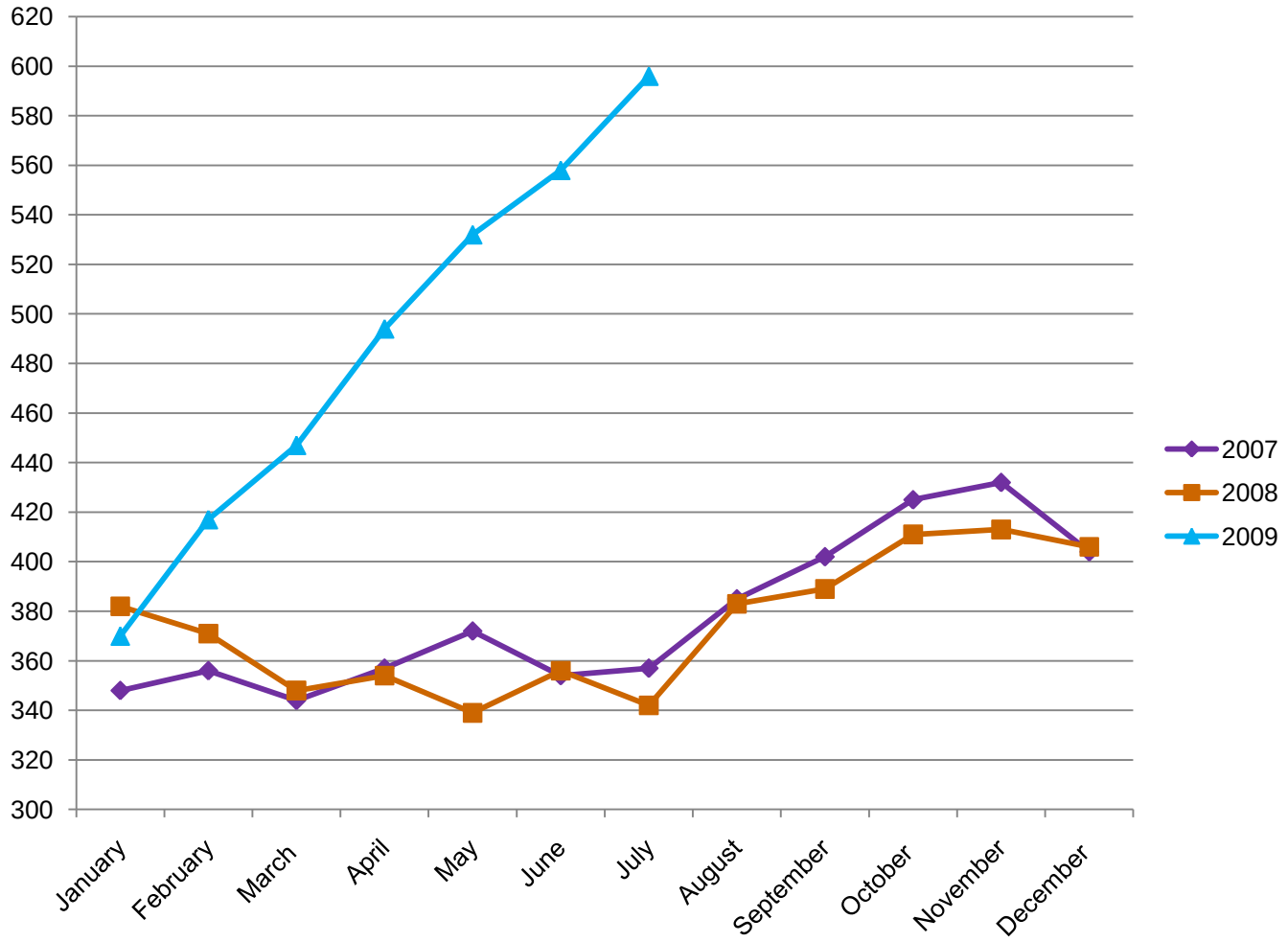


	2007	2008	2009
Closing	50	382	685
Layoff	297	318	560

Source: Wisconsin Dept of Workforce Development

Madison ECONOMIC DEVELOPMENT

Dane County W2 Caseload



Source: State of Wisconsin

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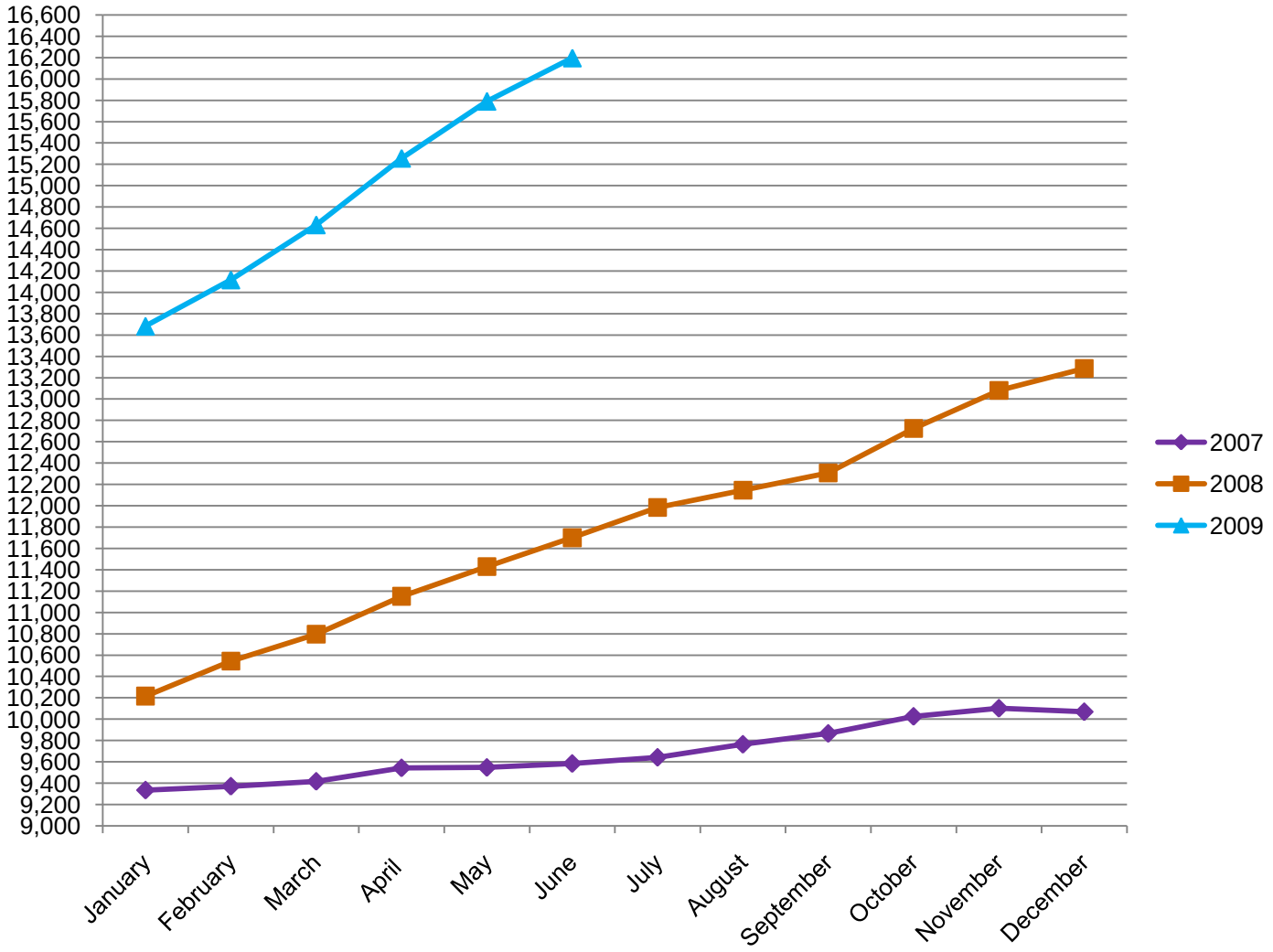
Dane County Food Stamps (Food Share)

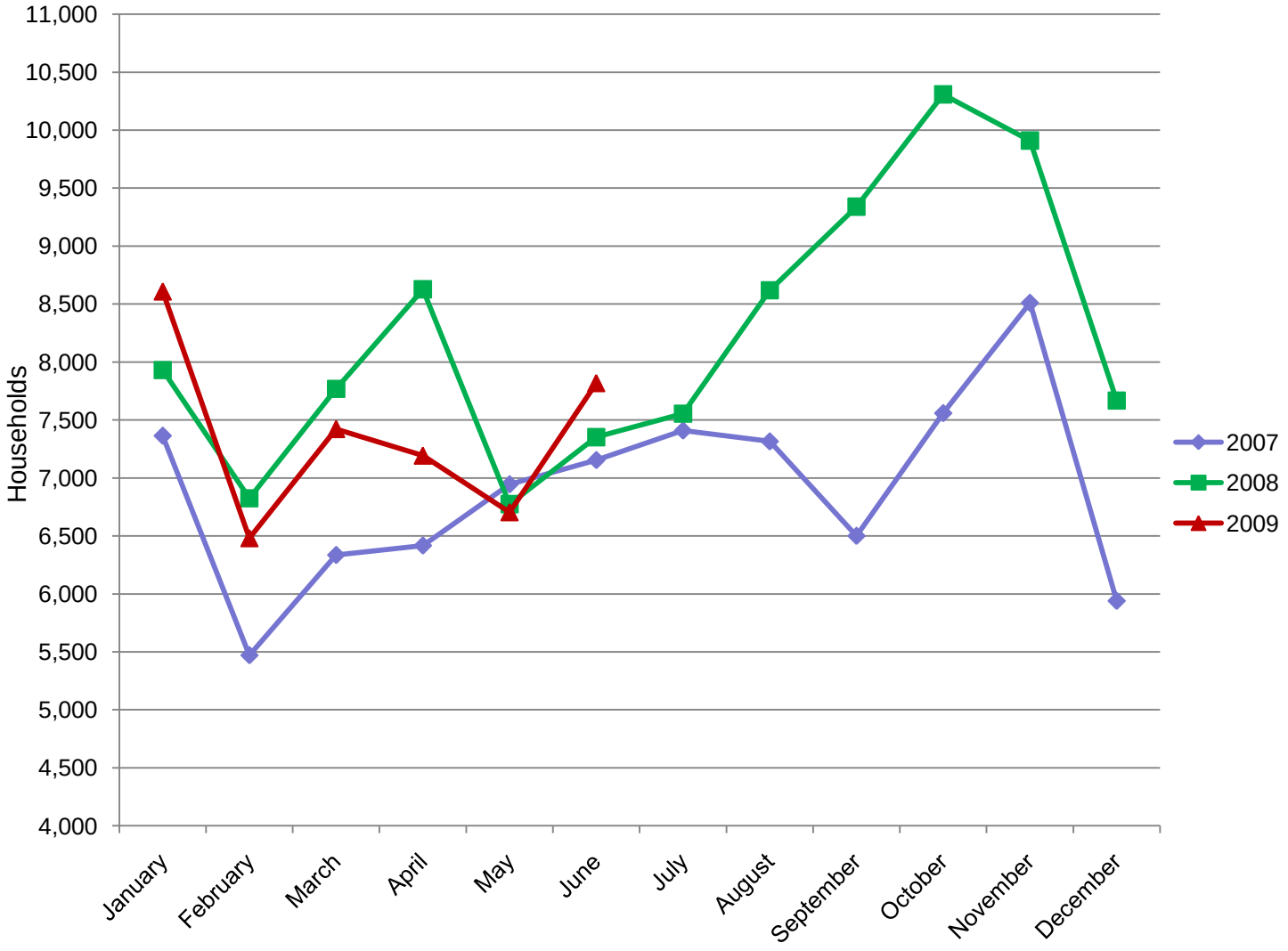
Unduplicated Recipients



Source: State of Wisconsin

Madison ECONOMIC DEVELOPMENT

Household Visits to Food Pantries in Dane County



Source: City of Madison Community Development Division

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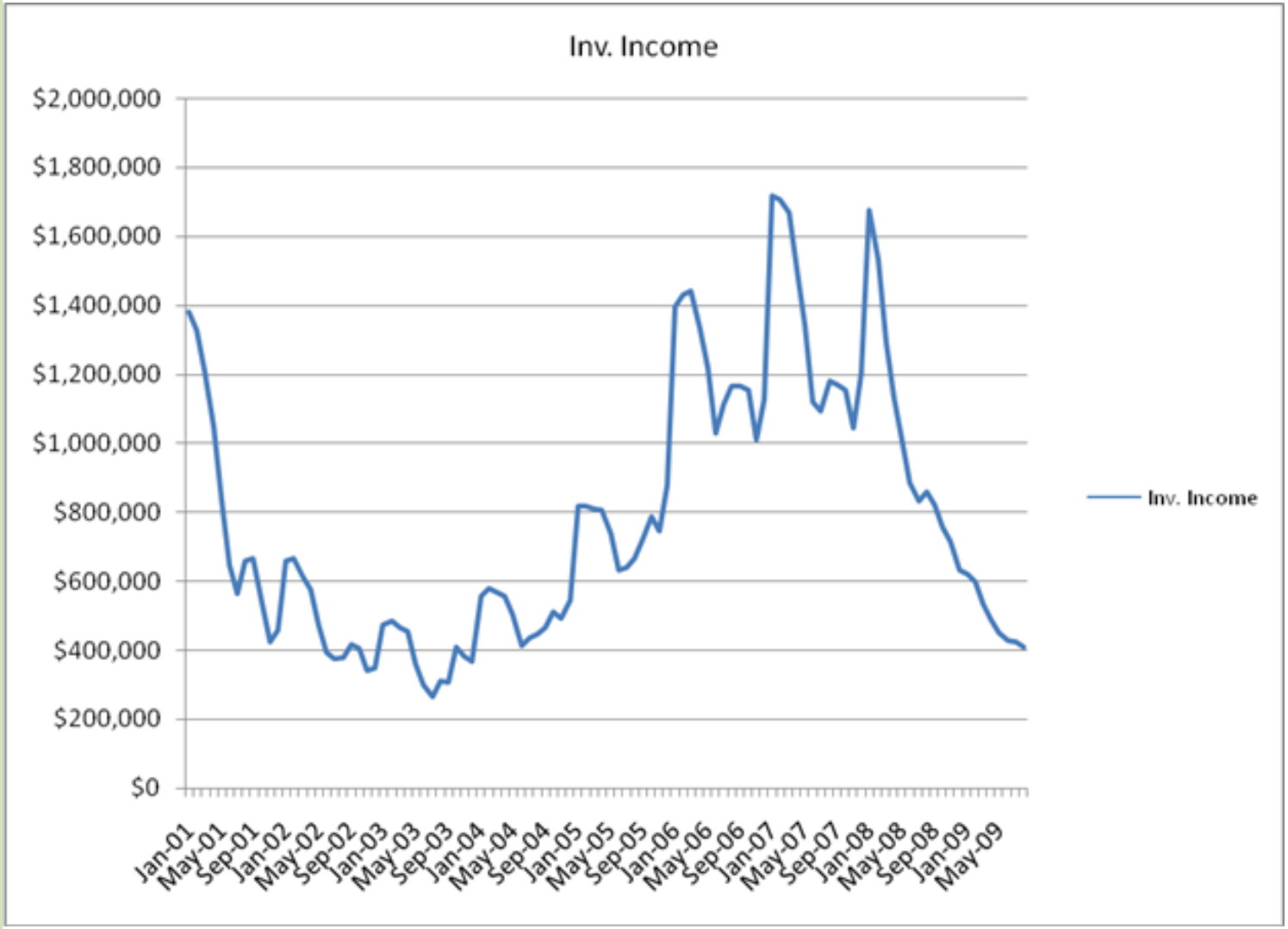
City Investment Income Through August 2009

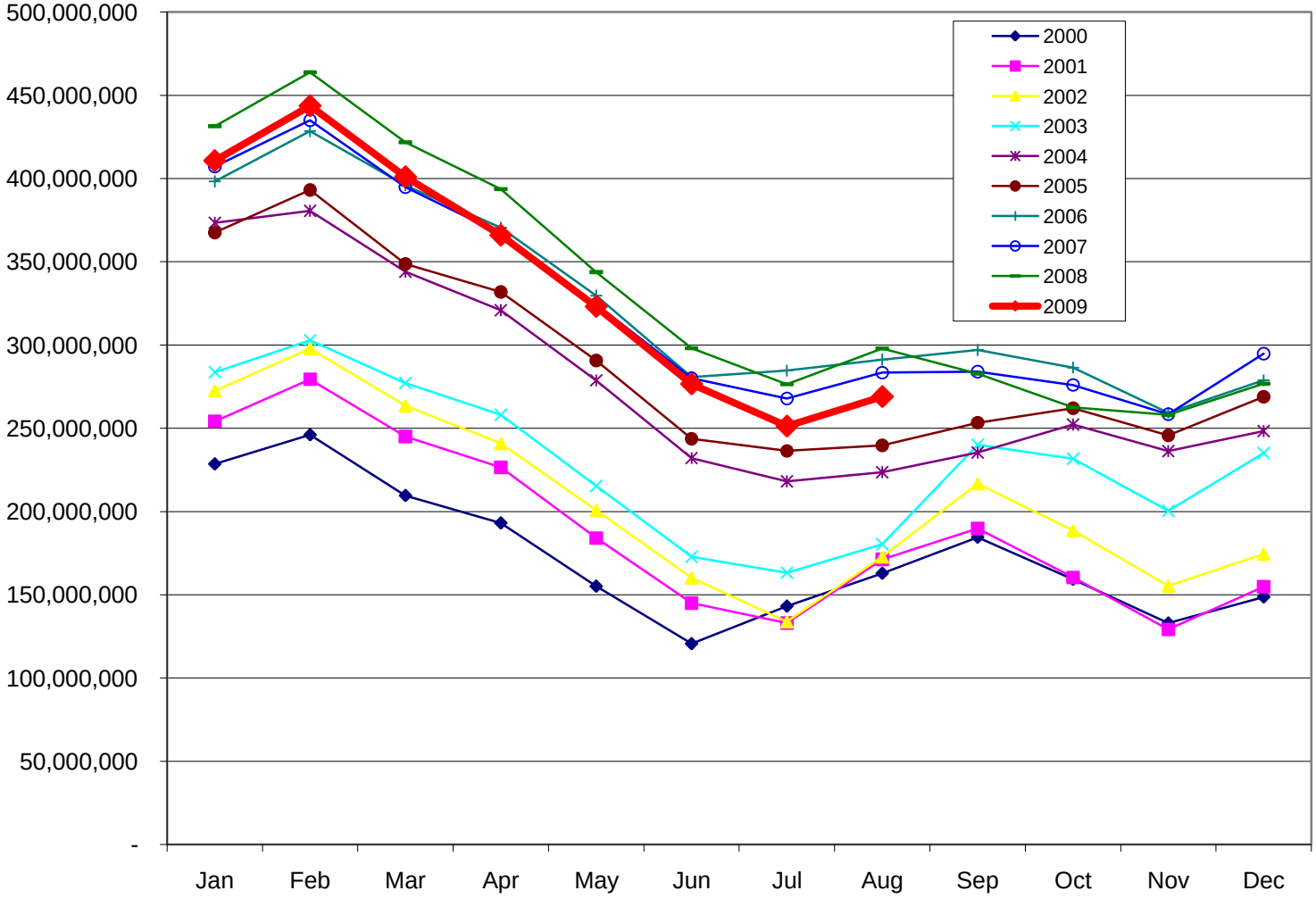


Source: City of Madison Treasurer's Office

Madison ECONOMIC DEVELOPMENT

City of Madison Average Daily Investment Balance

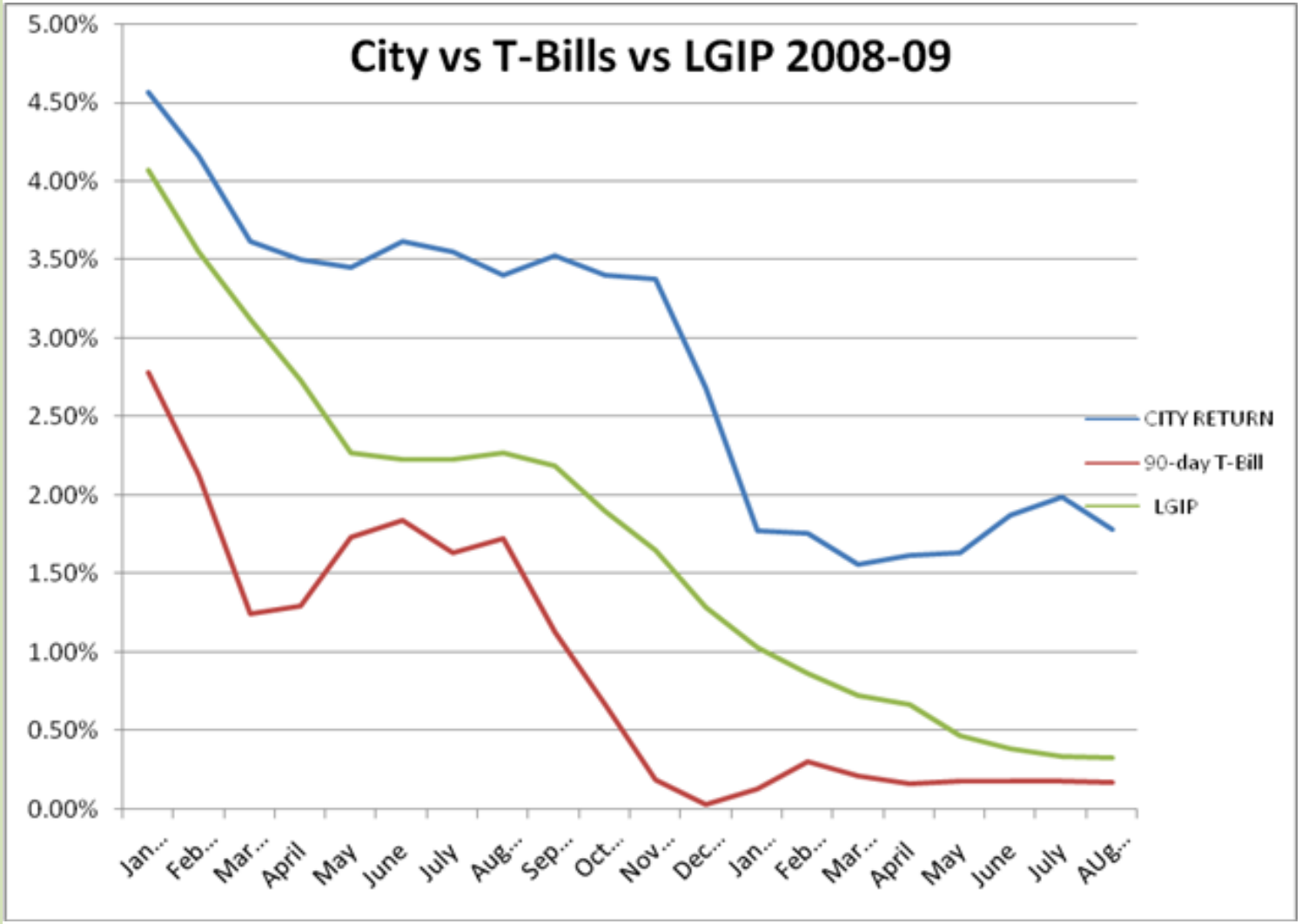
Average Daily investment Balance by Month as Reported by City Treasurer



Source: City of Madison Comptroller's Office

Madison ECONOMIC DEVELOPMENT

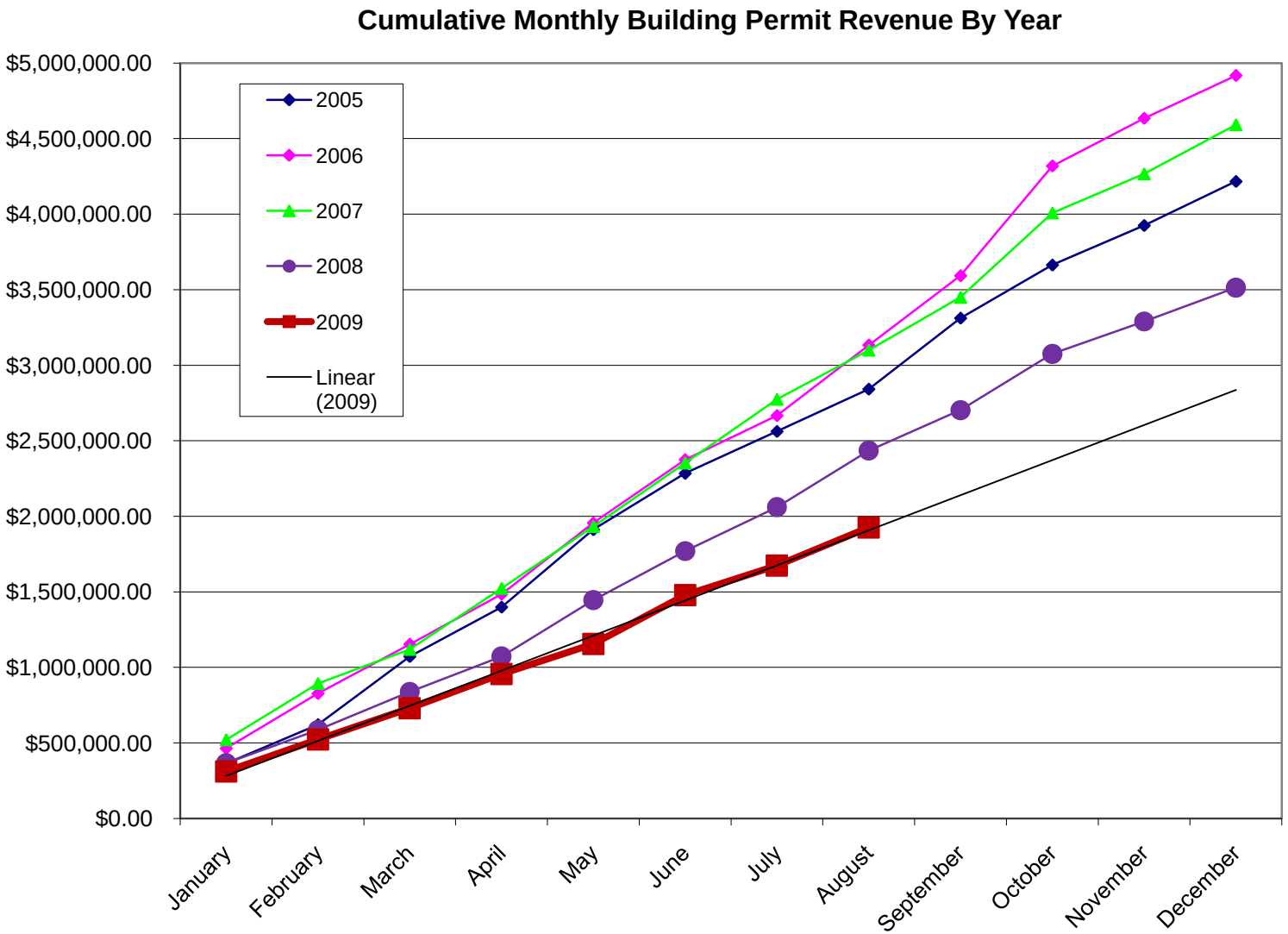
City Combined Portfolio Investment Returns
2008-Present



Source: City of Madison Treasurer's Office

Madison ECONOMIC DEVELOPMENT

City of Madison Total Permit Fees

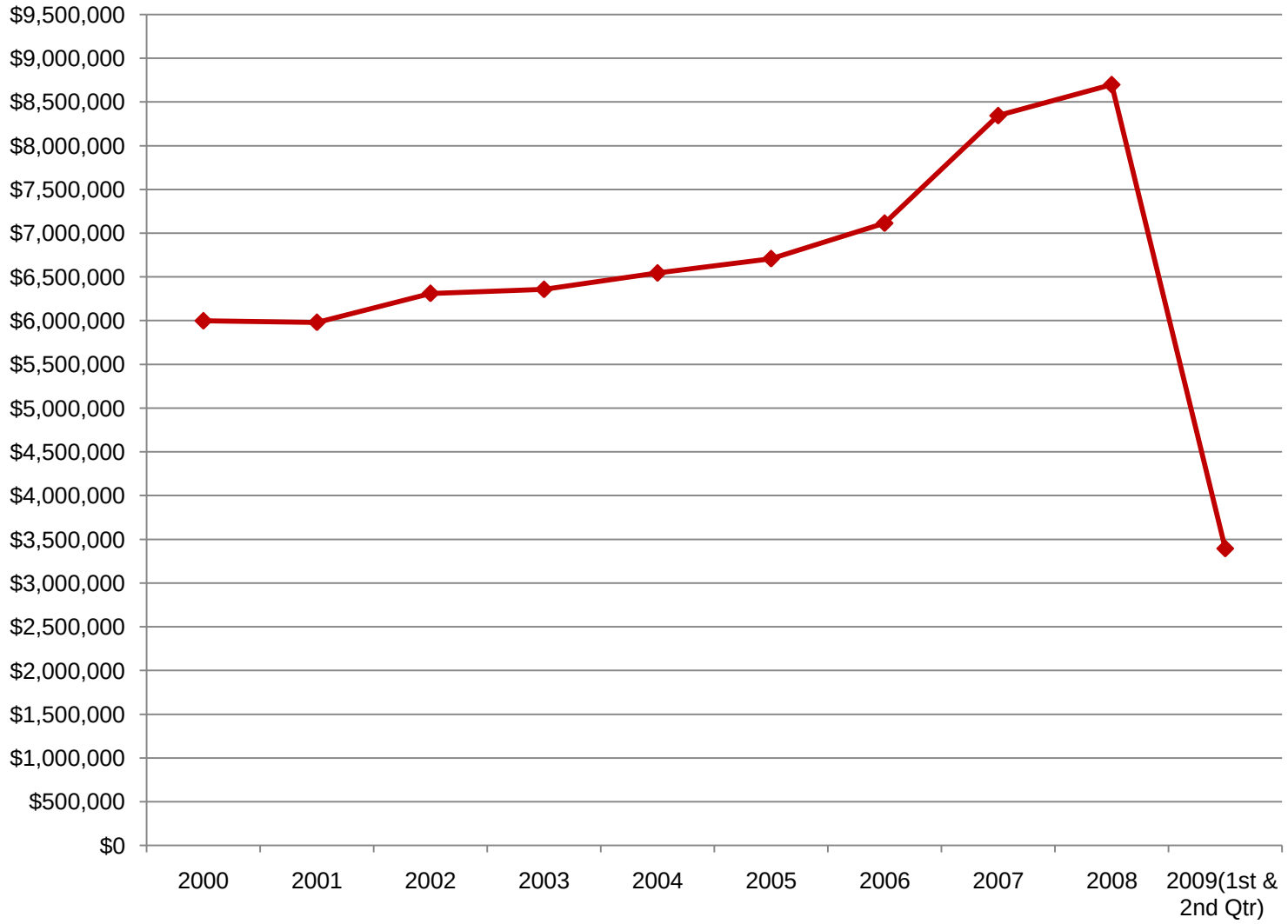


Source: City of Madison Comptroller's Office

Madison ECONOMIC DEVELOPMENT

City of Madison Hotel Tax Revenues

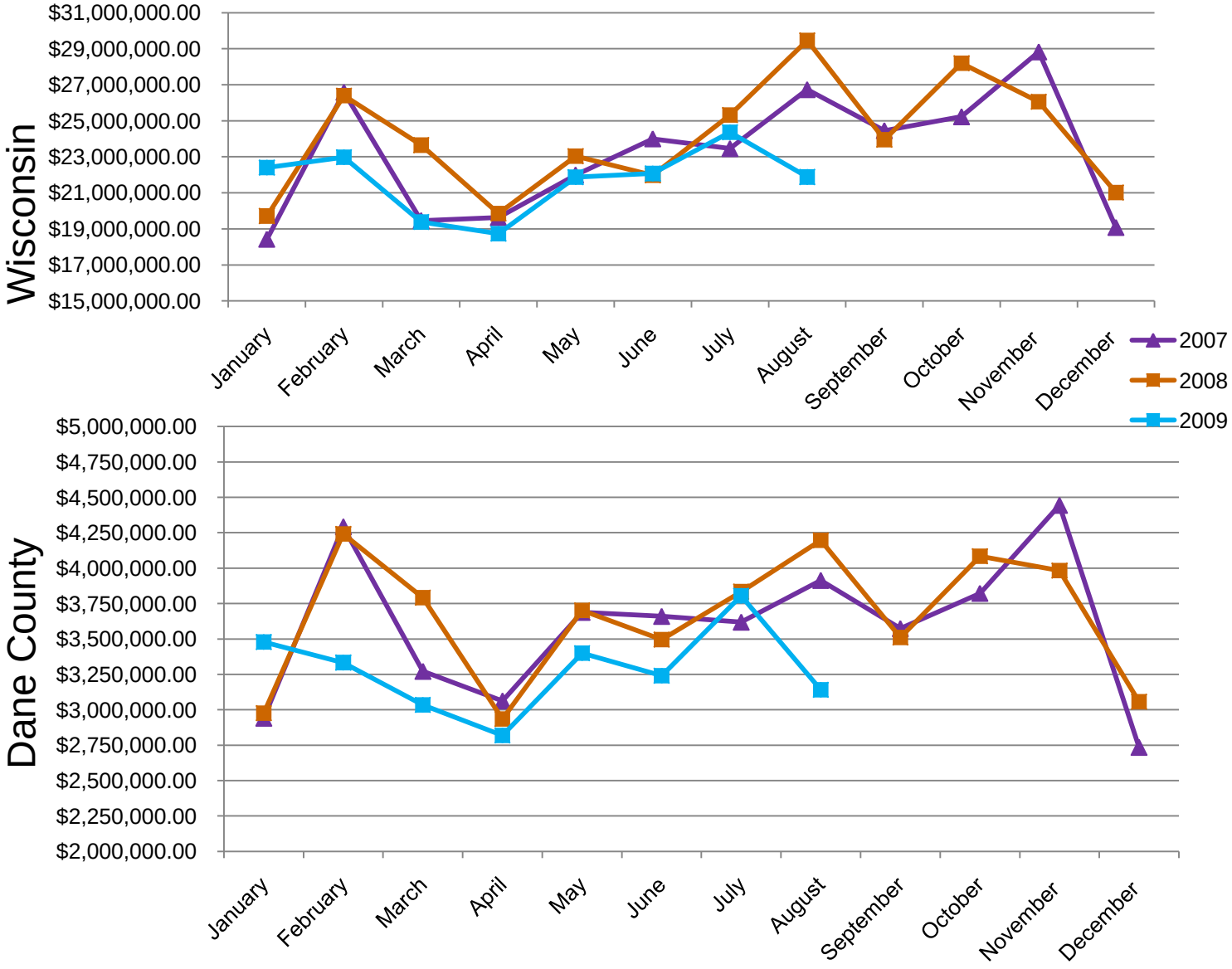
No Change from 8/28/09



Source: City of Madison Treasurer's Office

Madison ECONOMIC DEVELOPMENT

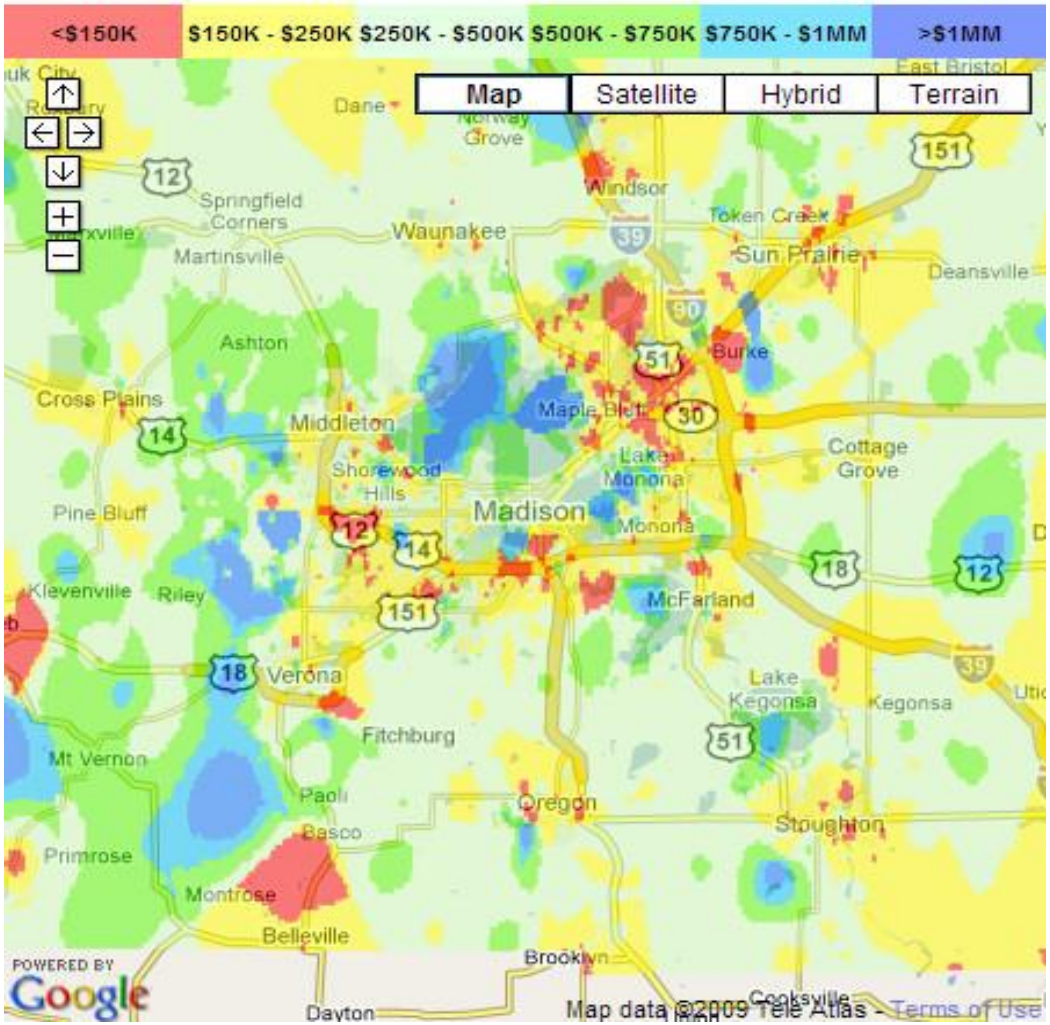
Sales Tax Revenues



Source: Wisconsin Dept. of Revenue

Madison MSA Home Price Heat Map

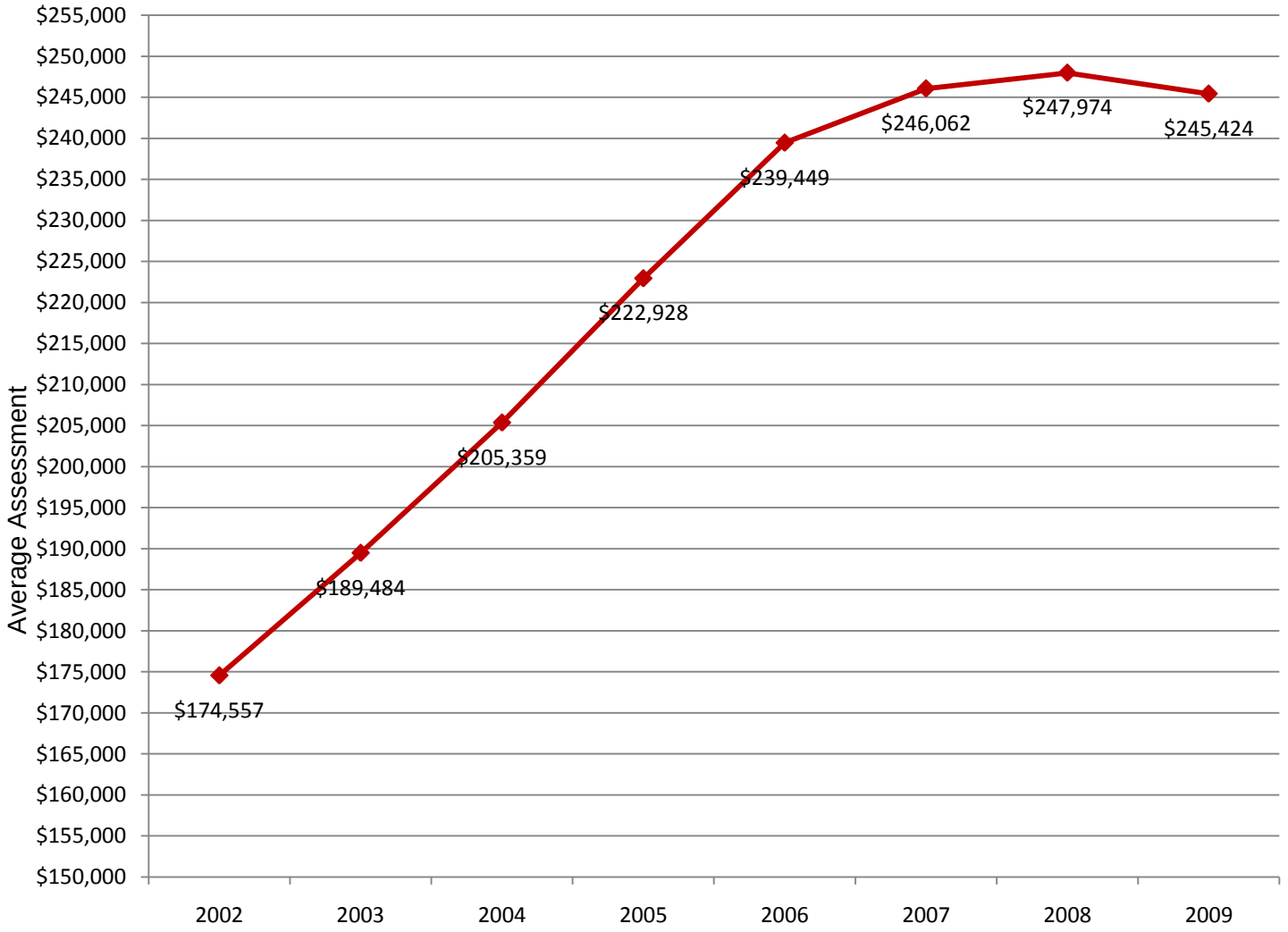
No Change from 8/28/09



Source: Locale Trends Tracker

City of Madison Average Single Family Home Value

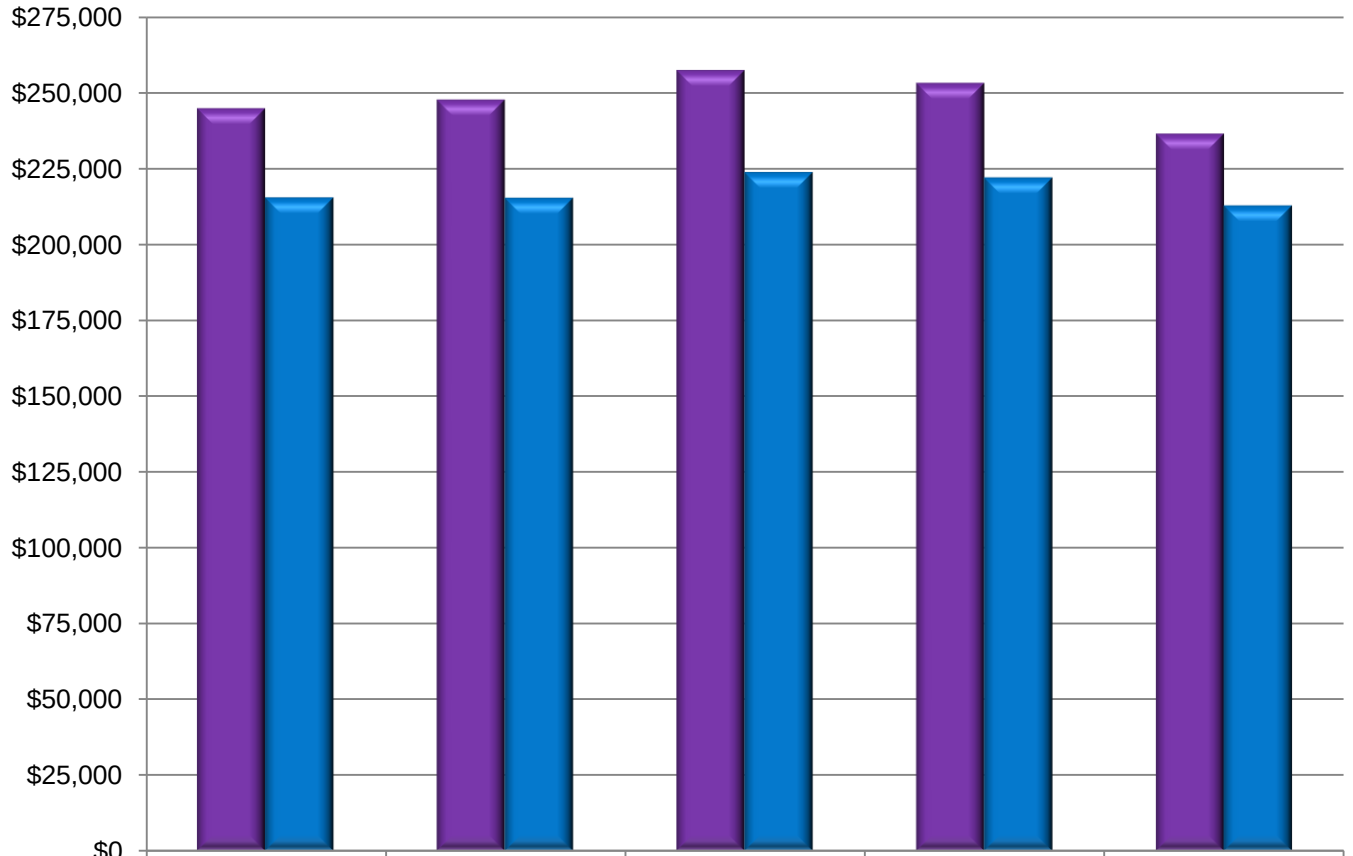
No Change from 8/28/09



Source: City of Madison Assessor's Office

Madison ECONOMIC DEVELOPMENT

Dane County Residential Sale Prices
(including condominiums – August)

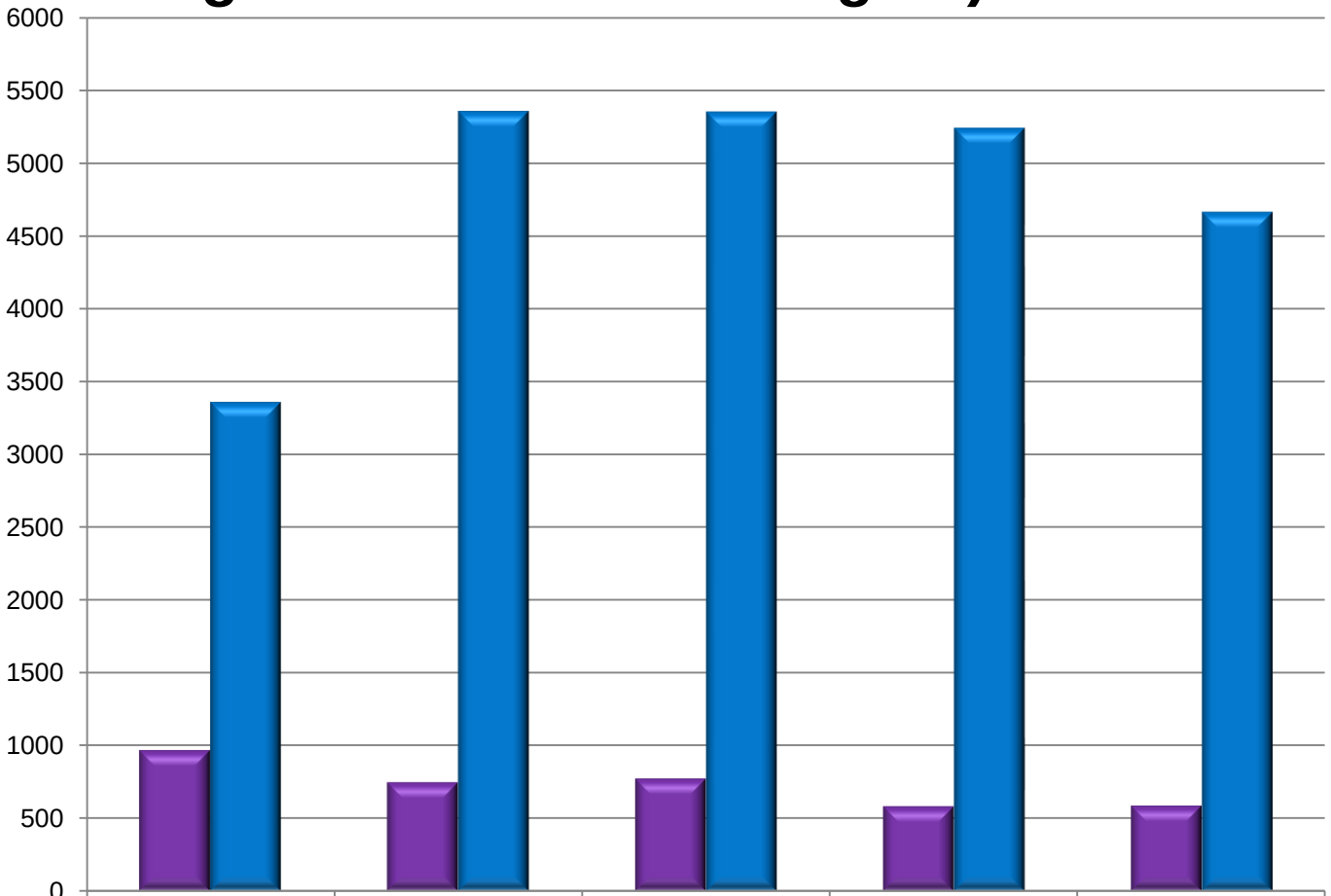


	2005	2006	2007	2008	2009
Average Sale Price	$244,296	$247,158	$256,920	$252,705	$235,975
Median Sales Price	$215,000	$214,900	$223,347	$221,500	$212,352

Source: South Central Wisconsin MLS Corp.

Madison ECONOMIC DEVELOPMENT

Dane County Residential Sales Listings (including condominiums - August)



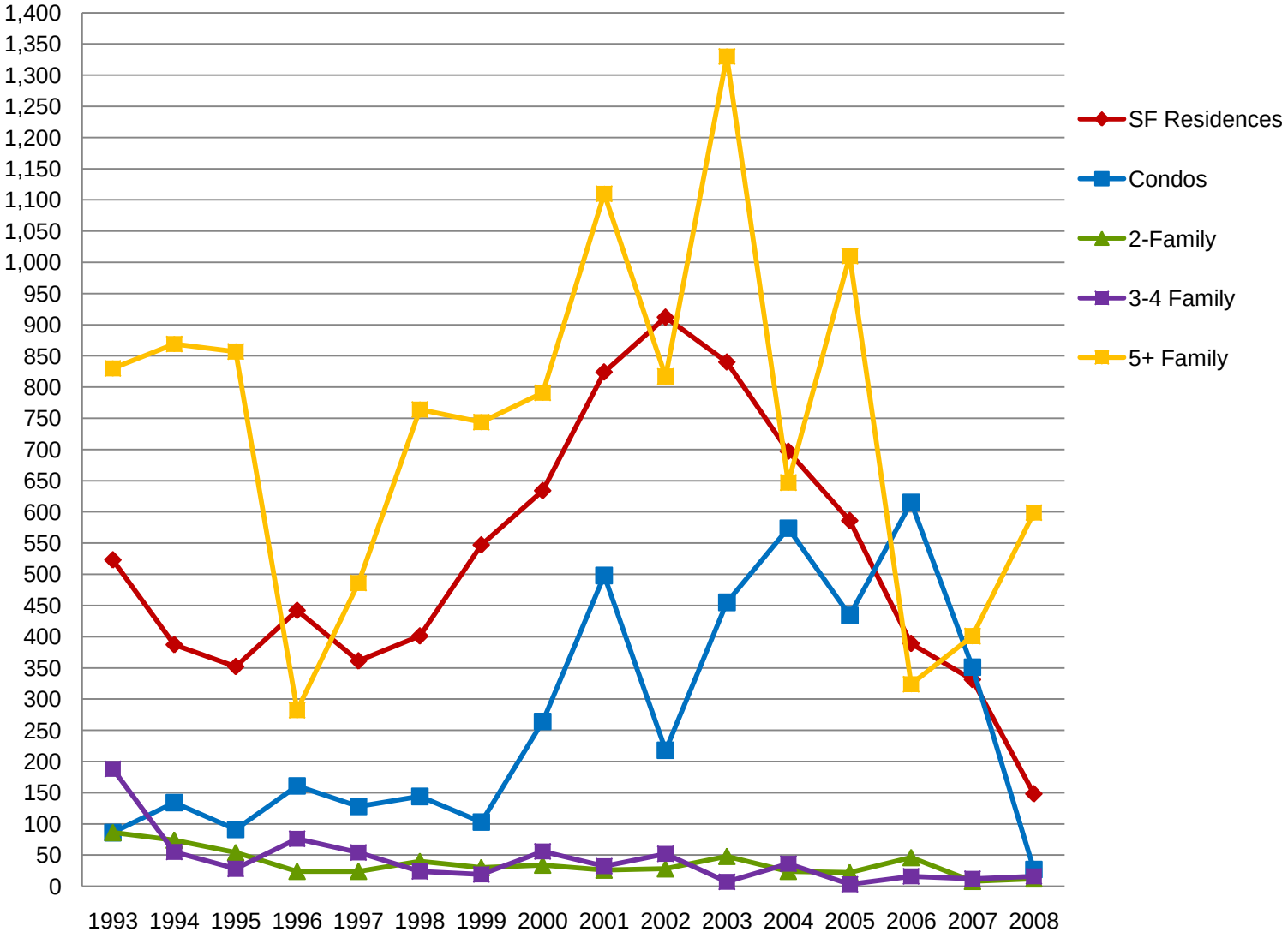
	2005	2006	2007	2008	2009
Sales	959	739	765	577	581
Active Listings	3,353	5,347	5,342	5,231	4,655

Source: South Central Wisconsin MLS Corp.

Madison ECONOMIC DEVELOPMENT

Annual Number of New Residential Building Permits

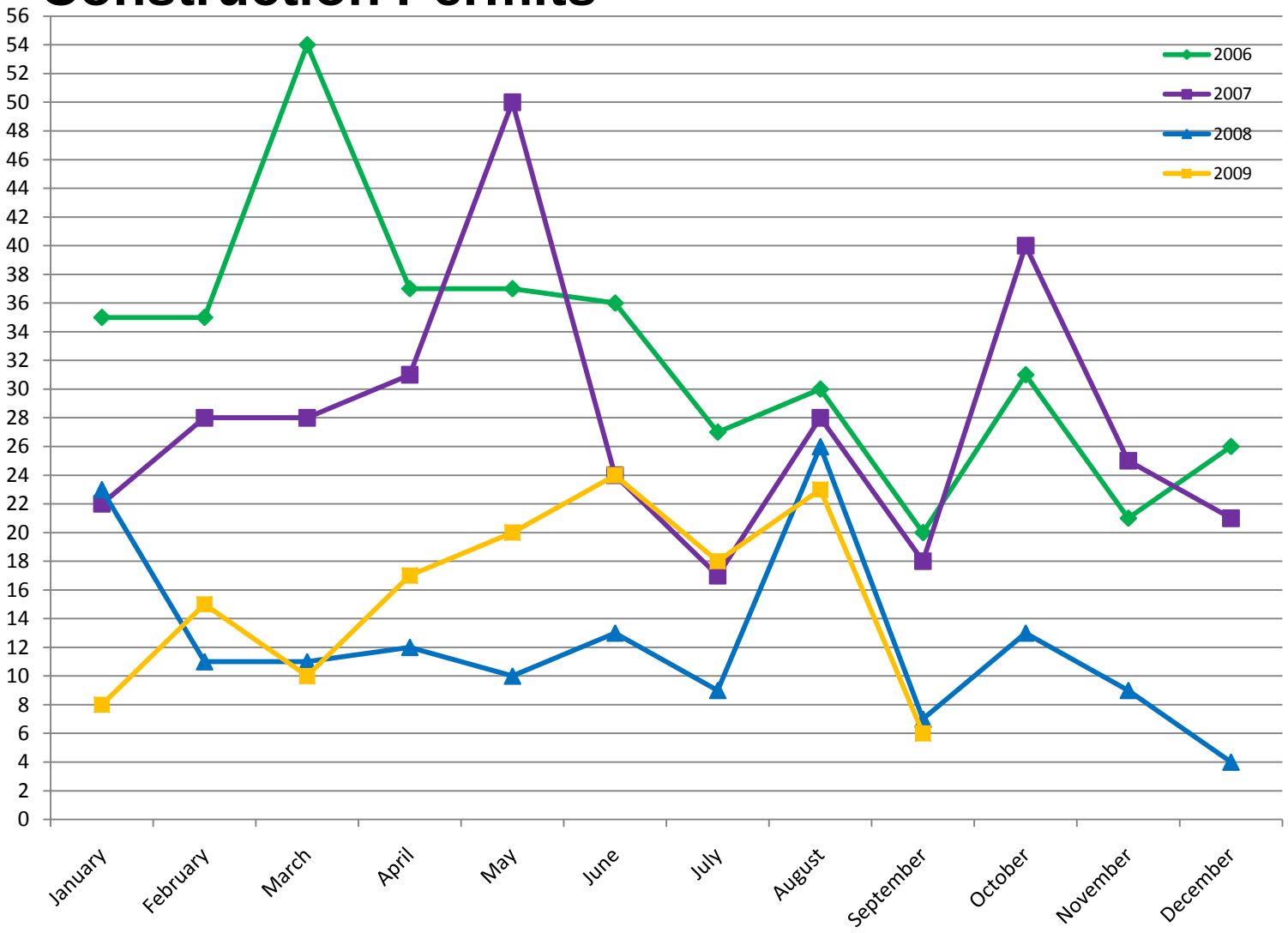
No Change from 8/28/09



Source: City of Madison, DPCED, Building Inspection Division

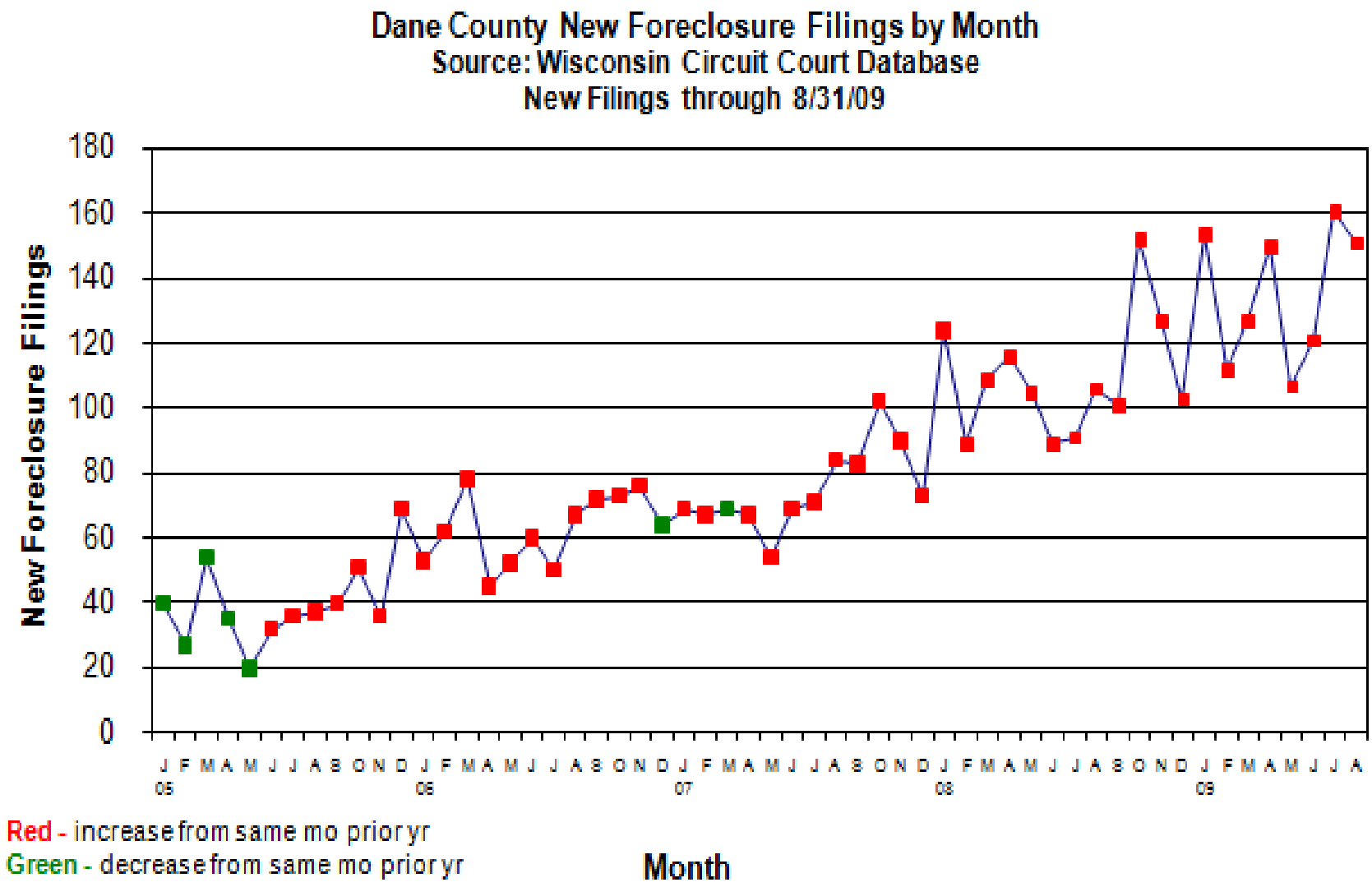
Madison ECONOMIC DEVELOPMENT

City of Madison New Single Family Home Construction Permits



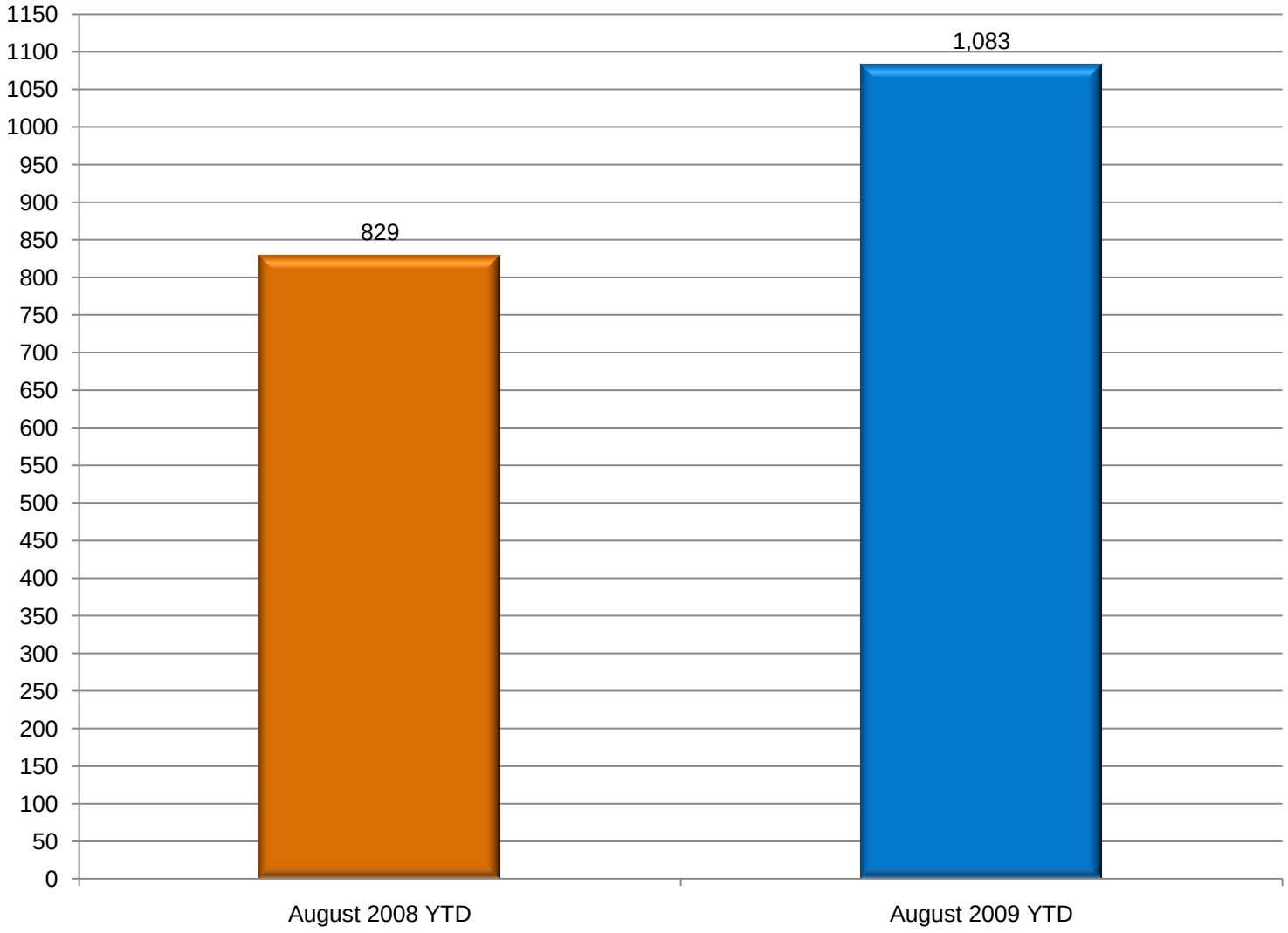
Source: City of Madison, DPCED, Building Inspection Division

Madison ECONOMIC DEVELOPMENT



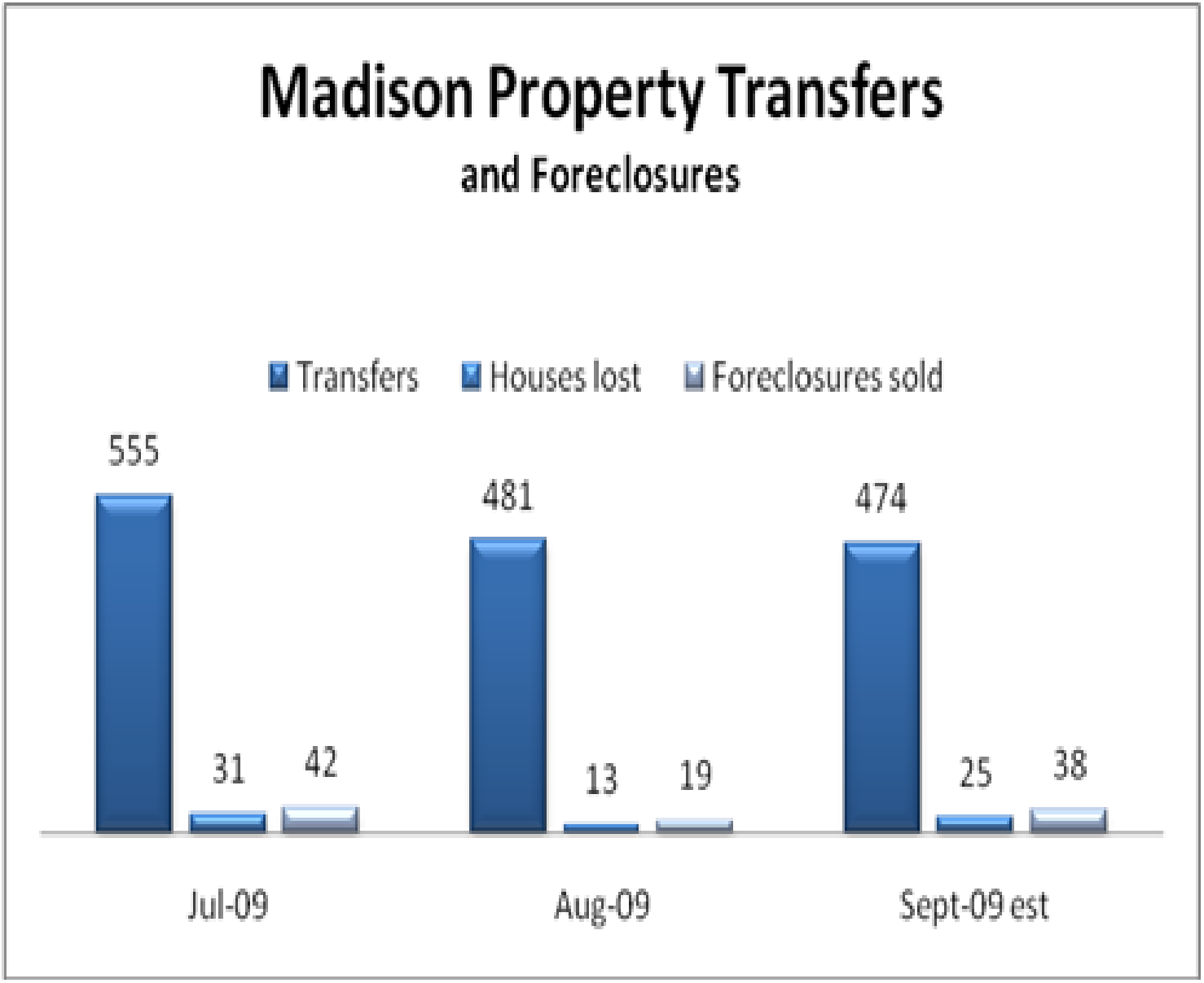
Source: *www.madisonrealestatemarket.com*

Number of New Dane County Foreclosures Filings



Source: www.madisonrealestatemarket.com

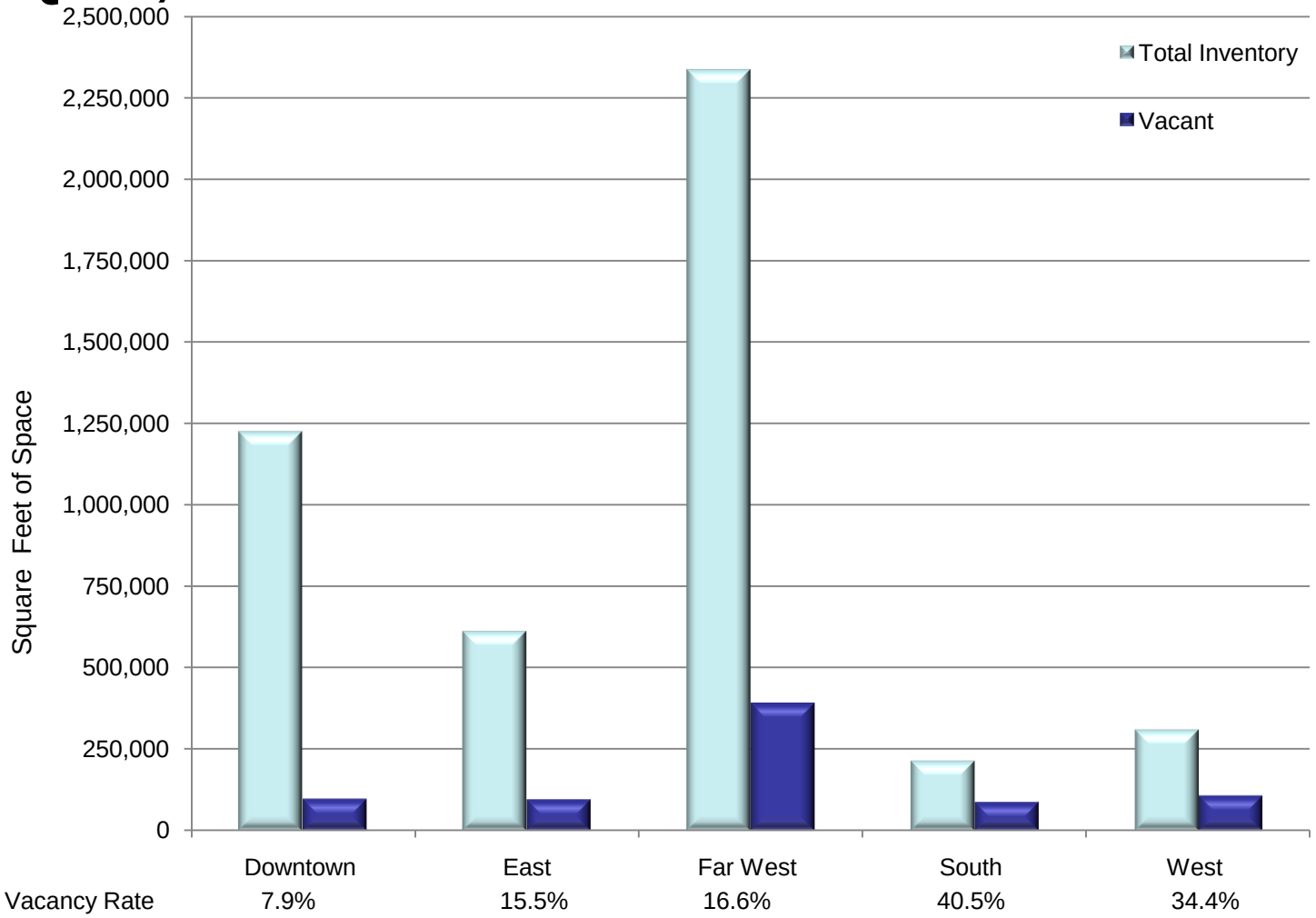
Madison ECONOMIC DEVELOPMENT



Source: City of Madison Treasurer's Office

Madison ECONOMIC DEVELOPMENT

Inventory and Vacancy of Class A Office Space Qtr 2, 2009 No Change from 8/28/09

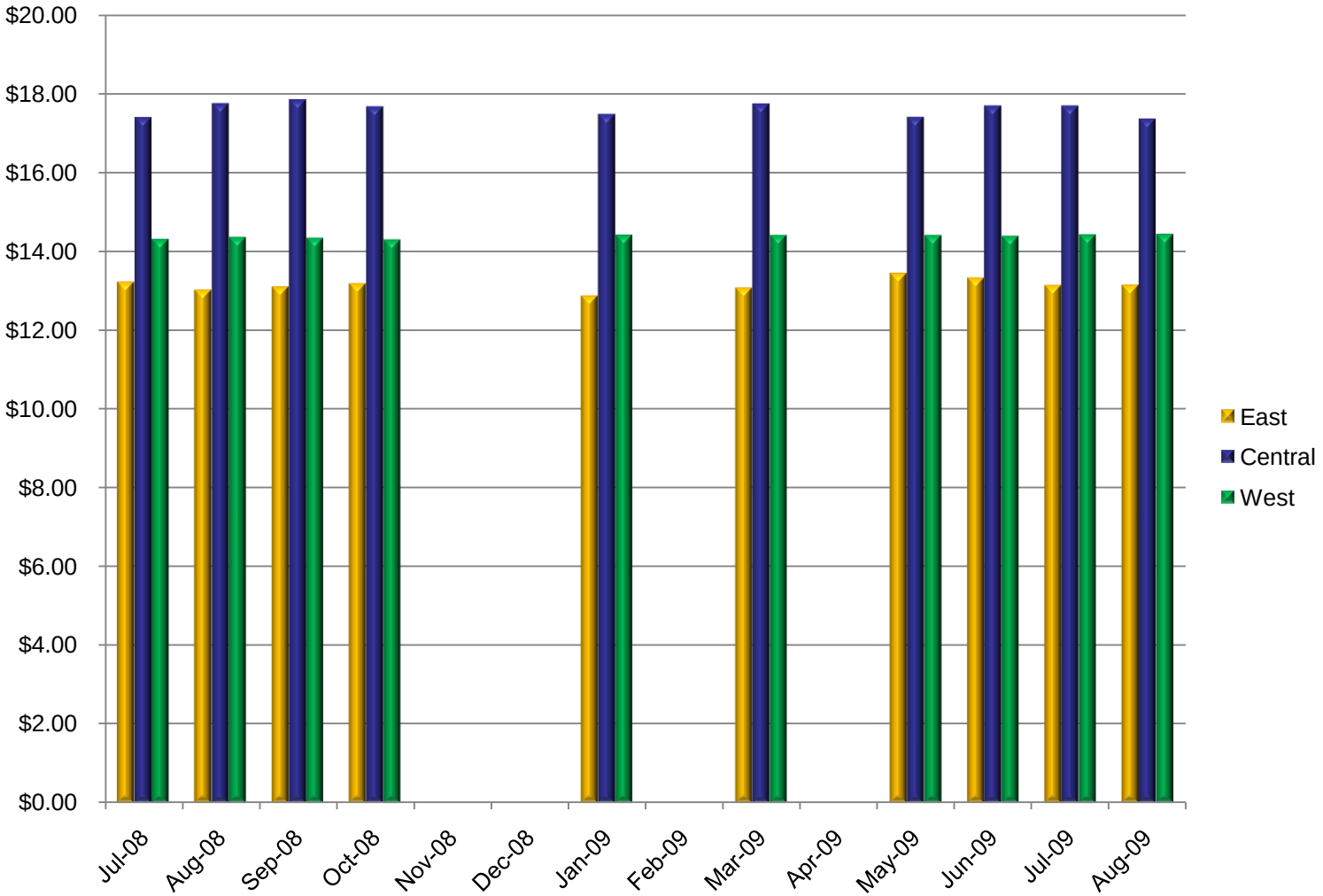


Source: Oakbrook Commercial Real Estate, Inc.

Madison ECONOMIC DEVELOPMENT

Madison Area Office Space Per Square Foot Rental Costs

No Change from 8/28/09

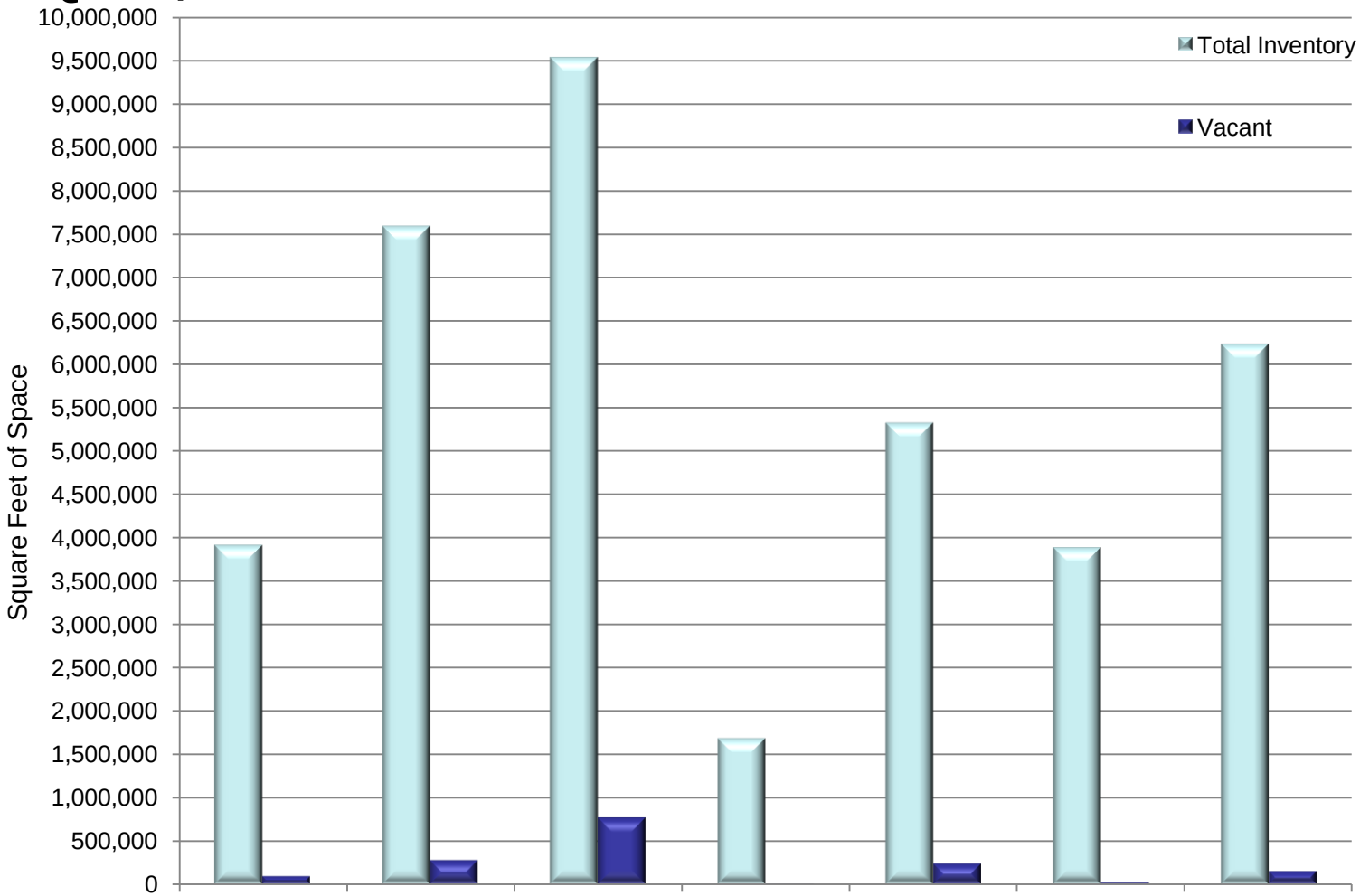


Source: Capital Region Business Journal

Madison ECONOMIC DEVELOPMENT

Inventory and Vacancy of Industrial Space Qtr 2, 2009

No Change from 8/28/09

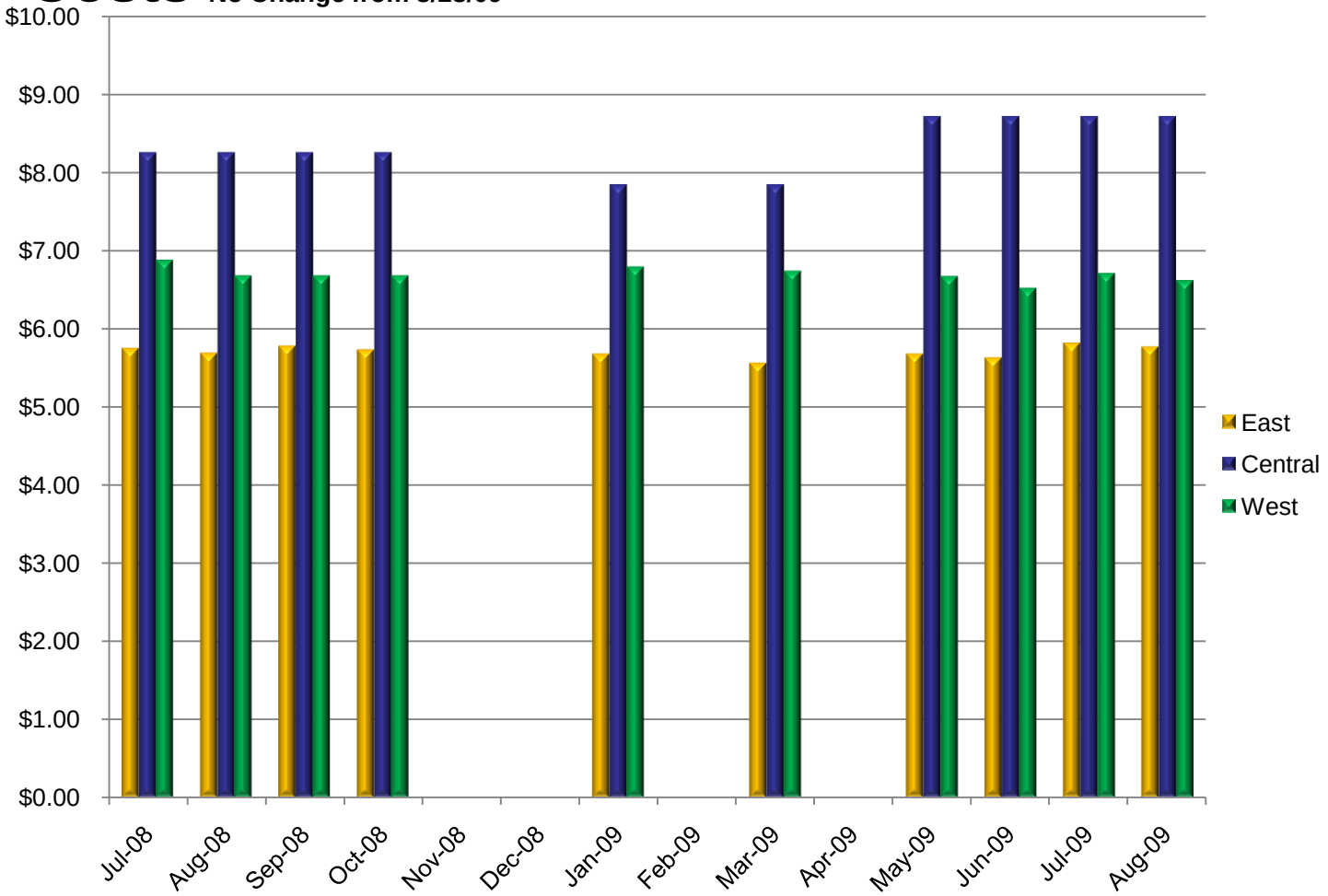


Source: Oakbrook Commercial Real Estate, Inc.

Madison ECONOMIC DEVELOPMENT

Madison Area Warehouse, Manufacturing and Industrial Space Per Square Foot Rental Costs

No Change from 8/28/09

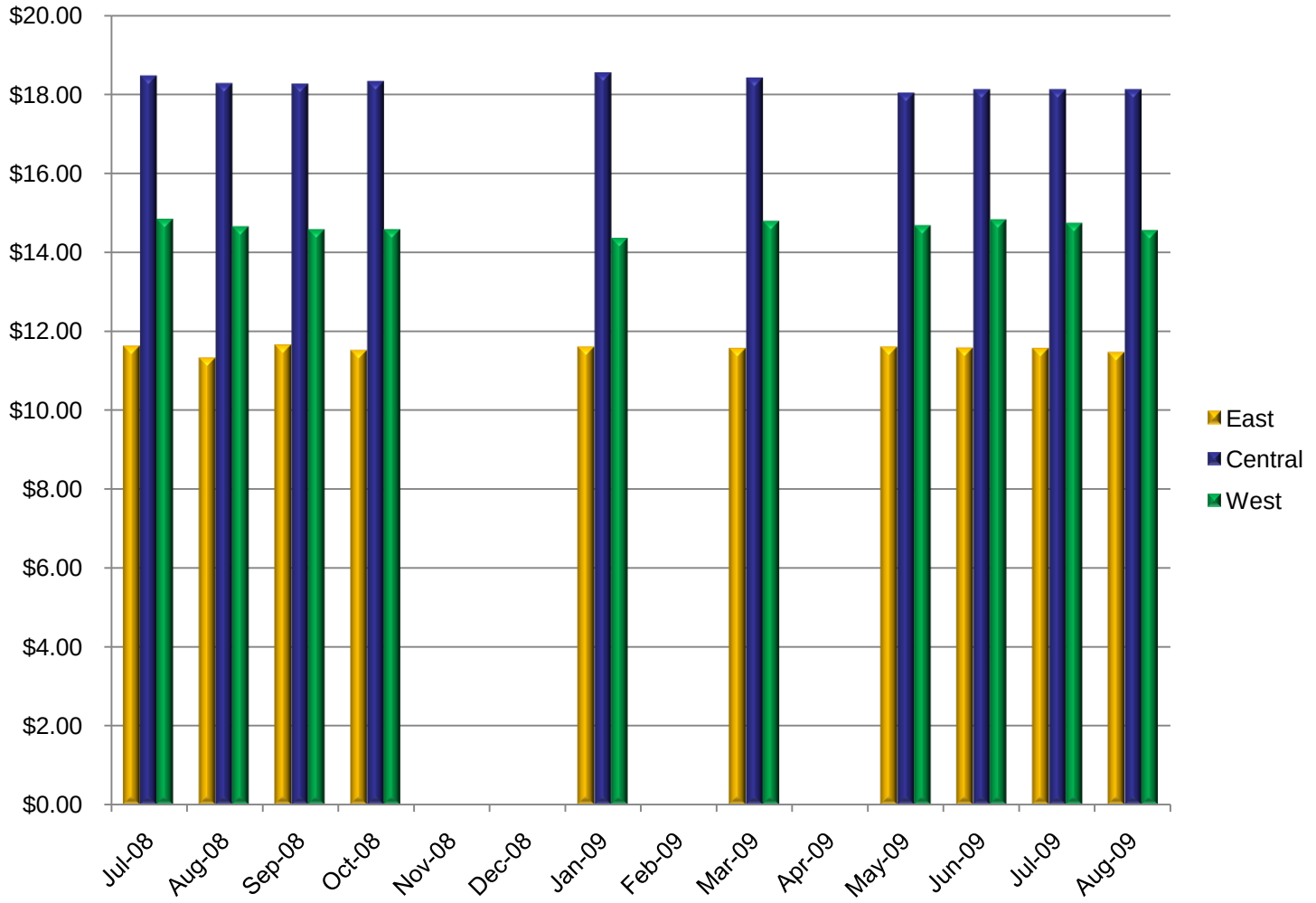


Source: Capital Region Business Journal

Madison ECONOMIC DEVELOPMENT

Madison Area Retail Space Per Square Foot Rental Costs

No Change from 8/28/09

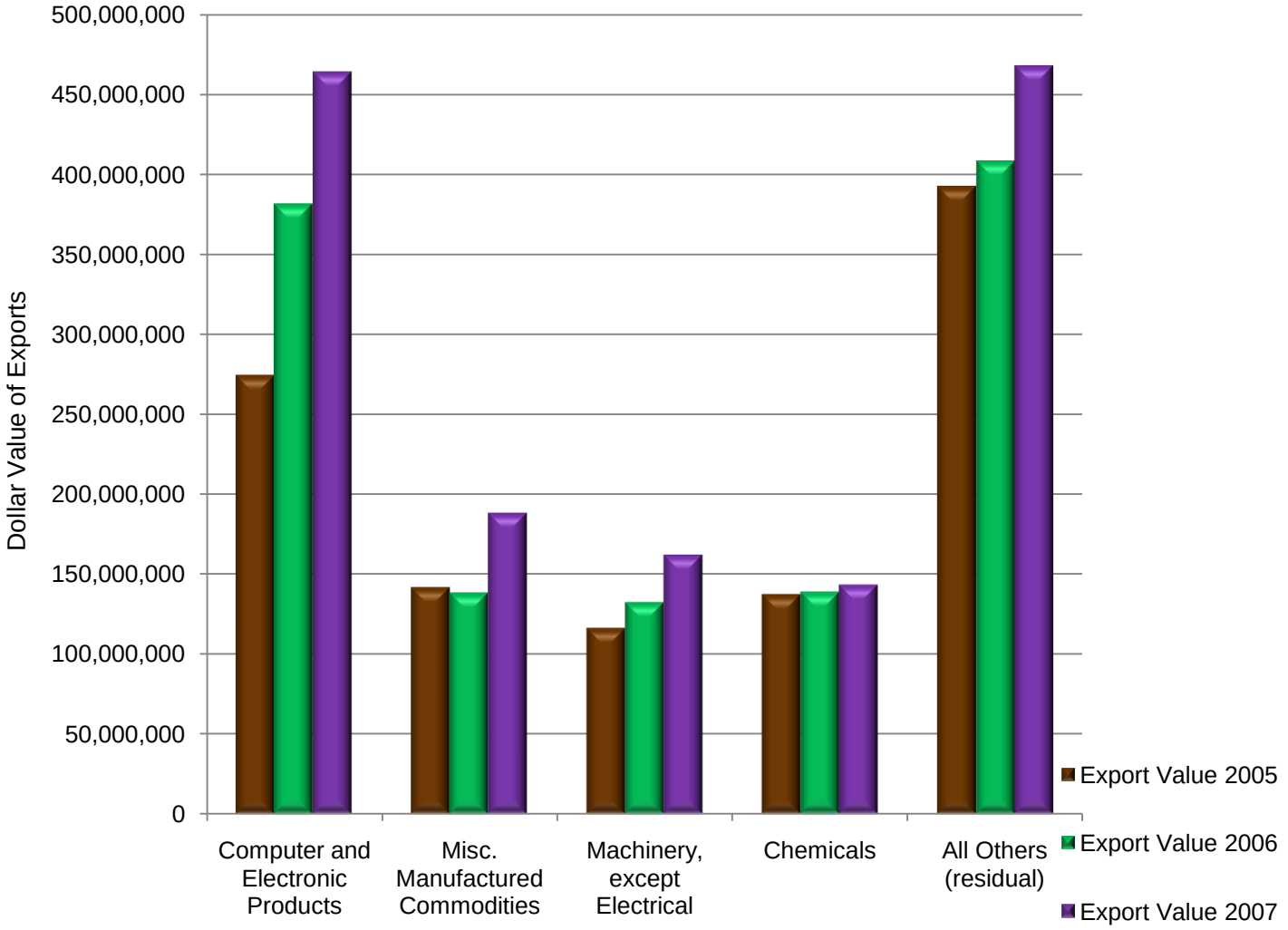


Source: Capital Region Business Journal

Madison ECONOMIC DEVELOPMENT

Madison MSA Exports

No Change from 8/28/09



Source: Wisconsin Dept of Commerce

Madison ECONOMIC DEVELOPMENT

science progress

The Geography of Innovation

The Federal Government and the Growth of Regional Innovation Clusters

Jonathan Sallet, Ed Paisley, and Justin Masterman September 2009

Introduction and summary

Innovation is the critical component of long-term economic prosperity, driving productivity growth and (if spread across key sectors of the economy) ensuring broad-based economic growth. Sparking innovation, however, requires capital (which is threatened by the current economic downturn), skilled-labor, scientific and technological advances, and creative collaboration between government and the private sector. Innovation cannot be dictated, but it can be cultivated.

In this paper, we focus on the importance of President Barack Obama's call for a new federal effort to support regional innovation clusters. We know now—from a solid record of state and local achievements and academic research—that regional innovation clusters are a critical component of national competitiveness. Geographic regions that are bound together by a network of shared advantages create virtuous cycles of innovation that succeed by emphasizing the key strengths of the local businesses, universities and other research and development institutions, and non-profit organizations. Think information technology in Silicon Valley, music in Nashville, manufacturing in the Pacific Northwest, or life sciences in Massachusetts.

The United States, we argue in this paper, requires innovation policies for which responsibility is shared between regional leaders and the federal government. Leadership must begin in the clusters themselves—with local understanding of competitive strengths and strategies to increase the shared advantages that economists recognize as "positive externalities." The federal government, however, can and should assume a vital role in which it frames critical national challenges, facilitates the flow of information and expertise to and between regions, and helps finance, in a competitive and leveraged fashion, valuable activities that clusters would otherwise be unable to undertake.

To that end, President Obama has requested that $100 million be appropriated in fiscal year 2010 for the Economic Development Administration of the Department of Commerce to support regional innovation clusters and associated business incubators.[1] That request is, by itself, a very small portion of the federal innovation budget. The U.S. government each year spends about $150 billion on basic scientific research and development. The EDA funding would help scientific breakthroughs resulting from this research find their way into new products and services that, in turn, could help foster broad-based economic growth.

We believe it is vitally important for Congress to appropriate this $100 million. After all, we devote less than 1 percent of our nation's basic R&D budget to programs that support regional clusters, unlike our most aggressive international competitors (see box on page 2). As this paper will demonstrate, a relatively small federal initiative can be managed so that it yields significant economic advantages.

Such support could help create the next powerhouse information technology company like Google or the next pioneering biotechnology company like Genentech—and these are only two of the thousands of new companies, large and small, that spawned their groundbreaking tech-

INTERNATIONAL CLUSTER INITIATIVES

Some of our strongest international competitors, including Japan, South Korea, and many European countries, have invested in significant national cluster initiatives, directing great amounts of money and resources toward making innovation clusters the main focus of their economic and innovation policies.[2] The irony is obvious—foreign innovation policymakers have come to the United States to study our successes and consult with our experts and yet the United States has conspicuously failed to embrace cluster initiatives as an explicit part of its own innovation policy.

France, for example, has a €1.5 billion program called *Pôles de Compétitivité* that is focused entirely on creating, supporting, and encouraging the growth of innovation clusters throughout the country.[3] In fact, 26 of 31 European Union countries have cluster initiative programs in place.[4] Japan has made similarly large investments in two cluster programs called the Knowledge Cluster Initiative and the Industrial Cluster Program, while South Korea has made innovation clusters the central organizing concept of its industrial policy. Numerous other countries in Europe and Asia, especially China, boast nation programs dedicated explicitly to promoting the development of specific regional innovation clusters.

The lesson is clear. As Harvard University economist Michael Porter, whose scholarship has been instrumental in our understanding of the nature and impact of regional clusters, explains it, strategic thinking "happens in other countries—Denmark and South Korea are just two where I have participated in serious efforts by national leaders, both public and private, to come together and chart a long-term plan."[5]

No reason exists for the United States government not to do the same. Our nation also needs to improve the economic competitiveness of our regional innovation clusters.

nologies on university campuses in Silicon Valley before becoming Fortune 500 companies. New businesses, in turn, create new jobs, bolstering the overall economic well-being of the nation.

This $100 million would be money well spent. The reason: Never before has the U.S. government devoted a single penny to a comprehensive national program *specifically* dedicated to supporting regional innovation clusters and business incubators that fuse the geographically shared resources of universities and other research organizations, companies, research centers, governments, and workers.

Federal involvement is needed. Although the United States boasts a series of successful clusters, their true potential has not been fully realized. Cluster initiatives, according to a recent Brookings Institution report, are "too few" and they are "thin and uneven in levels of geographic and industry coverage, level and consistency of effort, and organizational capacity."[6] Moreover, traditional clusters are under terrible stress. The automobile cluster in the Midwest is suffering not just from the perspective of the automobile manufacturers and their direct workers, but also with regard to the impact on the supply-chain, including specialized suppliers and local communities. Automobile parts manufacturers told the Treasury Department earlier this year that 130,000 jobs had been lost in eighteen months.[7]

Federal support to help innovation clusters improve their competitive strengths makes good economic sense. Begin by considering what regional economic clusters are and how they work. A simple, working definition is this: Clusters are geographic concentrations of companies, suppliers, support services, financiers, specialized infrastructure, producers of related products, and specialized institutions (such as training programs) whose competitive strengths are improved through the existence of shared advantages. So, for example, a successful cluster connects companies with academic institutions, research labs, and other nonprofit organizations in order to create the kind of virtuous cycle of competitiveness that creates jobs, stimulates business formation, and improves productivity.

What are the kinds of advantages shared by the participants in clusters? They could be a set of workers who boast particular skills, such as building boats in Maine. Or community colleges that offer training to manufacturing workers in places where advanced manufacturers are located. Or

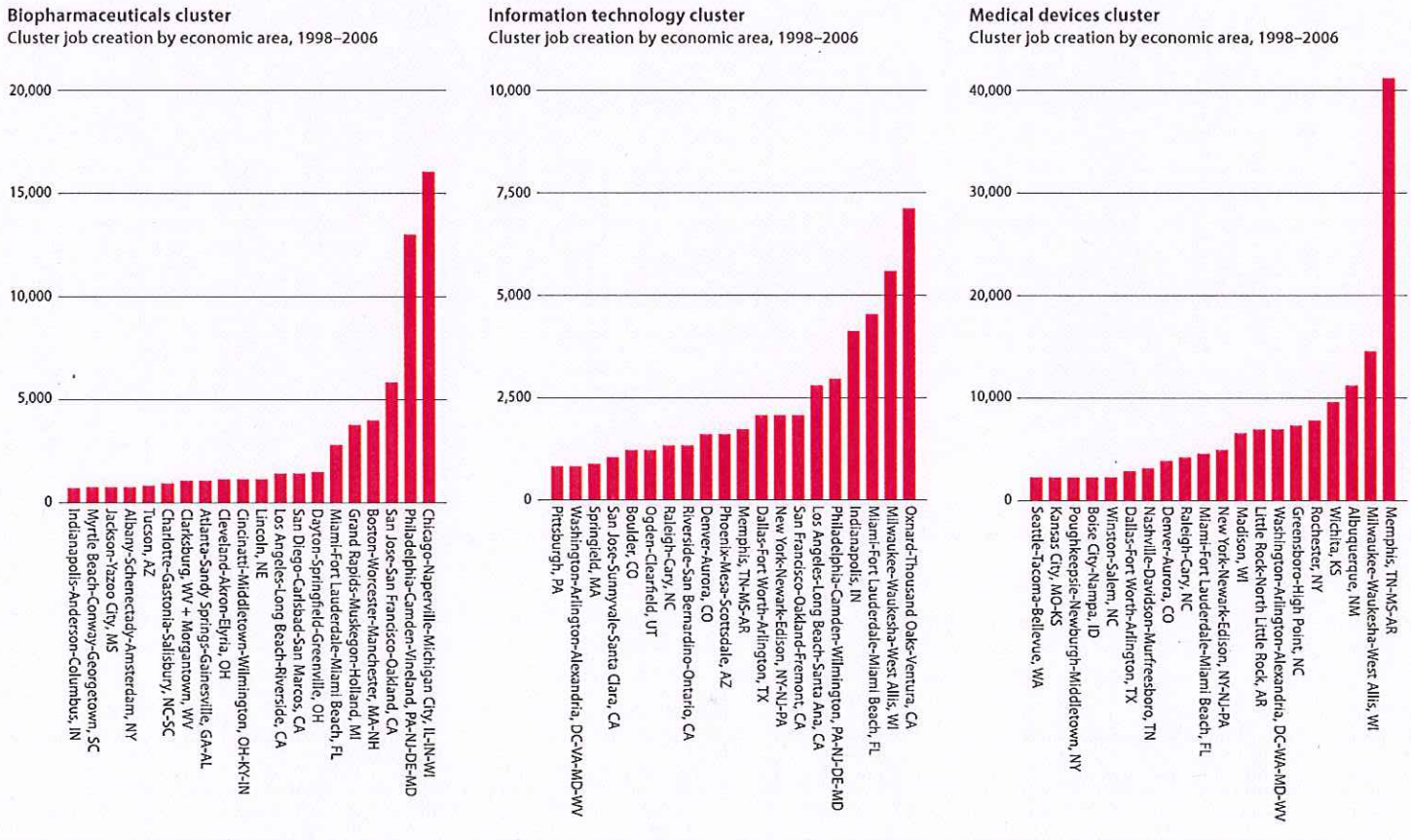
companies that decide to locate somewhere because of the presence of well-trained employees. Or research centers that conduct basic research into biotechnology close to start-up biotechnology companies. Anything, really, that creates what an economist would call a "positive externality," a benefit that is captured not just by a single company, but by entire communities.

Positive externalities are nothing new. Nor are high-tech innovation clusters. Some, like Silicon Valley or the Route 128 corridor outside Boston, boast world-class universities and research institutions anchoring fervent communities of networked high-tech information technology and biotechnology companies served by a critical mass of commercial, legal, and financial talent. And some, like Akron, Ohio, have leveraged historical expertise; Akron's rubber industry has spawned an innovation cluster anchored by companies committed to polymer science and advanced manufacturing innovation.

Here is what is new: The notion that regions can work closely with the federal government to consciously focus on the creation of shared advantages within clusters to create jobs, create businesses and, of course, stimulate long-term economic growth.

INNOVATION CLUSTERS GROWING APACE

A snapshot of three representative technology clusters in the United States



Job creation and business creation, the main economic benefits coming from innovative clusters, mostly spring from so called "high impact" companies (high-tech startups and established companies alike) that sell goods and services outside their clusters to both national and international markets, drawing revenue back into the cluster.[8] These "traded" services boost regional economic growth and national economic competitiveness. As measured by patent rates, productivity rates, and other innovation metrics, an innovation cluster creates new companies and new jobs in a helter-skelter but overall positive direction.

The federal government, of course, does spend money on a variety of innovation programs designed to help communities across our country create some of the ingredients necessary to replicate the success of thriving high-tech innovation clusters, such as the San Diego biotech cluster, the medical devices cluster around Minneapolis, and Research Triangle Park in North Carolina. These programs help fund the early commercialization of innovative products and services as well as regional workforce development and economic development efforts to provide the infrastructure necessary for innovative companies to flourish.

But these programs fall short of their true potential precisely because they are not organized in a systematic fashion to reap the advantages of an innovation cluster. The programs often fail to coordinate their work and leverage their unique strengths toward innovation cluster development as their central mission. That's why a modest federal investment in a national cluster development program would multiply the benefits of our existing federal innovation programs, coordinate these efforts, and match federal expertise to the weaknesses and needs of regional clusters.

Policymakers must absolutely ensure they maintain the serendipity, competition, and ad hoc collaboration that have characterized successful clusters in the United States. The importance of regional clusters to competitiveness, however, raises three interrelated policy questions:

- Do federal programs that fail to focus on *all of the ingredients* needed to create a successful innovation cluster lack the direction and heft to make a difference?
- Can a government program dedicated specifically to the creation of new innovation clusters make a difference?
- And are there other factors that account for the unique innovative qualities that make Silicon Valley and Route 128 a success yet doom efforts in other regions of the country to failure?

The answer is "yes" on all three counts, which presents policymakers with a troubling dilemma: how best to invest limited federal resources?

This paper offers policymakers a guide through this dilemma. In the first part of the paper, we will explore briefly the lessons learned by those who have both led and researched innovation clusters over the past several decades. We will reconfirm the observation that, first and foremost, "place matters."[9] Successful regional innovation clusters are not fungible—success rests upon differentiated competitive advantages that exist for different reasons in different parts of the country.

We will then demonstrate that access to finance matters, too. The greatest challenge that clusters need to bridge is the so-called "valley of death" financing gap that leaves young innovative companies with good ideas unable to fund the commercialization of those ideas due to the lack of seed-stage and early-stage financing. The current financial crisis has widened this valley, not

just for young companies, but also for established companies that once could turn to more liquid debt and equity markets or to local or regional lenders and investors to fund their new ideas. Strategies to attract new private capital to regional innovation clusters are critically important.

There's also a similar dearth of human capital—both managerial and workforce—in many regions of the country that wish to create or expand vibrant innovation clusters. American workers are very productive and much of our nation's manufacturing sector could operate profitably in the United States if we took advantage of our global leadership in research and development, innovation, and process technologies to forge more competitive regional economies. The problem is we don't do that today in any nationally systematic way involving clusters. The result is a growing structural unemployment problem with seemingly few solutions to match our productive workforce to the needs of innovative regional businesses.

Overcoming all of these connected hurdles requires us to rethink how we go about supporting clusters. So, also in the first part of this paper, we will examine how forward-thinking state and metropolitan governments have adopted practices that foster strong clusters, creating jobs, helping established companies grow and, of course, providing opportunities for new businesses. The key lesson for regional governments: Patience and leadership are necessary in the creation of all clusters.

Cases in point: North Carolina's Research Triangle Park and San Diego's CONNECT cluster—two regions that focused on all the ingredients needed for success, including federal funding—took several decades to reach their current prominence among U.S. clusters and were piloted there by a coterie of forward-thinking government, university, and business leaders. Newer clusters that recognize the importance of patience, such as those budding around the Arizona State University in Tempe, the Washington, D.C. metropolitan region's many universities, and in rust belt cities in the Midwest such as Pittsburgh, are making headway.[10]

In the second part of the paper, we will discuss the reasons why Congress should support, and how the Obama administration should effectively implement, the president's proposal that the Economic Development Administration be appropriated $100 million to support regional innovation clusters and associated business incubators. We will demonstrate that the Obama proposal is the answer to the failures of federal support identified in our earlier discussion of federal efforts. And we will show how this new effort—alongside dedicated White House leadership—can simultaneously increase the effectiveness of other federal programs, such as Small Business Innovation Research and Small Business Technology Transfer programs, which are administered by a variety of government agencies in coordination with the Small Business Administration, and the efforts of other Commerce programs, including those housed at the National Institute of Standards and Technology and the National Science Foundation. (See Appendix for a summary of the main federal programs that could measurably increase the impact of a clusters approach).

Support for clusters through the Department of Commerce's EDA must be targeted at what matters most to innovation: The shared advantages that accrue to businesses, workers, and communities alike when the success of a cluster spawns a virtuous cycle of economic growth. Operating at the micro-economic level, the EDA must show a keen understanding of the ecosystem of innovation to ensure that its targeted innovation investments go where they can make a difference building cluster infrastructure and thereby do the most good for the longest time.

Specifically, we will explain how the Obama proposal provides the missing elements that are needed to support state and regional leadership. The federal government should leave leadership to the regional community, which knows best its own competitive advantages. But a bottom-up approach can reach the top level of government, with EDA supplying necessary funds to allow clusters to create shared resources, and with universities, community colleges, and research centers supplying a national framework against which the importance and success of clusters can be measured. Funding should be tightly connected to effective information exchanges, which will strengthen the ability of clusters to plot their own competitive strategy, and aligned with other federal programs through, for example, so-called "one-stop shops."

We conclude this paper by sketching out the critical program-design elements that should be endorsed in the appropriations process for the proposed $100 million for EDA to implement a federal clusters strategy. Specifically, in this paper we propose that EDA should:

- Administer a competitive matching-grants program, with established criteria used to ensure the greatest impact of federal funding, among them an emphasis on local leadership from the private and public sectors, including universities and other research institutions.

- Align the cluster selection process with national priorities such as energy-efficiency, advanced manufacturing, and new technologies when administering this matching grants program.

- Assist economically distressed areas of the country by pooling regional resources from within and outside of distressed areas in order to bring together a critical mass of university savvy, business acumen, and productive workers.

No single grant application should have to meet all these criteria, but having these three principal guidelines in place will help ensure transparency and effectiveness. Funding should be focused on building the common infrastructure of innovation in a region, which effectively lowers the cost of business growth and creation. Examples include program development plans for business incubators and research centers, worker-training programs, and technology-transfer efforts focused on small- and medium-sized companies. Where regions have no effective clusters, smaller planning grants should also be available for the creation of strategies based on comparative advantages.

Time to act

Support for regional innovation clusters and business incubators is good public policy—and good political leadership. Successful cluster policies have been implemented at the regional level by both Republican and Democratic officials alike because clusters represent a pragmatic approach that requires collaboration with the business community and that, when successfully implemented, benefits communities as a whole.

Similarly, pioneering research into the role of clusters by policy advisors to both Democrats and Republicans has created a bipartisan foundation that increases the chances that, once initiated, federal cluster efforts will be supported for a long time by members of both parties. This is important because, as we have noted before, patience matters and, therefore, federal clusters efforts must be able to garner long-term political support.

Moreover, in a coming time of budget austerity, the regional cluster initiative does not require large sums of funding. That's because federal support will be leveraged, providing resources that are not otherwise available but always contingent on regional governmental and private resources to amplify the impact of federal dollars. In fact, federal support in fiscal year 2010 budgets would come at an important time for state governments, which are under tremendous fiscal pressures. States including Ohio, Kansas, Connecticut, and Pennsylvania have either reduced economic development spending or encouraged large reorganizations of programs to control it.

Over time, the implementation of regional cluster strategies can increase the effectiveness of other federal spending. Just within the Department of Commerce itself, for example, export promotion and technology outreach programs at the International Trade Administration and NIST, respectively, would be strengthened by their links to effective cluster strategies, which in turn could supply valuable expertise to increase EDA's own effectiveness. Even more importantly, federal support for regional innovation clusters presents an important opportunity for EDA to forge a close partnership with the Small Business Administration, whose own programs reach deep into local communities.

In the pages that follow we will present our analysis, conclusions, and recommendations in greater detail. In the end, we hope the case is made that Congress needs to appropriate that first $100 million toward a national program for regional innovation clusters. We are confident this step will help ensure that the $150 billion taxpayers invest annually in basic scientific research and development can better deliver on the promise of more and better jobs, new businesses, and transformative technologies across our nation.

Lessons learned about successful cluster creation

Let's consider first how businesses in clusters come into being. For a life sciences company like Genentech, for example, building a young company out of university-based research depends first on the university's willingness to invest in the concept of startup-based commercialization. That requires a sophisticated technology-transfer operation at universities and other basic research laboratories. Then the startup must find the early cash needed to start a new company to commercialize its yet-untested intellectual property, as well as gain some early business know-how from economic development agencies and solicit additional donations from federal research grants just to stay alive.

Such companies then need to attract angel investors, venture capitalists, and corporate strategic partners—themselves key developers of innovation—to build their businesses. If all goes well—no mean feat as the technology the company is commercializing has to prove to be not just safe and efficacious but also marketable—perhaps the company can make an initial public offering on a stock exchange, becoming a public company.

This process can take more than a decade, and chances are the company will still not yet be profitable. And along the way, the company needs to attract an array of business, marketing, and financial talent, especially expertise from business executives who have done it all before and succeeded or more likely failed a few times first before succeeding.

Each of these factors is also critical to creating new communities of regional innovation where startup companies succeed in traversing this difficult financing path. Yet the breadth of workforce skills and management skills needed to build these clusters are often missing in these communities, which are just starting to understand the power of their own competitive advantages.

This same dynamic is true for information technology companies like Google as well as for other startups in nanotechnology, alternative energy and green technologies, new materials, and other cutting-edge industrial and services technologies. The innovation growth cycle for these types of companies is not as lengthy as it is for biotech companies, but the problems are the same:

- Lack of commercialization expertise at many research universities
- Lack of access to enough seed-stage and early-stage venture capital
- Lack of management talent, workforce talent and industry-specific talent to create new local companies
- Lack of a "critical mass" of supportive individuals and businesses in these tech arenas in most university towns and cities

Without regional support for innovation, two threats dominate the landscape. First—and this is difficult to measure—some companies will simply fail to come into being or, if launched, fail to find fertile soil for their efforts. Second, innovative new companies may have to move to find

success—perhaps far from the universities and federally funded labs where the innovations themselves were developed. And that, of course, means that regions are deprived of the new successful companies whose presence may improve regional competitiveness by clustering. Regional economies require vibrant business communities, but when the most innovative talent alights for other cities to build their businesses regional economies suffer.

In contrast, where clusters are supported by local businesses, universities and other educational institutions, and communities, advantages accrue to both established and new businesses—and their workers. Established businesses that sell their goods and services across a broader region or around the globe bring new dollars and employment opportunities that then expand the local economy. Fostering innovation among startup companies and established companies in clusters has a multiplier effect for both types of companies and purely local businesses, too, such as restaurants, dry cleaners, and other small retail businesses, all of which provide "non-traded" services that are created and consumed within the cluster.

In short, success in a sector creates spillover effects in the regional economy, as specialists look to the area for next generation of information technology, life sciences, or other form of innovation.

There are two sets of lessons that are crucial to remember when considering the creation of a successful cluster. The first set teaches us about the on-the-ground conditions that make a cluster successful—what inherent regional characteristics enhance the chance of cluster success. The second set identifies the governmental actions that improve the chances of cluster success—what the government can do to leverage endemic regional strengths to encourage success. For innovation policy to be fruitful it is vitally important to recognize the difference between these two sets of lessons as well as to consider how they can be combined to boost regional innovation across the country.

The on-the-ground conditions that make a cluster successful are first and foremost intrinsic to the cluster itself. Place matters. But the other key conditions are a pro-innovation environment (including the presence of research institutions and committed government, research and business leadership), management and workforce talent, risk capital and debt financing, and a regional innovation network of similar companies competing—especially in pre-competitive research—cooperating with each other. And even when all these ingredients are present, a final lesson learned about successful clusters is that patience is crucial. Clusters take time. Regional leaders need to understand this and work equally patiently at the development process.

Ideal government innovation policies should encourage local strengths, stimulate shared advantages, encourage the creation and development of human networks, and always galvanize public education and research institutions. Through these steps, governmental policy will base economic development on existing and nascent strengths, build regional infrastructure, convene businesses, finance, nonprofits and workforce participants, and encourage universities, research centers, federal labs and community colleges to develop their own long-term policies to help cluster stakeholders more effectively join together. Government action that improves the chances of a cluster becoming successful must be carefully attuned to conditions on the ground, and must complement these existing conditions rather than force the cluster into artificial strategies ill-suited to local strengths.

There is a crucial difference, however, between these two sets of lessons. The first—the ways that local advantage turn into self-sustaining forces of competitiveness—have been well enunciated through academic research, much of this based on Harvard Business School professor Michael

Success in a cluster creates spillover effects in the regional economy, as specialists look to the area for next generation of information technology, life sciences, or other form of innovation.

Porter's pioneering work in the field,[11] as well as new research demonstrating that areas with strong clusters have higher rates of innovation and entrepreneurship and better wages.[12] Recent studies[13] have established the real advantages of "clusters" for a growing economy, including strong correlations between:

- Per-capita GDP and cluster concentration
- Cluster strength and higher wages[14]

But the second set of lessons—which forms of governmental action can increase the chances for cluster success—have yet to be fully integrated into the theory of economic development that guides national and regional governments. In this section of the paper we will identify both sets of lessons through the examination of four principles for cluster success: Place matters, networks are critical, patience is necessary, and leadership is essential.

Place matters

Regional efforts to develop and encourage the growth of innovation clusters consistently run up against one inexorable fact: Place matters. Clusters cannot be instantaneously generated out of whole cloth. Many of the necessary regional ingredients need to be present stretching back decades.

Silicon Valley cannot be replicated in every location without regard for regional character, strengths and weaknesses, and stakeholders. Santa Fe cannot develop a world-class hydroelectric cluster, and it shouldn't try. But New Mexico is developing its advantages in solar, wind, and geothermal energy, as it should. Clusters develop depending on the unique mixture of local and regional strengths and stakeholders, including universities (and other knowledge-generating research institutions), businesses, government programs, and workforce skills.

In short, different regions have fundamentally different strengths that policymakers must recognize. Boston, Palo Alto, Omaha, Atlanta, and Phoenix each has very different indigenous businesses, universities and other research institutions, workers, and histories, all of which determines the viability of innovation cluster development and the flavor of any potential industrial agglomeration. Specifically, regions have:

- Distinct R&D institutions, including universities, federal labs, and industrial research centers, determining the degree to which, and the nature of, ideas that "spillover" into the local community, encouraging small business formation and commercialization.

- Workforces and management pools with varying skills and education levels, determining the ease and speed with which new companies can develop, hire employees, and produce new products.

- Different amounts and types of capital available for investment in new businesses and nascent industries, affecting the success that R&D spillover has in the creation of innovative companies.

Boston and Silicon Valley, of course, have powerful research universities, highly competitive local companies that make large annual R&D investments, a well-educated and highly skilled workforce, significant venture capital expertise and financing, and plenty of people with a range of critical business skills. The soil in these places was properly fertilized decades ago—including with federal research and development money and key support for such pioneering companies as

chipmaker Fairchild Industries—just waiting for a seed or two to set off a chain reaction that led to the emergence of world-class centers of high-tech industrial agglomeration.

Now, this doesn't mean that regions without all the inherent pro-innovation characteristics of Silicon Valley can't develop into successful innovation clusters. Quite the contrary. Look no further than North Carolina's Research Triangle Park's now-thriving biotechnology cluster, the Dallas-Austin-San Antonio computer chip and computer software corridor, Seattle's booming software cluster, or the budding nanotechnology cluster in upstate New York. All four of these clusters had some but not all of the ingredients needed, such as strong research institutions, major industrial companies, nearby financial centers and key workforce and management talent. And they all required local leadership to coalesce the inherent cluster capabilities and attract the other ingredients that were lacking.

These clusters and others developed relatively successfully by building on their own inherent strengths. They took advantage of the makeup of their own soil, developing successful clusters of competing companies with distinctively local character. This is the takeaway message for policymakers: Regions are different and an embrace of these local differences is the key to encouraging the development of innovation clusters on the scale and in the image of the local environment. Effective regional cluster policy must, therefore, leverage existing strengths, competitive advantages, and local stakeholders to encourage development that fits the place. Ineffective regional cluster policy would attempt, for example, to build a biotech cluster in a region with little or no indigenous life sciences companies, research universities, or established technical workforce.

So what are some of the local ingredients that contribute to the development of a successful innovation cluster? We've already highlighted the need for institutions of knowledge creation, at least the beginnings of groups of similar businesses, industry-specific managerial and technical talent, a skilled workforce, and a budding network of ancillary businesses and legal and financial services to help the cluster grow. Then patience and leadership are required to bring this all together into an effective cluster. Let's briefly consider each of these ingredients in more detail.

"Gazelle" jobs

Jobs in gazelle companies (firms with annual sales revenue that has grown 20 percent or more for four straight years) as a share of total employment

The top five	Jobs in fast-growing companies as a percentage of total employment
1. Nebraska	20.8%
2. New York	12.3%
3. New Jersey	11.0%
4. Washington	10.2%
5. Minnesota	9.9%
U.S. Average	**8.0%**

Source: Robert Fairlie, 2007 data.

The top five movers	2002 rank*	2008 rank	Change '02-'08
1. Nebraska	36	1	↑35
2. Alaska	46	20	↑26
3. Arkansas	41	18	↑23
4. Nevada	33	13	↑20
5. Delaware	25	6	↑19

* 2002 state ranks have been revised for data comparability.

Source: Information Technology and Innovation Foundation.
All data from ITIF drawn from its "The 2008 New Economy Index."

The existence of institutions of knowledge creation

Innovative companies were once innovative ideas, many of which came from the scientists, professors, and engineers that work at universities, corporate R&D facilities, and government laboratories. The "spillover" of ideas from these knowledge-creation institutions (and their intellectual property practices) to the local community and network of entrepreneurs is the central process that takes place in fertile innovation clusters. As more and more ideas move from labs to eager individuals and their business partners, scores of innovative businesses are started, feeding an auspicious cycle.

Celebrated are the roles played by Stanford University in Silicon Valley and the Massachusetts Institute of Technology in Boston in knowledge creation. Less well-known but no less important are the roles played by the Rensselaer Polytechnic Institute in Albany, the University of Pittsburgh and Carnegie Mellon University in Pittsburgh, Columbia University in New York City, and the University of Texas in Austin.

These and other research universities boast technology-transfer operations that help create startups in their local and regional communities.[15] But other universities and research institutions

have not yet developed their tech-transfer capabilities in ways that enrich the regions they inhabit, depriving their communities of the innovation spillovers necessary to build vibrant clusters.

The availability of capital

A good idea doesn't guarantee the development of a profitable company. Without significant, consistent, and affordable capital, the spillover of ideas from knowledge-creating institutions isn't enough to make innovative companies. Venture capital, angel investment, and public financing are integral to the creation and growth of the small companies that are the bedrock of innovation clusters.

The lack of seed-stage and early-stage capital financing, the so-called "valley of death," poses a significant challenge to growing companies and an exciting target for cluster policymakers. This valley of death has only been widened and deepened by the recent economic turmoil.

Angel investment dropped 28 percent in 2008, indicating a severe contraction in the availability of capital to help young companies get their start in business.[16] And the average investment by venture capital firms in 2008 was $8.3 million, with only about 4 percent of the capital going to early-stage companies.[17] In the first quarter of 2009, investment activity was down 47 percent in dollars and 37 percent in deals from the fourth quarter of 2008, which was itself a down quarter. These numbers represent the lowest venture capital investment levels since 1997.[18]

We must also remember that new companies aren't the only innovative companies in a cluster. A recent Small Business Administration study[19] showed that innovative companies are not just startup companies. There are about 375,000 so-called "high-impact" companies spread across the country, defined as those having "sales of which have at least doubled over the most recent four-year period and which have an employment growth quantifier of two or greater over the same period." Interestingly, these companies, which include high-tech startups, account for almost all of the private sector employment and revenue growth in the economy, even though they only constitute 2 to 3 percent of all companies. Yet only 2.8 percent of these companies are 10 years old or younger. These established businesses sometimes lead the innovation activities of a particular region, and are integral components in a region's economic geography.

The economic downturn of the past year or so has made credit exceedingly hard to come by for even these larger, more established companies. Banks have cut their lending to even the most strong and well-established innovative companies in response to tough economic conditions. All of these extraordinary credit difficulties have forced even large, deep-rooted companies to cut back on their innovation activities and product development. Finding ways to help established businesses overcome these financing hurdles will be critically important to the development of young innovation clusters.

Moreover, state financing is more difficult to come by. State governments, many of which have significant grant programs designed to encourage technology-based economic development by lending to innovative companies, are dealing with budget crises and have had to cut back drastically on their lending. As we noted above, states including Ohio, Kansas, Connecticut, and Pennsylvania, have either reduced economic development spending or encouraged large reorganizations of programs to control it.[20]

Fastest growing firms

The number of Deloitte Technology Fast 500 and Inc. 500 firms as a share of total firms

The top five	Percentage of firms that are fast growing
1. Massachusetts	0.037%
2. Virginia	0.035%
3. Utah	0.027%
4. Maryland	0.023%
5. New Jersey	0.021%
U.S. Average	**0.013%**

Source: Deloitte Fast 500, 2006 and 2007 data and Inc. 500, 2007 and 2008 data.

The top five movers	2007 rank	2008 rank	Change '07-'08
1. West Virginia	49	29	↑20
2. North Dakota	47	33	↑14
3. Wisconsin	38	27	↑11
4. Kansas	36	26	↑10
4. Rhode Island	42	32	↑10

Source: Information Technology and Innovation Foundation.

Venture capital

Venture capital invested as a share of worker earnings

The top five	Venture capital as a percentage of worker earnings
1. California	1.5%
2. Massachusetts	1.4%
3. Washington	0.8%
4. Colorado	0.6%
5. Maryland	0.4%
U.S. Average	**0.4%**

Source: PricewaterhouseCoopers/Venture Economics/NVCA, 2007–2008 data.

The top five movers	2002 rank*	2008 rank	Change '02-'08
1. New Mexico	44	8	↑36
2. Vermont	29	15	↑14
3. Tennessee	37	25	↑12
4. Mississippi	43	33	↑10
5. Oklahoma	39	30	↑9

* 2002 state ranks have been revised for data comparability.

Source: Information Technology and Innovation Foundation.

The presence of high-skill labor alongside programs to spur talent generation

Without employees with the skills necessary to do innovative, often high-tech work, new and expanded businesses could never get off the ground. That is why a region that is to become a more successful cluster must not only have lots of entrepreneurs who can start companies, but the availability of eager, dedicated, and talented workers who have the energy and skills to bring innovative ideas to life. Workforce development programs are crucial to the development and maintenance of a highly skilled workforce, and a smart policy choice for regions hoping to grow new companies.

These new companies in turn help boost job growth. Between 1994 and 2006, for example, high-impact companies with fewer than 500 employees created 58 percent of all new jobs.[21] Of course, many of these new companies failed or were acquired by others, resulting in plenty of jobs lost. But that "churn" represents a dynamic innovation economy in action. That's why states struggling with the downturn of the American manufacturing sector, especially the rust belt states of the Midwest, have begun to embrace workforce development programs to boost high-tech job growth.

Michigan, for example, awards startup grants and provides training to fill job vacancies in high-demand fields that will bolster further economic growth to more than 20 "regional skills alliances." Or consider Pennsylvania, which has an Industry Partnerships program that brings together employers and workers in the same industry cluster to discuss overlapping labor issues, encouraging hiring and the development of skilled workers. The Pennsylvania program has trained more than 70,000 employees since 2005, growing high-skill jobs in innovative companies.[22]

Highly skilled labor is essential to the growth of new companies and innovation clusters—workforce programs that encourage the development of highly skilled labor represent a prescient recognition of the importance of training and retraining our labor force for a new generation of American ingenuity.

Entrepreneurial activity

The adjusted number of entrepreneurs starting new businesses

The top five	Adjusted number of entrepreneurs as a percentage of population
1. Montana	0.47%
2. Georgia	0.43%
3. Vermont	0.42%
4. Mississippi	0.42%
5. Louisiana	0.39%
U.S. Average	**0.30%**

Source: Robert Fairlie, 2007 data

The top five movers	2007 rank	2008 rank	Change '07-'08
1. Tennessee	41	12	↑29
2. Massachusetts	43	16	↑27
3. Louisiana	30	5	↑25
4. Kentucky	42	25	↑17
4. South Dakota	27	10	↑17

Source: Information Technology and Innovation Foundation.

Networks

Networks, physical and virtual, are integral to spurring the development of industry clusters. When companies, universities, workers, policymakers, and sources of capital are in close and frequent contact, clusters are strengthened. In the absence of these networks, clusters struggle to develop to their full potential.

Networks are important because collaboration is important. The first to comment on the relational networks between companies and entire industries was economist Alfred Marshall, who in his 1890 *Principles of Economics* highlighted the agglomeration of certain industries into districts across England. The impact of his ideas waxed and waned until the early 1990s, when Michael Porter and others gave birth to a wave of scholarship on the role of clustering in economic development, specifically examining the collaboration and exchange of ideas between companies with complementary and overlapping professional interests.

Scholars, policymakers, and others who study the origination and development of industry clusters have highlighted the importance of networks, of regional, multi-stakeholder relationships, on the success of a cluster. University of North Carolina professor Maryann Feldman, for example, notes that "as technology allows greater communication at long distance, we experiment with

distant collaboration and knowledge sharing [because] there is simply no substitute for just being there—being at the place where exciting work is taking place, where high-content unstructured conversations take place, and where the unexpected may be explored and spark something new."[23]

Case in point: The state of New York, the city of Albany, the State University of New York, local and regional businesses, and labor leaders have networked together over the past 10 years or so to create the College of Nanoscale Science and Engineering and the Albany Nanotech complex, investing billions of dollars, attracting hundreds of high-tech companies from around the world to set up shop in their $5 billion nanotech complex, and spurring the creation of new products and new businesses. This has all been done through a collaborative web of staggering scale, with government, business, and university leaders; high school, college, and graduate students; labor leaders and venture capital and angel investment professionals utilizing each other's unique strengths and expertise to put Albany back on the cutting edge.[24]

Austin, Texas has also developed a remarkable regional economic stakeholder network, resulting in the area's dominance as a computer chip cluster. The city's leadership worked hard in the 1980s to land SEMATECH, the public-private non-profit consortium of semiconductor manufacturers formed to boost innovation in the U.S. chip industry, then under siege from Asian competitors. This critical network of companies spawned new start-up companies as SEMATECH developed.

In addition, Austin Ventures, a $3 billion venture capital firm, as well as several other financing firms, partnered with a regional policymakers, local entrepreneurs, and most prominently, the University of Texas' researchers and university leaders to build a cluster of profound success, commercializing university technology and forming companies. Networking Austin's stakeholders turned the city from a college town into an international chip hub.

As we consider regional innovation strategies to spur economic development and the growth of regional centers of innovation, we would be wise to make supporting the development and strengthening of regional networks a central focus. Targeted federal support has worked in the past and can work again.

Patents

The number of patents issued to companies or individuals per 1,000 workers

The top five	Adjusted number of entrepreneurs as a percentage of population
1. Idaho	2.66
2. Washington	1.71
3. California	1.35
4. Colorado	1.26
5. Delaware	1.22
U.S. Average	**0.74**

Source: Robert Fairlie, 2007 data.

The top five movers	2002 rank*	2008 rank	Change '02-'08
1. Massachusetts	17	7	↑10
2. Maine	42	32	↑10
3. Washington	8	10	↑2
4. South Dakota	48	41	↑7
4. Kansas	38	29	↑7

* 2002 state ranks have been revised for data comparability.

Source: Information Technology and Innovation Foundation.

Patience in the Creation of Clusters

Patience really does make perfect. Regional and national policymakers must realize that it takes time and a sustained effort to create innovation clusters. Policymakers who expect initiatives to sprout full-fledged industry clusters overnight will be disappointed and are likely to give up before their efforts actually yield promising results. The existing research shows that the evolution of clusters can take many years, often decades.

The experience of the North Carolina Research Triangle is a very useful case study, providing a hint to the significant investment of time and money that is required to create or strengthen an innovation cluster. In North Carolina, the explicit decision was made in the 1960s to invest heavily in universities and research infrastructure to develop a relatively rural area into a life sciences innovation cluster. Of particular importance: local leaders drew two key national labs, one from the Environmental Protection Agency and one from the National Institutes of Health, to locate near their universities.[25]

Today the Research Triangle employs thousands of people, houses more than 170 high-tech and high-paying companies, and has spurred over 1,500 startups since 1970. It can be argued that a cluster has successfully been created—but the process has taken a very long time, and required sustained levels of investment. And it was launched at a time when few other regions were aiming for the same position.[26]

So what can policymakers learn from the obvious success of the North Carolina Research Triangle? Namely, that a sustained and large investment of time, money, expertise and leadership is not only desirable but fundamentally necessary to the creation of research clusters across the nation. An analysis of biotechnology clusters across the United States by Joseph Cortright found that "the profile of the three metropolitan areas that have successfully developed a significant biotech presence in the past decade (Raleigh-Durham, San Diego, and Seattle) suggest the level of effort required. Each of these areas has had an average of $500 million annually in funding from the National Institutes of Health (in 2001 dollars) for more than a decade, and $750 million in new venture capital investment during the past six years. And each area also has one or more of the nation's 20 top-ranked medical research universities, and two or more of the nations' 50 principal biotechnology venture capital investment firms."[27]

Another example of a region taking this lesson to heart is the Greater Phoenix region, where the Arizona state government and Arizona State University have prepared a variety of educational, R&D, financing, business development, and workforce development programs centered around the state's comparative economic advantages.[28] Other examples include Pittsburgh and Philadelphia, where life sciences clusters are growing after state and local officials, businesses, and university leaders teamed up to develop comprehensive clusters policies.[29]

In all of these places, policymakers had to overcome the short-term political obstacles to investing in long-term innovation cluster development programs. Often times, local politicians don't see benefits of their investment during their terms in office, which leads them to look for more quick-fix solutions to economic development, such as tax breaks and other incentives to draw big employers to their communities.[30] This can result in state and local political leaders competing hard to attract new businesses with immediate job payoffs but with little long-term economic benefit to the region.

Cluster investment, lacking immediate payoffs for politically powerful constituencies, thus has historically had limited appeal compared to the alternative "locational" strategy of attracting large investments from elsewhere. This political reality presents a significant challenge to overcome, and is another piece of evidence that patience and thoughtful leadership is fundamental to cluster success. Yet the more academics and policymakers alike learn about clusters, the more it becomes apparent that growing existing clusters doesn't require the same timeline. Once a cluster's comparative advantages are understood, and all the potential players in a cluster connect in one or several different ways, providing the last necessary ingredients to foster success is an easier proposition economically, but also politically.

Once a cluster's comparative advantages are understood, providing the last necessary ingredients to foster success is an easier proposition economically and politically.

Leadership

Inherent in the concept of clusters is the notion of shared advantage—the regional co-location of positive externalities. It's not surprising, therefore, that collaboration is an important ingredient of cluster success. But collaboration and shared advantages do not spring full-bloom into being. Conscious leadership plays an important role.

Sometimes leadership can seem to be inherent in the local institutions themselves, as clusters develop on their own over decades without any particular set of individuals or institutions consciously thinking about their development. All that was needed were basic research and development money, strong research institutions and a comparative advantage in particular industries. Silicon Valley and the Route 128 corridor fall into this category, though over the years Stanford University and the Massachusetts Institute of Technology increasingly provided the intellectual leadership to champion the commercialization of technologies brewing on campus.

Other innovation clusters, however, required decisive local leadership to begin to flourish. Consider San Diego's CONNECT program. A number of business, educational, and political leaders in San Diego in the late 1980s, among them University of California, San Diego Chancellor Richard Atkinson, Daniel Pegg, chairman of the San Diego Regional Economic Development Corporation, the CEO of communications chip software pioneer QUALCOMM, Inc. Irwin Jacobs, and venture capitalist Buzz Woolley of Girard Capital, came together with the express purpose of refashioning San Diego to compete in the new "knowledge economy." Their hard work and leadership spurred the creation of the multi-dimensional CONNECT program that has supported the creation and development of over 1,200 companies, many new jobs, and led San Diego to be ranked as one of the top biotech innovation clusters in the country.[31]

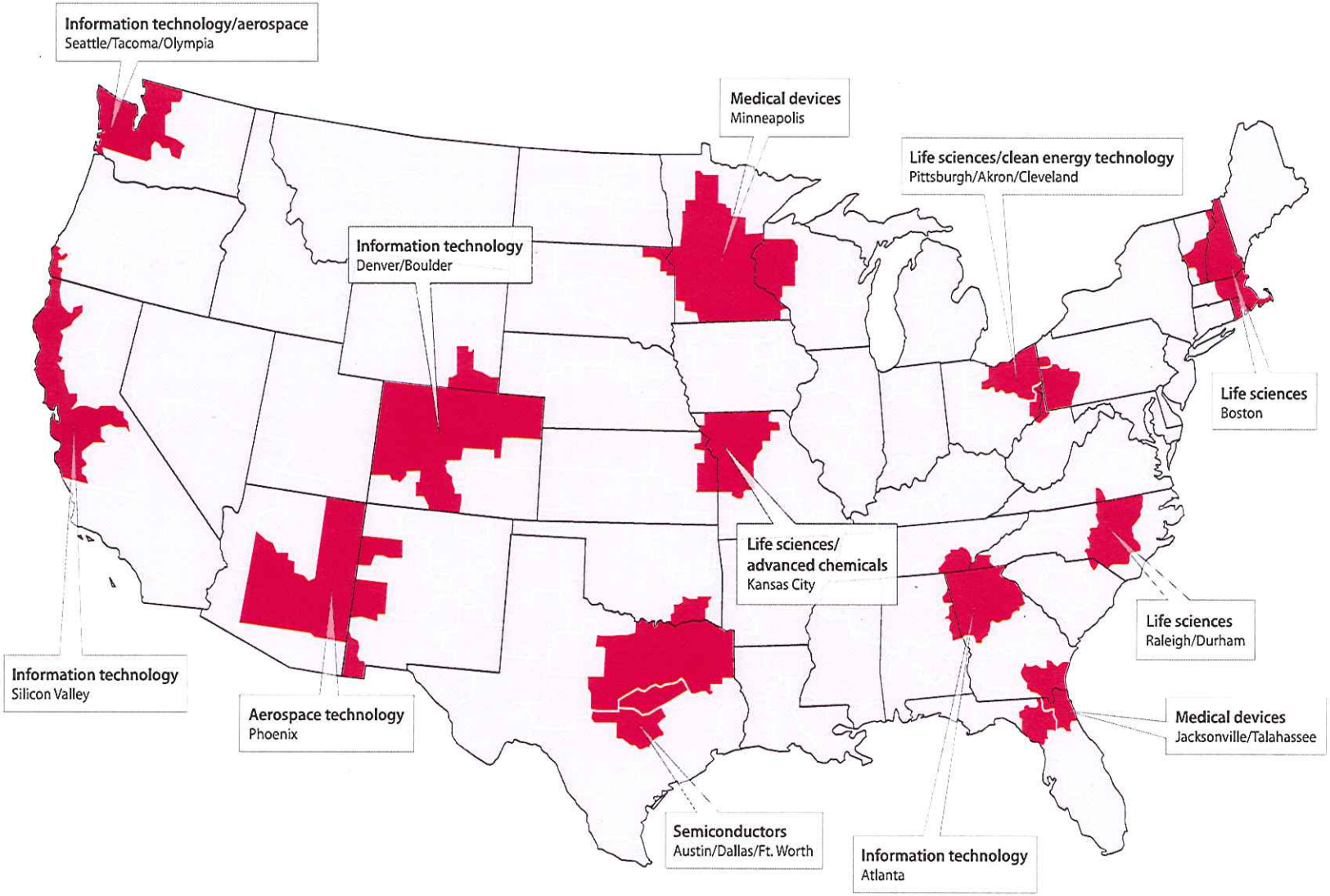
Or consider Toledo, Ohio. The University of Toledo, recognizing its strong engineering and manufacturing science programs and the city's highly skilled workforce and economic infrastructure, led a 20-year effort to create a new photovoltaics and clean-energy cluster. UT has assembled a team of world-class faculty in photovoltaics and has built laboratories and support centers that have spun off dozens of businesses and reinvigorated the city. In partnership, the state of Ohio committed $18.6 million to UT in 2007 to spur the continued development of the photovoltaics cluster, generate new high-tech jobs, and to increase industry revenue.[32] From this university and government leadership, the Wright Center for Photovoltaics Innovation and Commercializiation is now an internationally recognized photovoltaics research and development center with infrastructure attractive to companies incubating the future generations of photovoltaic technologies.

These stories of leadership have played out all across the country, from the optoelectronics cluster in Boulder, spurred by the leadership of the University of Colorado, the National Science Foundation, and local business leaders, to the Minneapolis medical devices cluster, sparked by the leadership of officials at the University of Minnesota. The development of innovation clusters often results from the strong, decisive action of local institutions and their leaders.

So the upshot: Geographic differentiation, a critical mass of business and finance skills, innovation networks both physical and virtual, patience and leadership can combine to create competitive regional innovation clusters across the country. How do federal policies help catalyze the creation of these clusters? Or more accurately, how can federal policies be improved to catalyze the creation and growth of clusters? We now turn to these questions.

A SNAPSHOT OF U.S. INNOVATION CLUSTERS

A selection of high-tech clusters in different parts of our country



April, 2009

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The Future of Economic Incentives

Although state and local budgets have been strained by the current economic crisis, incentive funds are still available in many places for the most viable projects.

Tracey Hyatt Bosman, CEcD, Director, Noah Shlaes, CRE, FRICS, Managing Director, Strategic Consulting, Grubb & Ellis (Feb/Mar 09)

New national leadership, market uncertainty, recession, and low consumer confidence have combined to create a very different landscape from that of a year ago. When the fundamentals behind corporate decisions have changed this much, it's time to pause and consider the fundamentals. Rules of thumb and familiar behavior patterns break down, but the building blocks of location selection, economic incentives, and negotiation remain unchanged.

So what does this mean for the future of economic incentives? Change is already evident in the programs offered, the companies seeking them, and the environment in which they are negotiated. Patterns are beginning to emerge, but the field is still full of conflicting information. To make sense of it, we've surveyed economic development agencies and real estate professionals to identify what's changed and what hasn't. We'll look at local, state, and federal programs, and at recent experience from across the country.

The Legislative Environment

This year will mark the clash of budget realities with the dire need for economic development. A down economy is precisely the situation that makes communities work harder to bring in jobs and investment. But 2009 will also be a time of revenue shortfalls and shrinking budgets, and the balance between them will not be even across all markets.

The Center for Budget and Policy Priorities reports 44 states face budget deficits in either fiscal year 2009 or 2010. The only states expected to be in the black are Texas, West Virginia, Montana, Alaska, Wyoming, and North Dakota.

Some states are facing mid-year shortfalls. Florida, for example, is faced with a $2.3 billion deficit for FY 2009. As a result, state lawmakers are eliminating $24 million from Florida's Quick Action Closing Fund, a grant program used to bolster business attraction and retention efforts. Other states may squeak through 2009, but be faced with reduced budgets in July, when most begin a new fiscal year.

Yet it would be wrong to assume that 2009 will be a bad year for incentives, even in states facing a shortfall. First, by all economic forecasts, we should expect fewer companies to be investing in new locations. There will still be movement, but the "new development pie" will be smaller. This reduces the candidate pool for incentive programs. Less money will chase fewer projects, so winners may end up better off.

Second, many states are holding the line in the face of widespread budget woes, and even expanding economic development incentive programs. Jay Nixon, Missouri's new governor, is already working to expand benefits under the State's Quality Jobs Program, citing the need to "get Missourians back to work and support small-business growth during these challenging economic times." Under the Quality Jobs Program, eligible companies are able to retain the state withholding tax of new jobs and/or claim state tax credits, which are refundable, transferable, and/or saleable. Governor Nixon also proposes the creation of a low-cost, direct-loan program for small businesses and the use of tax credits to offset pre-employment training expenses.

In Virginia, Governor Tim Kaine is pursuing a $5 million increase in the Governor's Opportunity Fund, and legislation is being considered that would raise the cap on the Virginia Investment Partnership Program. And other states, like South Carolina and Utah, aren't expecting large increases to their incentive funds, but report continued strong support for economic development programs despite budget issues.

Last summer the Commonwealth of Puerto Rico established very aggressive incentive programs through its Economic Incentives for the Development of Puerto Rico Act, including a reduced income tax rate of zero to 1 percent for target industries, a $5,000 per job tax credit for employment created in target municipalities, and a credit of up to 10 percent of industrial energy cost.

The Local Level

To identify trends at the local level, we surveyed senior Grubb & Ellis transaction professionals. In general, it seems local incentives are not falling off:

Minneapolis, MN: Bruce Maus notes that recessionary pains are felt most intensely at the local level and so it is the local organizations that are frequently the most creative. "Cash will be short, but free land, tax abatement, tax increment financing, and other programs that don't require a city or county to write a check to start the project will still be available," he says.

Oklahoma City, OK: Mark Beffort expects to see continued aggressive pursuit of economic development projects in his area. "Oklahoma City is very aggressive. They see the benefit if it means jobs. This is very visible in the recent establishment of a new TIF district to support Devon Energy's proposed new 1.9-million-square-foot corporate headquarters. In addition, in '08 we (the public) passed an incentive to relocate the Seattle Sonics (now Thunder) to Oklahoma City. We have raised well in excess of $1 billion to improve infrastructure and entertainment."

Lee County, FL: In an effort to turn the economic tide, Lee County, Florida, recently established an unprecedented $25 million Financial Incentives for Recruiting Strategic Targets (FIRST) Initiative. The new incentive offers cash to companies in high-impact industries, such as life sciences.

Washington, D.C.: "We believe that economic development officials are more intent than ever to retain existing/remaining jobs and to promote emerging

areas where they have made significant investments," reports Grubb &Ellis' Bruce McNair. He reports securing $15 million in real estate tax waivers to motivate a nonprofit client to relocate into an emerging market in the District of Columbia. He does note, "This position may change as the economy continues to deteriorate and local budget pressures grow."

Incentive Structure: Self-Funding Makes a Difference

Some incentives are easier on the budget than others. Incentives funding directly tied to new tax revenues generated by the project are easier to stomach when the economy is down because they don't divert money from existing funding priorities.

EDGE — Economic Development for a Growing Economy (EDGE) programs in Indiana and Illinois let companies retain part of income tax withheld from new employees instead of sending it on to the state. This payment vehicle short cuts the administration process, while leaving employees unaffected, but it also assures that the state only gives up money that is directly attributable to those new jobs.

Property tax abatement and tax increment financing (TIF) districts are similarly self-adjusting, in that incentives are based on new revenue to the taxing entity. Reports from local economic developers indicate continued willingness to offer these programs in 2009.

Infrastructure investment remains in favor with all levels of government, because of the immediate, reliable impact coming from construction salaries and purchase of building material. Economic development organizations have shown a preference for these "safe" investments, which lend greater weight to the long-term projections of companies with significant capital investment. President Obama's budget is also expected to include funds for infrastructure. Companies that pursue construction projects in 2009 will likely find communities willing to help with needed infrastructure improvements.

Tax credits — Annual budgetary debates often gloss over tax credits, which are typically established by state statute. We expect these programs to remain largely untouched, with a few exceptions. California will "limit use of research and enterprise zone tax credits in the 2008 and 2009 tax year" by reducing the percentage of the franchise or income tax due that can be offset. However, this incentive structure is only relevant to the extent that companies have taxable income.

Discretionary grants — The toughest battles involve programs that rely on grant monies awarded during budgetary processes. These include the discretionary "deal-closing funds" that many states use to cinch projects, as well as training incentives that rely on annual appropriations. While drastic cuts have not yet appeared across the board, heated discussions will be a feature of the current legislative sessions.

Financing — Financing-driven incentives show a mixed outlook. The credit crunch makes these incentives more important than in the past. Local and state financing assistance that relies on federal programs like Community Development Block Grants or the Small Business Administration (SBA) may see an increase, especially under the Obama administration. However, private-sector participation requirements are making it tougher to put together a successful package. In Carlsbad, Calif., Grubb &Ellis' Mark Randall reports, "The secondary market for SBA loans has become quite slow, which will affect the extent to which the SBA can leverage its funds."

Foreign investment — In Greenville, N.C., Steve Navarro, president of Grubb & Ellis | The Furman Company, expects more emphasis on federally assisted programs to cover the gap left by the banking community. One potential source is the federal investor visa (or EB5) program, which awards a U.S. visa to foreign individuals who create U.S. jobs through investment in target geographies. Navarro and colleague Allen Ballew see this program as a way to bring foreign capital and American jobs to South Carolina. They have become one of 17 designated regional centers nationwide to sponsor EB5 immigration investment. Half of the 10,000 visas available under this program will be awarded through these regional centers. Other entities, including economic development organizations, have taken a similar approach.

Clawback funds — The dark side of incentive implementation has also revealed one bright spot. Clawback agreements, which kick in when companies fail to meet agreed-upon investment and job-creation targets, may require them to repay monies received. The good news in this bad situation is that these monies are frequently being added back to the "pot" above and beyond budgetary appropriations. Likewise, monies earmarked — even if not paid out — may become available when companies find themselves unable to proceed with earlier plans.

New Negotiating Environment

In 2009, remember that all incentive applications will receive greater scrutiny than in the past. Governments are under extreme pressure to make ends meet and will need to be convinced that the project is a safe investment (i.e., the company has the financial resources to carry through and stay liquid) and that the return on investment (job creation, job quality, and tax revenue) warrants the expenditure of funds.

Those that survive the review process will face a sharper pencil during negotiations. Even markets with money and the political will to spend it will be very focused on good stewardship of scarce funds. "Whereas before we might have thrown in an extra $50,000 just to make sure we won the project, now we're more likely to put out a lower number and keep our fingers crossed," noted one state official. "Companies will need to explicitly tell us what bridge we need to cross."

This year, far fewer companies are pulling the trigger on new investments, so governments show increased interest in smaller projects. We were surprised by the warm response to a recent incentives assignment — a small (two-person, 35,000-square-foot) distribution facility was offered significant up-front cash grants. This was a big change from the environment of two years ago, with one community noting, "In today's economy, all jobs are good jobs."

Sorting Out Retention Incentives

As corporations struggle with reduced demand for service and products, they naturally consider consolidations, reductions, and closings. Requests for proposal (for corporate real estate services) arriving in our offices show a pronounced shift in emphasis, from "strategic planning for future expansion" to "cost reduction and identification of consolidation opportunities." This is at odds with the traditional motivations for granting economic development incentives, namely the expansion of a local economy. In a stalled or shrinking economy, retention is the equivalent of growth, but it presents several challenges.

First, who is eligible for retention incentives? Spending to create new growth is easy to defend, but awards to companies that are already in place are grounds for grumbling among other companies. Successful arguments for retention incentives are usually based on a handful of arguments, consisting of the following:

• We have to make a choice. — Companies considering consolidation across multiple markets have a legitimate argument that the consolidation could be here, or it could be elsewhere.

• We'll be adding jobs somewhere. — The combined entity often ends up larger than the existing facility, when out-of-town components are included.

• This is a big commitment. — Companies may be shifting from a short-term relationship (a leased facility or noncrucial company functions) to capital investment, long-term job training, or development of a specialized facility.

Better Odds, Smaller Wins, More Accountability

The tug-of-war between budget shortfalls and a greater need for economic development continues. A lot is riding on current legislative sessions. While outcomes will vary based on geography, project type, and form of incentive, two principles remain as valid as ever:

1. Good projects will still see active recruitment. Look no further than IBM's 1,300-person technology service center in Dubuque, Iowa, which was accompanied by a $55 million incentive package. Or consider Michigan's approval of $335 million in tax credits for battery manufacturing plants.

2. Incentives do not make a bad location good. Companies consider the entire operating picture when making a location decision. Economic incentives are something they consider very late in the location selection process, when they've created a list of locations that work.

The mechanisms that fund incentives are strained by the current economic crisis, but their justification is stronger than ever, and strong incentive programs endure. They are characterized by increased accountability, tougher scrutiny of projects, and built-in self-funding. For a strong project in genuine need, the world has not changed that much.

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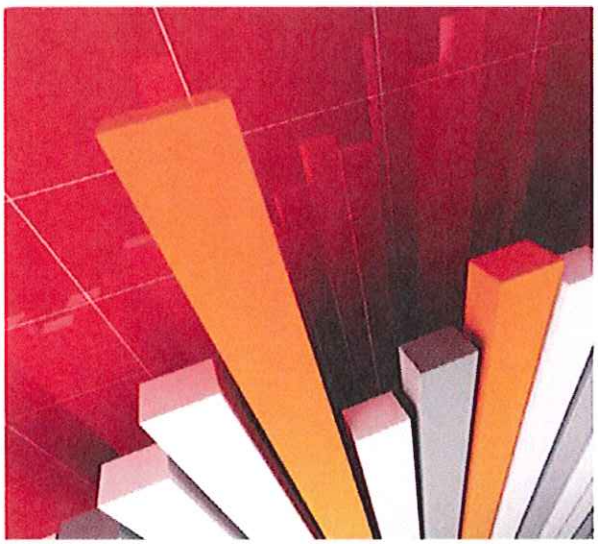
See Figure 8

Survey

2008—5th ANNUAL CONSULTANTS SURVEY



To see the full reports go online to http://www.areadevelopment.com/survey

For the fifth year in a row, *Area Development*'s editors have asked the consultants who work with industrial companies, as well as with economic development agencies, to take a survey similar to the one administered to our corporate executive readers. As was expected, the consultants rated the site selection factors differently than our corporate readers did, and the consultants' clients' plans differ from those of the corporate readership as well. Considering the fact that only slightly more than half of our Corporate Survey respondents (52 percent) said they use consultants' services when site selecting, these disparities come as no surprise.

What Types of Companies Are Consultants Serving?

First let's look at the types of companies that the responding consultants are serving (Chart A). Forty-seven percent of the responding consultants said their clients include warehouse/distribution firms; only 14 percent of those executives responding to our Corporate Survey were from this sector. A quarter of those responding to our Consultants Survey said they work with financial services firms, another group with little representation (just 3 percent) among our Corporate Survey respondents. To recap, 64 percent of the respondents to our 2008 Corporate Survey were with manufacturing firms; fewer than 40 percent of those responding to our 2008 Consultants Survey noted they have worked on a location or expansion project in one or more manufacturing sector.

Only 37 percent of the responding consultants have performed location studies for their clients, and 31 percent have engaged in incentives negotiations on their clients' behalf. Yet, the responding consultants seem to be the deal "closers," with more than half of them claiming they have ultimately been responsible for their clients' final site selection decisions (Chart B).

Of those consultants who claimed they do perform location studies for their clients, nearly half said their clients had already narrowed down the geographic area of search before calling them in; but 25 percent also said their clients expect the consultants to make the location decision for them (Chart C).

The majority of the respondents to our Consultants Survey (63 percent) are working for smaller companies in terms of employment numbers (fewer than 500 employees). More than half have worked with both investor-owned and privately held firms (Charts D and E).

Do Their Clients Have New Facilities Plans?

Once again I must note that this survey was conducted in late summer 2008; therefore, the responses might not reflect the events that took place during the year's final quarter. Nonetheless, the respondents to our 2008 Consultants Survey were about equally divided when asked if the downturn in the U.S. economy had affected their clients' facility plans: 50 percent of the responding consultants said their clients' new facility plans had been put on hold, with 28 percent saying their clients were closing/consolidating facilities. However, 47 percent of the responding consultants said their clients still planned to open new facilities (Chart F).

Of those respondents who claimed their clients expected to open new facilities, a third said they planned to do so within one year, and more than half said their clients had two-year new facility plans (Chart G). Only 11 percent said their clients had longer-range new facility plans (compared to the 20 percent of the Corporate Survey respondents with plans three or more years out). This might be an indication of the fact that the consultants' services are not utilized until their clients' plans are more firmly in place.

Nearly two-thirds of the respondents to our 2008 Consultants Survey said their clients who have new facility plans expect to open only one new facility. Just 13 percent said their clients had plans for three or more new facilities (Chart H). Interestingly, 28 percent of the Corporate Survey respondents with new facility plans expect to open three or more new facilities within the next five years.

Whereas nearly half of the 2008 Corporate Survey respondents' new facilities are planned as manufacturing establishments, only 27 percent of the consultants' clients' new facilities are expected to house manufacturing operations (Chart I). Nearly half (47 percent) of the responding consultants' clients' new facilities are expected to be headquarters, R&D, back office/call center, and other types of

Chart A

Percentage of responding consultants who have worked on location/expansion projects in following industries:

MANUFACTURING	
• Food/Beverages	38%
• Apparel	7%
• Wood Products/Furniture	11%
• Paper/Printing	10%
• Chemicals	22%
• Plastics & Rubber	19%
• Primary Metals	16%
• Fabricated Metals	23%
• Machinery	18%
• Computers/Peripheral Products	9%
• Electrical Eqpmt. & Components	13%
• Transp. Eqpmt. (incl. Automotive)	25%
• Medical & Scientific Instr.	16%
• Pharmaceuticals	23%
OTHER	
• Warehouse/Distribution	47%
• Financial Services/Ins.	26%
• Information Technology	21%
• Other	26%

Chart B

Percentage of respondents providing following services to their clients:

• Location studies	37%
• Incentives negotiations	31%
• Site selection decision	52%
• Construction	8%
• Other	8%

Chart C

When performing a location search, the percentage of respondents who find that their clients have:

Already gathered preliminary data	22%
Already narrowed down the geographic area in which they wish to locate	47%
Already chosen several "finalist" communities	8%
Expect the consultant to narrow or make the location decision for them	25%

Chart D

In terms of employment numbers, those companies utilizing the consultants' services are generally:

Small (20-99 employees)	28%
Mid-size (100-499 employees)	35%
Large (500-999 employees)	20%
Very large (1,000 or more employees)	24%

Chart E

Percentage of responding consultants who have recently done work for:

Investor-owned companies	18%
Privately held companies	30%
Both types of companies	52%

Chart F

Has the downturn in the U.S. economy affected clients' facility plans?

No – Still plan to open new facilities	47%
No – Still plan to increase hiring	16%
Yes – New facility plans put on hold	50%
Yes – Closing/consolidating facilities	28%
Yes – Reducing current employment	12%
Yes – Hiring plans deferred	16%

Chart G

Consultants' clients who expect to open new facilities plan to do so within:

1 year	32%
2 years	56%
3 years	6%
4 years or more	5%

Chart H

The number of facilities these companies plan to open:

1	64%
2	23%
3	3%
4	4%
5 or more	6%

facilities. This is nearly double the percentage of these types of facilities expected to be opened by the Corporate Survey respondents.

Many of the new facilities projects being worked on by the respondents to our 2008 Consultants Survey are slated for the South Atlantic (13 percent of the projects) — North Carolina, South Carolina, Virginia, West Virginia — and South (also 13 percent) — Alabama, Florida, Georgia, Louisiana, Mississippi. These regions are followed by the Midwest (12 percent) — Illinois, Indiana, Michigan, Ohio, Wisconsin — and the Middle Atlantic (12 percent) — Delaware, Maryland, New Jersey, New York, Pennsylvania (Chart J). Although only 7 percent of the Corporate Survey respondents planned new facilities for the Middle Atlantic region, the many more financial and information technology firms represented by the responding consultants might account for the difference in response between the two groups of survey-takers when it comes to activity in this region.

The responding consultants' clients plan more than a third (36 percent) of their new foreign facilities for Asia, with 16 percent slated for Mexico and 10 percent each for Canada and Eastern Europe (Chart K). These percentages are comparable to those reported by the Corporate Survey respondents.

However, fewer of the consultants' clients planned new foreign facilities will go to China than those projected to be established by the Corporate Survey respondents (35 percent of the consultants' clients' facilities as compared to 44 percent of the corporate respondents' facilities) as well as to India (16 percent as compared to 25 percent) (Chart L). Again, the disparities may be explained by the differences in operations between the responding consultants' client base and the corporate respondents.

Although about 40 percent+ of each group's (consultants' clients and corporate respondents) new foreign projects will be manufacturing facilities, a fifth of the foreign projects that the consultants' clients are working on are slated to be back office or call center type of operations (Chart M). Only 5 percent of the new foreign facilities to be estab-

lished by the respondents to our Corporate Survey will fit this description.

When asked if they had seen an increase in the number of companies establishing foreign facilities as opposed to domestic ones, only 29 percent of the respondents to our 2008 Consultants Survey said, "Yes" (Chart N). Last year, 48 percent said, "yes" in response to this question. In fact, 35 percent of the 2008 responding consultants said their clients had actually located a foreign facility back to the United States (Chart O). The respondents continue to see problems when helping clients to locate overseas, including regulatory and social/cultural issues (each type seen by 29 percent of the respondents), utility infrastructure (25 percent), and legal (22 percent) among others (Chart P).

What Are Their Clients' Site Selection Priorities?

The consultants were asked to rate the same site selection and quality-of-life factors as the Corporate Survey-takers as either "very important," "important," "minor consideration," or "of no importance." We once again added the "very important" and "important" ratings together and rounded to the nearest tenth of a percent in order to rank the factors in priority order (Chart Q).

This year the consultants ranked *state and local incentives* as the number-one priority of their clients, with 96.1 percent of the respondents rating this factor as either "very important" or "important (up from 90.9 percent last year, and compared to the 87.2 percent combined rating given this factor by the respondents to our 2008 Corporate Survey). The increased need to reduce costs in these tough economic times, as well as the fact that consultants consider incentives negotiation one of their primary responsibilities, is probably reflected by the heightened importance of *state and local incentives*.

In fact, more than half of the respondents to our 2008 Consultants Survey said they believe incentives have always been of great importance to their clients, and more than a third of the respondents felt incentives were more important now than in the past (Chart R). Nearly 60 percent of the responding consultants thought tax incentives, exemptions,

Chart I

Types of new domestic facilities to be opened by consultants' clients (as % of total new domestic projects):

Manufacturing	27%
Warehouse/Distribution	27%
Headquarters	14%
R&D	10%
Back Office/Call Center	14%
Other	9%

Chart J

Domestic location projects responding consultants are working on are slated for the following regions (as % of total new domestic projects):

New England (CT, MA, ME, NH, RI, VT)	5%
Middle Atlantic (DE, MD, NJ, NY, PA)	12%
South Atlantic (NC, SC, VA, WV)	13%
Mid-South (AR, KY, MO, TN)	8%
South (AL, FL, GA, LA, MS)	13%
Midwest (IL, IN, MI, OH, WI)	12%
Plains (IA, KS, MN, NE, ND, SD)	6%
Mountain (CO, ID, MT, UT, WY)	7%
Southwest (AZ, NM, OK, TX)	11%
West (CA, NV, OR, WA)	10%
Offshore (AK, HI, PR, VI)	2%

Chart K

Foreign location projects responding consultants are working on are slated for the following regions (as % of total new foreign projects):

Canada	10%
Caribbean	3%
Mexico	16%
Central America	3%
South America	6%
Western Europe	7%
Eastern Europe	10%
Middle East	3%
Africa	3%
Australia	2%
Asia	36%

Chart L

Of those projects going to Asia, % of total slated for:

China	35%
India	16%
Vietnam	9%
Singapore	13%
Malaysia	15%
Other Asian nation	13%

CONSULTANTS SURVEY

and the like were more important (up from 39 percent last year); and nearly half said other financial incentives such as grants, bonds, and loans were paramount in their clients' site selection decisions (up from 37 percent in 2007) (Chart S).

More than a third of the respondents to our Consultants Survey also reported that more communities were instituting investment and/or job creation requirements as a condition of awarding incentives than had done so in the past (Chart T). In response to a related question, more than a third of the responding consultants said they found incentives closing funds lacking when performing location studies (Chart U).

It should also be noted that the *tax exemptions* factor received an 89.9 percent combined rating in importance from the consultants this year and was ranked fifth among the factors. The *corporate tax rate* factor was ranked seventh with an 86.8 percent combined rating. This factor showed the second-largest gain in importance (12.4 percentage points) among the site selection factors rated by the consultants.

Interestingly, although more than two-thirds of those responding to our Consultants Survey said tightening credit markets were affecting their clients' facility plans (Chart V), only 58.5 percent rated *availability of long-term financing* as "very important" or "important." However, this was an 8.5 percentage point increase over last year — the third-highest jump in importance among the site selection factors.

Highway accessibility, which was ranked as the number-

one site selection factor by the respondents to our 2008 Corporate Survey, was ranked second in importance by the respondents to our Consultants Survey, with a 95.8 percent combined rating. A related factor, *proximity to markets* was ranked eighth with an 86.3 percent combined rating. The respondents to our Corporate Survey only ranked this factor 12th with a 78.7 percent combined rating. As previously noted, the responding consultants' priorities often diverge from those of the Corporate Survey respondents; remember that only about half of the respondents to our Corporate Survey reported they use consultants' services when site selecting.

The respondents to our Consultants Survey ranked *availability of skilled labor* as third in importance among the site selection factors, with a 94.9 percent combined rating, down from second place last year. However, this is higher than the sixth-place ranking given this factor by the respondents to our Corporate Survey. Consultants are keenly aware that a low-cost location won't spell success for a company if skilled labor is not available.

Energy availability and costs was ranked fourth by the responding consultants, who gave it a 90.7 percent combined "very important" or "important" rating. More than 40 percent of the respondents said rising energy costs (especially over the period preceding this survey) were impacting their clients' facility operations and also affecting their supply and

Chart M

Types of new foreign facilities to be opened by consultants' clients (as % of total new foreign projects):

Manufacturing	45%
Warehouse/Distribution	17%
Headquarters	2%
R&D	7%
Back Office/Call Center	21%
Other	7%

Chart N

Have you seen an increase in the number of companies establishing foreign facilities as opposed to domestic ones over the last year?

Yes	29%
No	71%

Chart O

Have any of your clients relocated a facility back to the U.S. from a foreign location?

Yes	35%
No	65%

Chart P

Percentage of respondents that have encountered or foresee problems when helping clients to locate overseas:

Legal problems	22%
Regulatory problems	29%
Skilled labor shortage	17%
Land not available	9%
Utility infrastructure problems	25%
Transportation infrastructure problems	14%
Social/cultural issues	29%
Other problems	9%

Chart R

Relative importance of incentives to respondents' clients when making location decisions:

Have always been of great importance	52%
Are more important now than in the past	37%
Are less important now than in the past	11%

Chart S

Types of incentives consultants' clients consider most important when making a location decision?

Tax incentives (tax credits, exemptions, etc.)	57%
Financial incentives (grants, bonds, loans, etc.)	46%
Other incentives (land, utility-rate subsidies, infrastructure support, training, etc.)	36%

distribution network decisions (Chart W).

Increasing fuel costs are probably responsible for the heightened importance given to *railroad service*. Although this factor was only ranked 23rd by the responding consultants, it showed the largest increase in importance over last year's consultants' ratings; the rating of *railroad service* rose an astonishing 42 percent, with its combined rating in importance increasing from 35.1 percent to 50 percent. Remember that nearly half of the responding consultants said they have helped to site warehouse/distribution facilities; they and their clients have realized the energy costs savings that can be achieved through the use of *railroad service* over trucking.

Closely related to energy issues are environmental concerns. All the talk about "green" or sustainable development should be reflected in the consultants' ranking of the *environmental regulations* factor. However, this factor only bumped up slightly in importance to a 71.6 percent combined rating, and its 17th place ranking held steady. Nonetheless, when asked if environmental concerns were more important to their clients now than in the past, 72 percent of the respondents to our 2008 Consultants Survey said, "Yes" (Chart X). In response to this, 100 percent said their clients were undertaking energy-saving facility modifications, and 70 percent said their clients were also recycling or re-using waste products from their operations (Chart Y). However, unfortunately, nearly two thirds of the respondents said the communities they have worked with are not offering any specific incentives for green initiatives.

Occupancy and construction costs moved up to the sixth spot in the consultants' rankings this year, with an 87.1 percent combined rating, from 11th place in 2007, with an 84.4 percent combined rating. But, strangely enough, *labor costs* dropped from third place in last year's Consultants Survey, with a 93.8 percent combined importance rating, to tenth position in the 2008 Consultants Survey, receiving only an 82.8 percent combined rating — an 11 percentage point decline and the third-largest decrease in the ratings among the site selection factors. Labor is a recurring cost and I would have expected the consultants to say this factor was

Figure Q Combined Ratings* of 2008 Factors — Consultants Survey 2008

Ranking		2008	2007
1.	State and local incentives	**96.1**	90.9 (6)**
2.	Highway accessibility	**95.8**	97.6 (1)
3.	Availability of skilled labor	**94.9**	97.5 (2)
4.	Energy availability and costs	**90.7**	85.7 (9)
5.	Tax exemptions	**89.9**	88.5 (7)
6.	Occupancy or construction costs	**87.1**	84.4 (11)
7.	Corporate tax rate	**86.8**	74.4 (15T)
8.	Proximity to major markets	**86.3**	87.4 (8)
9.	Availability of land	**85.6**	93.6 (4)
10.	Labor costs	**82.8**	93.8 (3)
11.	Expedited or "fast-track" permitting	**77.9**	92.4 (5)
12	Available buildings	**76.9**	82.3 (12)
13.	Accessibility to major airport	**73.4**	74.4 (15T)
14.	Availability of advanced ICT services	**72.8**	84.8 (10)
15.	Proximity to suppliers	**72.3**	76.9 (13)
15T.	Low union profile	**72.3**	69.6 (19)
17.	Environmental regulations	**71.6**	70.5 (17)
18.	Right-to-work state	**68.9**	70.2 (18)
19.	Training programs	**67.0**	76.9 (13T)
20.	Availability of long-term financing	**58.5**	50.0 (23)
21.	Raw materials availability	**55.7**	57.9 (20)
22.	Proximity to technical university	**51.5**	55.9 (21)
23.	Railroad service	**50.0**	35.1 (24)
24.	Availability of unskilled labor	**48.4**	52.6 (22)
25.	Waterway or oceanport accessibility	**34.8**	32.5 (25)

Quality-of-life factors

Ranking			
1.	Ratings of public schools	**73.7**	78.5 (1T)
2.	Low crime rate	**71.6**	78.5 (1T)
3.	Healthcare facilities	**67.3**	65.3 (6)
4.	Colleges and universities in area	**66.4**	65.8 (5)
5.	Housing costs	**65.3**	75.7 (3)
6.	Housing availability	**63.6**	72.1 (4)
7.	Climate	**52.1**	43.6 (9)
8.	Recreational opportunities	**49.4**	56.5 (7)
9.	Cultural opportunities	**48.4**	48.7 (8)

*All figures are percentages and are the total of "very important" and "important" ratings of the Area Development Consultants Survey and are rounded to the nearest tenth of a percent.

**(2007 Ranking)

Chart T

Are the communities you have worked with instituting investment and/or job creation criteria, i.e., clawback provisions that must be met in order for companies to receive incentives?

Yes – This has always been the case	53%
Yes – More are doing so now than in the past	35%
No	11%

Chart U

Percentage of consultants who have found the following factors deficient when performing location studies:

Labor availability	39%
Incentive closing funds	37%
Advanced ICT services	10%
Pre-qualified sites	37%
Other factors	10%

Chart V

Is the tightening of credit markets affecting your clients' facility plans?

Yes	69%
No	31%

Chart W

Are rising energy costs impacting your clients' facility plans?

Yes – Affecting facility operations	43%
Yes – Affecting supply/distribution network decisions	45%
No	12%

Chart X

Are environmental concerns more important to your clients now than in the past?

Yes	72%
No	28%

Chart Y

Percentage of those responding "yes" whose clients are undertaking "green" measures:

Energy-saving facility modifications	100%
Change in supply or distribution methods	48%
Recycling or re-use of waste products, etc.	70%
Other measures	12%

Are the communities you have worked with offering specific incentives for "green" initiatives?

Yes	37%
No	63%

of greater importance to their clients then reflected by this year's results. Perhaps all of the recent employee layoffs are keeping these costs down and are responsible for this factor being given lower priority.

The factor showing the greatest decline in the ratings overall (14.5 percentage points) is *expedited or fast-track permitting*. Again, 50 percent of the respondents to our 2008 Consultants Survey said their clients' new facilities plans had been put on hold so "fast-tracking" projects might not be as important as in previous years.

And the site selection factor showing the second-largest drop in the ratings given by the responding consultants (down 12 percentage points) is *availability of advanced ICT services*. The respondents to our 2008 Consultants Survey ranked this factor 14th, with a 72.8 percent combined rating, down from 10th place in 2007, when they gave it an 84.8 percent combined "very important" or "important" rating. The rating of this factor was an anomaly in both the Corporate and Consultants surveys, and I offer up the same explanation for both. Our description of advanced ICT services last year was "high-speed Internet, wireless, VOIP, etc." This year we changed that to read "T1, T3, OC" — more esoteric terms. Next year, we'll try to keep it simple again and see if this factor bounces back up in the rankings.

Those responding to our 2008 Consultants Survey rated the same quality-of-life factors in first and second place as those responding last year: *ratings of public schools* was ranked first, with a 73.7 percent combined rating, followed by *low crime rate* in second place, with a 71.6 percent rating. The responding consultants also ranked the same two quality-of-life factors as least important as were ranked as such by the respondents to our 2008 Corporate Survey — *recreational opportunities* and *cultural opportunities*. Again, these factors take a back seat to other site selection and quality-of-life concerns during turbulent economic times.

Finally, 78 percent of the responding consultants said their clients consider whether there are business performing similar activities to theirs in the area of search (70 percent of

those responding to our Corporate Survey also said this was a consideration). And 41 percent of the responding consultants also said their clients elect to meet with representatives of these area businesses during the location process (Chart Z).

What Are the Consultants' Sources of Information?

Three-quarters of the respondents to our 2008 Consultants Survey said they obtain their site selection information from the Internet. Importantly, nearly 60 percent also use site magazines like *Area Development*, more than double the percentage reading general business publications for this type of information (Chart AA).

Nearly all of the respondents who use the Internet obtain website addresses from general search engines like Google or Yahoo. Yet more than two-fifths (43 percent) of those using the Internet for site information also get website addresses off of print ads in magazines such as ours (up from 33 percent making this claim last year). More than a third of the responding consultants also obtain website addresses from ads on websites like Area Development Online (Chart BB).

Finally, although 83 percent of those responding to our Consultants Survey found economic development websites most useful, nearly half of the respondents also found online site magazines such as Area Development Online and property databases like FastFacility.com equally useful (Chart CC).

In sum, the responses to our 2008 Consultants Survey were gathered during late summer and do not reflect the events taking place in the financial markets and throughout many manufacturing and other industries during the last quarter of 2008. The consultants' responses also differ — sometimes markedly — from those given by the corporate respondents. Remember that many of the corporate respondents claim they do not use the services of consultants when site selecting, and the consultants' reported client base includes many of the types of companies that were not well represented by the corporate respondents. In any event, the two sets of responses make for an interesting perspective on location analysis and facilities plans for the years ahead.

Chart Z

When site selecting, do your clients consider whether there are businesses performing similar activities to theirs in the area of search?

Yes	78%
No	22%

Percentage of respondents whose clients wish to meet with the following individuals during site visits:

Community representatives	54%
Representatives of area businesses similar to theirs	41%
Educational representatives	24%
Others	22%

Chart AA

Percentage of respondents using following sources of site selection information:

Internet	76%
Site magazines (*Area Development*, etc.)	59%
Vertical industry magazines (*Modern Plastics*, etc.)	16%
General business magazines (*BusinessWeek*, etc.)	26%
Financial publications (*The Wall Street Journal*, etc.)	32%
Response to direct mail/e-mail	24%
Response to telemarketing	6%

Chart BB

Of those using the Internet to help clients with their site and facility planning decisions, methods of obtaining website addresses:

From search engines, e.g., Google, Yahoo, etc.	94%
From print ads in magazines like *Area Development*	43%
From online ads on websites like AreaDevelopment.com	35%
From TV/radio ads	0%
Other methods	18%

Chart CC

Percentage of responding consultants finding the following online sites useful:

Economic development websites	83%
Site magazines (e.g., AreaDevelopment.com)	45%
Property databases (e.g., FastFacility.com)	48%
Real estate/location directories (e.g., CorporateLocationDirectory.com)	39%
B2B sites/online magazines (e.g., BusinessWeek.com)	11%
Blogs	0%

Forbes.com

Special Report

Table: The Best States For Business

Kurt Badenhausen, 09.23.09, 06:00 PM EDT

How the states match up.

Our Best States ranking measures six vital categories for businesses: costs, labor supply, regulatory environment, current economic climate, growth prospects and quality of life. We factor in 33 different points of data to determine the ranks in the six main areas. Business costs that include labor, energy and taxes are weighted the most heavily. We relied on nine different data providers. Moody's Economy.com is the most utilized resource.

OVERALL RANK	2008 RANK	STATE	BUSINESS COSTS RANK	LABOR RANK	REGULATORY ENVIRONMENT RANK	ECONOMIC CLIMATE RANK	GROWTH PROSPECTS RANK	QUALITY OF LIFE RANK	POPULATION	GROSS STATE PRODUCT ($BIL)	FIVE-YEAR CHANGE (%)	
1	1	Virginia	20	3	2	18	12	1	7,804,600	325	2.9	Tin
2	3	Washington	27	2	5	3	1	24	6,593,900	265	3.3	Ch
3	2	Utah	14	4	11	11	22	17	2,756,900	88	4.6	Ga
4	6	Colorado	33	1	17	5	2	15	4,975,800	203	2.8	Bill
5	4	North Carolina	3	15	4	16	33	34	9,305,500	329	2.8	Be
6	5	Georgia	28	7	1	23	15	33	9,765,700	329	1.9	So
7	13	North Dakota	6	37	26	8	4	21	643,200	24	4.1	Jol
8	9	Texas	29	23	10	1	3	39	24,553,400	926	3.7	Ric
9	10	Nebraska	11	24	23	23	23	10	1,788,800	67	2.1	Da
10	16	Oregon	17	6	41	13	17	25	3,820,400	147	4.5	Te
11	7	Idaho	12	17	35	10	36	18	1,534,900	46	4.5	C.I
12	14	Maryland	42	8	29	18	7	14	5,642,600	221	2.2	Ma
13	24	Montana	23	8	38	6	16	35	972,500	27	3.2	Bri
14	22	Iowa	9	39	16	22	46	8	3,009,100	110	3.0	Ch
15	21	Kansas	25	21	12	30	26	27	2,814,600	98	2.5	Ma
16	23	South Dakota	1	33	41	21	21	23	807,100	30	3.4	Mil
17	11	Minnesota	32	10	30	35	20	6	5,242,700	217	2.0	Tin
18	8	Florida	36	11	25	14	9	40	18,388,700	603	3.0	Ch
19	20	New Hampshire	41	5	46	26	5	4	1,320,400	51	2.0	Jol
20	26	Oklahoma	13	41	9	4	47	38	3,647,900	107	2.5	Bra

21	12	Delaware	5	12	26	40	39	36	878,500	49	1.9	Jac
22	31	Wyoming	2	29	48	15	26	32	536,000	22	2.9	Da Fre
23	17	Tennessee	10	39	3	38	34	42	6,244,600	210	2.2	Ph
24	35	Illinois	34	27	13	32	28	20	12,942,500	516	1.5	Pa
25	29	South Carolina	19	31	6	36	30	43	4,507,200	127	1.2	Ma
26	32	Arkansas	8	44	34	17	14	41	2,866,700	79	2.3	Mil
27	15	New Mexico	26	32	31	11	6	48	1,992,100	61	2.7	Bill
28	28	Alabama	22	42	19	25	13	45	4,679,700	137	2.4	Ro
29	30	Missouri	15	38	21	42	25	29	5,924,000	194	1.1	Jay
30	25	Indiana	7	43	14	47	49	16	6,399,200	210	0.6	Mil
31	19	Nevada	24	26	28	2	40	49	2,615,100	103	4.8	Jim
32	38	New York	46	30	17	18	35	13	19,506,400	965	3.6	Da
33	41	Pennsylvania	38	34	15	37	32	7	12,466,600	444	1.5	Ed
34	36	Massachusetts	48	16	22	33	40	2	6,506,600	312	2.2	De
35	33	Connecticut	45	18	33	31	37	3	3,504,700	178	2.2	M.
36	18	Arizona	31	14	45	7	38	47	6,562,700	210	3.8	Jar
37	39	Ohio	30	47	8	43	48	12	11,491,200	386	0.4	Te
38	40	California	50	22	39	27	10	26	36,962,400	1,546	2.9	Arr Sc
39	27	Hawaii	47	19	43	9	31	28	1,292,700	50	3.2	Lin
40	42	Mississippi	18	49	20	46	19	46	2,946,000	72	1.5	Ha
41	46	Maine	44	25	32	39	28	19	1,315,600	40	1.6	Jol
42	48	Alaska	37	28	40	29	11	44	690,000	30	1.8	Se
43	44	Kentucky	16	45	24	45	44	31	4,290,400	127	1.6	Ste
44	49	Louisiana	20	50	36	34	8	50	4,418,500	145	1.9	Bo
45	34	New Jersey	49	20	47	44	24	5	8,699,200	390	1.3	Jor
46	50	West Virginia	4	48	49	28	43	37	1,815,700	46	1.7	Joe
47	36	Vermont	43	13	44	49	42	9	621,300	22	2.1	Jim
48	43	Wisconsin	35	36	37	41	45	11	5,638,700	198	1.5	Jim
49	47	Michigan	39	46	6	50	50	30	9,978,900	326	-0.9	Jer Gr
50	45	Rhode Island	40	35	50	48	18	21	1,050,600	38	0.9	Do

Sources: Moody's Economy.com, Pollina Corporate Real Estate, Pacific Research Institute, Tax Foundation, Sperling's Best Places, Census Bureau, SBA, FBI, Dept. of Education, Forbes.

Special Report

The Best States For Business

Kurt Badenhausen, 09.23.09, 6:00 PM ET

The carnage of the economic downturn is everywhere with bankruptcies, foreclosures and unemployment soaring nationwide. None of the 50 states are immune. Only two, Alaska and North Dakota, are expected to see employment gains this year. Maryland, North Dakota and Virginia (by a hair) are the only states where the economy is projected to expand in 2009. Housing? Every state saw a decline in median home prices last year.

The recession has shaken up our fourth-annual ranking of the Best States for Business with some big movers up (North Dakota, Oregon and Iowa) and some former high-fliers on the way down (Florida, Nevada and Arizona).

Amid this mess, Virginia nabbed the top spot with the best business climate in the country for the fourth straight year. Virginia's economy has deteriorated, with the number of unemployed soaring 60%, while gross state product is flat and household incomes are expected to fall 4%, according to West Chester, Pa.-based research firm Moody's Economy.com.

Relative to the rest of the country though, Virginia is booming. Its 6.5% unemployment rate is fifth lowest in the country with the four states ahead of it all having dramatically smaller economies and employment bases. Virginia is the only state ranked in the top 20 in each of the six broad categories we examined. The state finished in the top three in half of those categories (labor supply, regulatory environment and quality of life). Virginia's $325 billion economy is expected to be the 10th largest in the U.S. in 2009.

The state benefits from a highly educated workforce that is expected to expand over the next five years. Energy costs are 30% below the national average. The state's tort environment ranks fifth best in the country, according to California think tank Pacific Research Institute. The state government's finances are in good shape--it's held on to a top AAA rating from Moody's since 1971. Eleven public companies with more than $10 billion in revenues call it home, including Altria, General Dynamics and Capital One Financial.

Smart incentives help, too. Each year Park Ridge, Ill.-based Pollina Corporate Real Estate does a study that compares states' economic development departments and programs. This year Virginia topped the Pollina study after finishing second last year.

"Virginia's economic development department truly understands what global competition is all about," says Brent Pollina, who authored the study. The Virginia Jobs Investment Program, for example, is open to both new and existing companies and offers flexible and

customized employee recruiting and job training for businesses. The program has helped more than 2,400 companies over the past five years recruit and train 75,000 Virginians.

"We believe we offer a unique proposition because companies know the business climate is going to remain friendly," says Jeff Anderson, head of the Virginia Economic Development Partnership. In February, Hilton announced it would move its corporate headquarters from Beverly Hills to Fairfax County. Last year Canon revealed plans to expand its Virginia operations with a $600 million investment that will create 1,000 new jobs. Overall companies announced plans to spend $5.1 billion to relocate or expand in Virginia in 2008, which is expected to create more than 20,000 new jobs.

Our Best States ranking measures six vital categories for businesses: costs, labor supply, regulatory environment, current economic climate, growth prospects and quality of life. We factor in 33 different points of data to determine the ranks in the six main areas. Business costs, which include labor, energy and taxes are weighted the most heavily. We relied on nine different data providers. Moody's Economy.com is the most-utilized resource.

A common theme with our top-ranked states is an expanding, educated workforce. The three states that followed Virginia in the rankings (Washington, Utah and Colorado) also ranked in the top four along with Virginia in our labor supply category, which looks at high school and college attainment, as well as net migration and projected population growth. "When we talk to prospective clients, their No. 1 issue every time is workforce," says Virginia's Anderson.

Three of the biggest drops in our ranking were states where the housing boom and population surges once fueled rapid economic growth. In our 2007 ranking, Arizona, Florida and Nevada were the top three states in several areas including: five-year net migration, projected population growth, gross state product growth and five-year projected job growth. With the collapse of the housing market, the outlook is far less rosy. People are expected to continue to flock to these three states, but the employment and economic forecast has worsened considerably in all three locales. Each of these states fell at least 10 spots in the current ranking.

New Jersey also had a big fall. Over three years, the state's ranking plunged from 19th to 34th to 45th this year. High business costs have been a long-time problem (12% higher than the national average) with taxes being a major gripe. The Tax Foundation dubs New Jersey the worst state when it comes to its business tax climate. Fed up, residents are fleeing. Net migration out of New Jersey was the seventh worst among all states over the past five years. The Garden State also ranks poorly for job growth, income growth and economic growth over the past five years.

While New Jersey slides, our bottom three states from last year (Alaska, Louisiana and West Virginia) all climbed at least four spots. On the strength of an improved economic and employment outlook relative to the rest of the country, West Virginia moved up to 46th place after two straight years at the bottom of our list. Alaska is projected to have

the strongest job growth of any state over the next five years and ranked 42nd, up six spots from last year.

Louisiana is making a comeback from the damage inflicted during Hurricanes Katrina and Rita in 2005. The state moved up five spots to 44th place. Louisiana launched a workforce development reform plan last year that borrows heavily from labor programs in Texas and Georgia, both among our top 10. "Louisiana FastStart has changed the perception of Louisiana's workforce from a concern to a top selling point," says Stephen Moret, head of Louisiana Economic Development. Moret cites the program as central to attracting business expansions by a new green car company, V-Vehicle, and manufacturer Gardner-Denver.

WISCONSIN JOB WATCH

COWS
center on wisconsin strategy

August 2009 Data Update

DECLINE IN JOBS GIVES WAY TO STAGNATION

Wisconsin jobs held steady from July to August 2009, continuing a sustained reprieve following heavy losses over last fall and winter. Figure 1 shows the recent stabilization in the job picture. The state lost an average of nearly 19,000 jobs per month in the six months leading up to April 2009. From April to August, the total number of jobs has remained roughly level, gaining a slight 2,300 jobs over that period. Even so, Wisconsin has 134,400 fewer jobs than when the recession started in December 2007.

Despite this stablization, many Wisconsinites are still out of work. Wisconsin's unemployment rate in August was 8.8 percent, nearly double its pre-recession level. As with Wisconsin's job loss, the rate of change has slowed substantially in recent months. The unemployment rate for August was down 0.2 percentage points from July and June, both of which recorded rates of 9.0 percent. This is the first month-to-month improvement in Wisconsin's unemployment level since May 2008. (Table 1, Figure 3 on back page)

MANUFACTURING GROWS SLIGHTLY, CONSTRUCTION CONTINUES DECLINE

Wisconsin's manufacturing sector gained 1,900 jobs between July and August, the first month-to-month increase since January 2008 and a positive indication that the industry may have turned a corner. The rate of job loss in manufacturing slowed notably beginning in April 2009, and since then has remained fairly stable. Still, the sector has 60,500 fewer jobs than when the recession started, a loss of 12 percent. This decline accounts for nearly half of total job loss in Wisconsin since December 2007.

The construction industry has lost 19,600 jobs since the start of the recession, an almost 16 percent loss. The spike in construction jobs between April and May 2009 (5,100 jobs) was a welcomed trend and the first time construction jobs had risen since May 2008. However, the last three months have seen construction jobs fall yet again, with 2,500 jobs lost between May and August 2009. (Table 1, Figure 2)

Table 1

CHANGES IN UNEMPLOYMENT AND NUMBER OF JOBS IN WISCONSIN, DECEMBER 2007 TO AUGUST 2009

	December 2007	*August 2009*	*Change*	*Percent Change*
Unemployment	4.5%	8.8%	4.3	
All jobs	2,889,000	2,754,600	-134,400	-4.7%
Manufacturing jobs	500,000	439,500	-60,500	-12.1%
Construction jobs	123,800	104,200	-19,600	-15.8%

Figure 1

TOTAL JOB LOSS IN WISCONSIN, DECEMBER 2007 TO AUGUST 2009

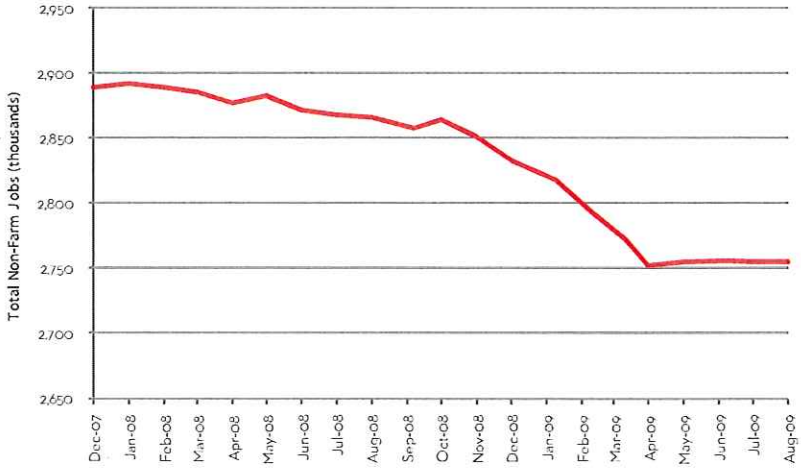
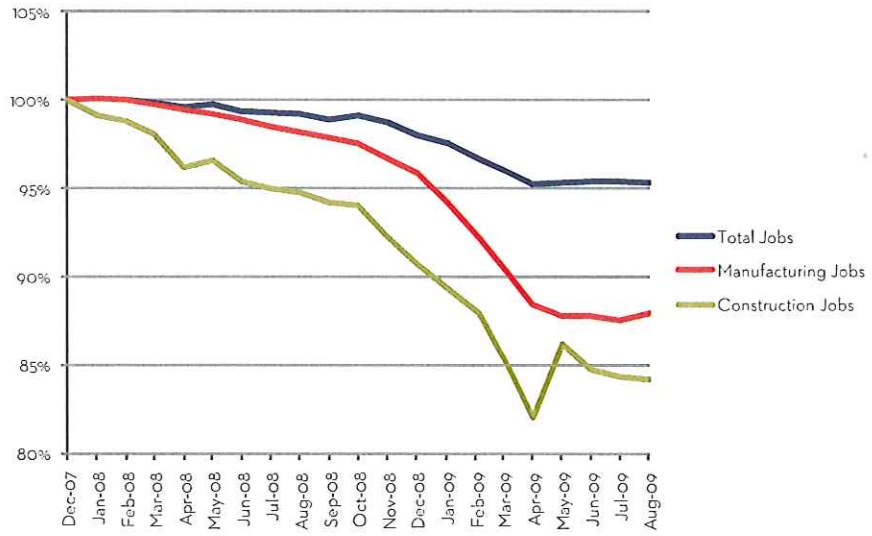


Figure 2

PERCENT CHANGE IN MANUFACTURING, CONSTRUCTION, AND TOTAL JOBS IN WISCONSIN, DECEMBER 2007 TO AUGUST 2009



A DIFFICULT AND HISTORIC RECESSION

This has been a deep and prolonged recession, especially when compared to the 1990 and 2001 recessions. Those past recessions officially lasted eight months each; the current recession has lasted more than a year and a half. More noteworthy, the current recession rivals the harsh recession of the early 1980s with respect to percent of jobs lost (almost 5 percent). Though Wisconsin's unemployment rate is still well below 1980s levels and showed a slight decrease last month from 9.0 to 8.8 percent, our state's unemployment rate has not necessarily reached its peak. Given that unemployment typically continues to rise even when jobs stabilize, we will likely see further increases in the coming months. (Figures 3 and 4)

Figure 3

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

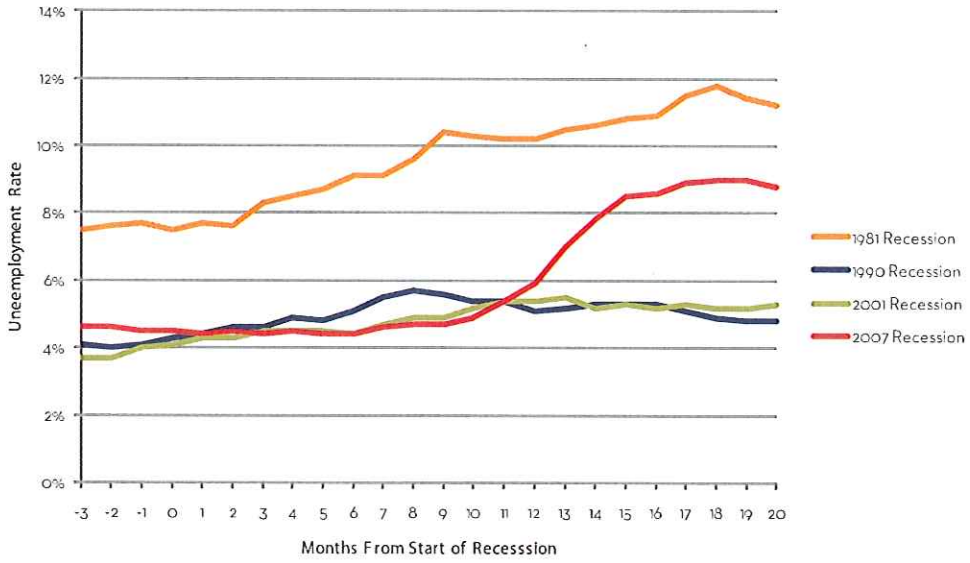
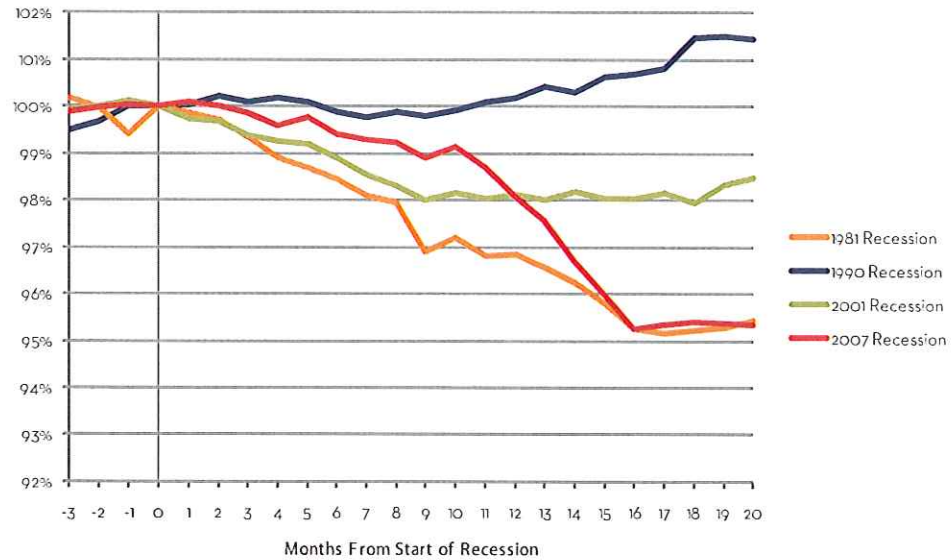


Figure 4

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
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2009-2011 STATE BUDGET:

By Curt Witynski, Assistant Director

On June 29 Governor Doyle signed the 2009-2011 state budget bill into law as Act 28. This marked the first time since 1977 the two-year state budget was enacted before July 1, the date on which the new biennium begins. Act 28 was a painful budget for the Legislature and the Governor to prepare and pass. In order to close a $6.6 billion dollar gap between expenditures and anticipated revenue, many state programs, including shared revenue, were cut, and many state fees, including landfill tipping fees, were increased. While the budget hits municipalities hard, it could have been worse and still might be in the future.

This article describes items in the budget affecting municipalities. All items described in this article took effect on June 30, the day after Act 28 was published, unless otherwise indicated.

ITEMS RELATING TO MUNICIPAL FINANCE, LEVY LIMITS AND STATE AID

Shared Revenue. Funding for the municipal and county shared revenue program is cut by 3.5 percent, or about $30 million, in 2010. Each municipality's 2010 shared revenue payment will be reduced in proportion to its share of the statewide equalized property values. No municipality's 2010 payment will be cut by more than 15 percent from its 2009 payment. A municipality's 2011 payment will equal its 2010 payment. The Legislative Fiscal Bureau has prepared a report showing the estimated 2010 shared revenue payment for each municipality. The report is posted on the Fiscal Bureau's website. It is also posted on the League's website.

- **Police and Fire Protection Fee.** To keep shared revenue program cuts below 5 percent, the Governor and the Legislature included in the budget a new 75 cent per month police and fire protection fee on all cell phones and landlines. The fee raises an estimated $100 million in new revenue over the biennium, which the state will use to help fund the shared revenue program.

- **Maintenance of Effort for Emergency Services.** Beginning in 2010, a municipality must spend each year for emergency services funded from shared revenue payments no less than the amount it spent in 2009, not counting capital expenditures and one-time expenses. The budget instructs the department of revenue to define "emergency services." Based on the language in the budget, at a minimum, the term means that portion of police and fire department expenditures that are funded by shared revenue. A municipality may decrease the amount it spends for emergency services below its 2009 amount, with the department of revenue's approval, if the decrease in expenditures is a result of operating more efficiently, as determined by the department.

  DOR is responsible for interpreting and enforcing this new requirement. DOR staff spent July and August analyzing the new provision and create the appropriate forms for obtaining the information they must collect from municipalities to determine whether a community is in com-

Items Affecting Municipalities

pliance. If a municipality fails to comply with the maintenance of effort requirement, DOR can reduce its shared revenue payment as a penalty.

DOR staff anticipates that it will provide municipalities with information and forms regarding this new requirement by early September. The League will post any information it receives from DOR regarding this provision on our website. Local officials should also check DOR's website for updated information. Contact Stan Hook at DOR with your questions. His number is: (608) 264-6892. His e-mail address is: <stanley.hook@revenue.wi.gov>.

Levy Limits. Under Act 28, in 2009, a municipality is allowed to increase its levy over the amount it levied in 2008 by no more than 3 percent or the percentage increase in equalized value due to net new construction, whichever is greater. The 3 percent levy limit also applies in 2010 and sunsets on December 31, 2010. While all of the exceptions and modifications to levy limits that existed in previous law continue to apply, Act 28 also created the following three new adjustments to levy limits:

- Allows a municipality to carry forward from the previous two years any unused levy capacity when calculating its 2009 levy limits. The base amount to which the levy limit applies is the community's maximum allowable levy for 2008 rather than the actual levy. Act 28 also provides that if a municipality's allowable levy in 2007 was greater than its actual levy in 2007, the levy limit otherwise applicable to the municipality in 2009 is increased by the difference between these 2 amounts, as determined by the department of revenue.

- Allows levy limit adjustments when two communities contract to consolidate services where one community agrees to lower its allowable levy to allow a second community to increase its allowable levy.

- Exempts from the levy limit any amount that a municipality levies to pay the unreimbursed expenses related to a declared emergency beginning in the year in which the emergency occurs or the next year. This includes amounts levied to replenish cash reserves used in the previous year to pay any unreimbursed expenses related to a declared emergency.

Expenditure Restraint Program. Funding for this program remains at the same level as in the past, $58 million annually. However, Act 28 makes the following key changes to the Expenditure Restraint Program's spending limit test:

- Modifies the definition of "inflation factor" under the expenditure restraint budget test by establishing a CPI floor of 3 percent. As a result, even if inflation is below 3 percent in 2009, municipalities will be able to increase their spending by 3 percent in 2011 and still qualify for payments under the program.

- Exempts from the spending limits an amount equal to the difference between a municipality's entitlement under the payments for municipal services program, assuming the program is fully funded, and the municipality's actual payment under the program.

- Excludes from the spending limits under the budget test unreimbursed expenses related to a declared emergency.

Transportation Aids. Funding for the general transportation aids program was increased by 2 percent in 2010 and 3 percent in 2011. As in the past,

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"Municipalities are allowed to extend the life of a TIF district for one year after paying off the district's project costs. Seventy-five percent of any tax increments received during the extension must be used to benefit affordable housing in the municipality."

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however, almost all city and village actual general transportation aid payments will be determined by a formula that is based on a municipality's share of transportation-related expenditures. Also, municipalities under the share of cost formula receive their GTA payments only after the statutory pay out is made to towns under the rate per highway mile formula. Consequently, the GTA program will continue to cover on average only 18 percent of municipal transportation related costs.

Funding for all tiers of the Mass Transit Operating Assistance program is increased by 1.97 percent in 2010 and 3 percent in 2011.

Tipping Fee Increase. Tipping fees on each ton of solid waste disposed in a landfill are increased by $7.10 from $5.90 to $13.00. About half of this $7.10 increase took effect July 1, 2009 and the rest takes effect October 1, 2009.

Funding for Recycling Grants Increased Slightly. Funding for the municipal and county recycling grant program was increased by $2 million annually. This provides a total of $31.1 million in 2009-10 and $32.1 million in 2010-11. (Under the previous budget, the program was funded at $31 million, but $3.1 million was transferred to the general fund as part of efforts to eliminate the budget deficit that existed.)

Items Relating to Tax Incremental Financing

Tax Incremental Financing District, Fees. The department of revenue must charge any town, village, city, or county an annual fee of $150 for each regular tax incremental financing (TIF) district, town TIF district, or environmental remediation TIF district for which the department authorizes the allocation of a tax increment. The fee must be paid no later than May 15 of each year. This change first takes effect on October 1, 2009.

One Year Extension of TIF Districts for Affordable Housing Purposes. Municipalities are allowed to extend the life of a TIF district for one year after paying off the district's project costs. Seventy-five percent of any tax increments received during the extension must be used to benefit affordable housing in the municipality. The remainder must be used to improve the municipality's housing stock. This provision takes effect October 1, 2009.

Property Taxes — Exemptions and Related Issues

Low Income Housing Tax Exemption Modified. Provides that low income housing facilities owned by benevolent associations may retain their tax exempt status regardless of how they use their rental income. Previous law had conditioned the exemption on such facilities using their rental income on maintenance and construction debt only.

Retirement Homes for the Aged Tax Exemption Modified. Establishes a threshold of 130 percent of the average equalized value of residential parcels within the county for distinguishing between taxable and exempt dwelling units within high end senior housing facilities. (For example, using 2008 equalized values, the 130 percent

threshold means that in Dane County units within retirement homes for the aged with a value of $332,184 or more would be subject to property taxes. In Milwaukee County, units with values that exceed $240,332 would be subject to taxation.) While the budget provision retains the requirement that retirement homes for the aged must be owned by benevolent associations to qualify for an exemption, it makes the "rent use" requirement inapplicable to such facilities. In other words, retirement homes for the aged can use their rental income for any purpose and still qualify for the property tax exemption.

Exemption Created for Certain Student Housing Facilities. Creates a new tax exemption for certain student housing owned by a nonprofit organization serving UW-Madison students. The facility must offer support and outreach programs for its student residents, 90 percent of whom must attend UW-Madison.

Increase First Dollar Property Tax Credit. Increases the "First Dollar" property tax credit distribution by $15,000,000 for property tax year 2009(10) and by an additional $5,000,000 for property tax year 2010(11) and thereafter. This would result in distributions of $145,000,000 in 2010-11 and $150,000,000 in 2011-12, and thereafter.

OTHER NON-FISCAL POLICY ITEMS

Prevailing Wage Law Changes. The state budget made the following three significant changes to the prevailing wage law:

- Threshold for applying prevailing wage requirements to public works projects is lowered to $25,000, whether single or multi-trade. Annual inflationary adjustment is repealed.

- Prevailing wage requirements are made applicable to the following public infrastructure paid for and constructed by private developers and dedicated to the municipality: roads, streets, sanitary sewer, water mains, and bridge projects. (Note: storm sewer facilities, bike and pedestrian paths, as well as park facilities are left off the list).

- Prevailing wage requirements are for the first time made applicable to publicly funded private construction projects that receive $1 million or more in direct financial assistance from a municipality. Direct financial assistance is defined as moneys in the form of a grant or other agreement or included as part of a contract, cooperative agreement or any other arrangement, including a redevelopment agreement that a local government directly provides or otherwise directly makes available to assist in the erection, construction, repair, remodeling, demolition or a private facility.

These changes take effect January 1, 2010. See page 322 for a more detailed description of the prevailing wage law changes included in Act 28.

Regional Transit Authorities. The budget gives local governments in the following regions the option of creating Regional Transit Authorities with the ability to raise revenue through a 0.5 percent sales tax:

- Chequamegon Bay Regional Transit Authority — Ashland and Bayfield Counties.
- Chippewa Valley Transit Authority — Eau Claire County
- Dane County Regional Transit Authority — Dane County

The Budget also authorizes Kenosha, Racine and Milwaukee Counties to create a Southeast Regional Transit Authority with the power to impose a surcharge on car rentals.

The budget bill presented to the Governor did not include language contained in the Assembly's version of the budget enabling Calumet, Outagamie and Winnebago Counties to create a Fox Valley Regional Transit Authority. The Governor vetoed language creating a Milwaukee Transit Authority with the ability to levy a sales tax to help fund Milwaukee County bus service. The Governor also vetoed language requiring a binding referendum in each of the above areas as a condition of the counties being able to create an RTA with the ability to impose a sales tax.

Borrow Sites Exempted from Local Zoning. Creates sec. 84.06(12), Wis Stats, which exempts from municipal zoning ordinances any sites from which "borrow" is excavated for use in a specified state highway construction project as long as certain conditions are met. "Borrow" is defined to mean "soil or a mixture of soil and stone, gravel, or other material suitable for use in the construction of embankments or other similar earthworks constructed as part of a state highway construction project."

The conditions for making local zoning ordinances inapplicable are:

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- Borrow site is located on property near the site of the highway construction project on which the borrow is to be used.
- Owner of the property has consented to the establishment of a borrow site on his or her property.
- Borrow site is used solely for the specified state highway construction project and solely during the period of construction of state highway project.
- The owner agrees to any noise abatement or landscaping measures required by the municipal governing body.
- The owner agrees to reasonably restore the site.

This provision was inserted into the budget at the request of the road builders and earthmovers groups, not the DOT. It sunsets on July 1, 2011.

There have been reports that some earthmoving contractors have claimed this provision allows quarrying activity to occur at borrow sites exempt from local zoning. DOT and the proponents of the legislation disagree with that interpretation. DOT staff believes that the provision allows the removal of fill (i.e., mainly soil) only. Follow-up legislation may be necessary to clarify what the provision allows.

Liquor License Quota Exceptions Provided to Three Cities. The following three cities were authorized to issue additional "Class B" liquor licenses above the state imposed limit on the number of such licenses the community can issue:

- Monona – 1 license.
- Middleton – 2 licenses.
- St. Francis – 3 licenses.

Additional Liquor Licenses for State Designated Capital Improvement Areas. A new provision creates a narrow exception to the state imposed quota on the number of liquor licenses a municipality can issue. The provision allows municipalities to issue additional "Class B" liquor licenses to qualified applicants located in capital improvement areas designated by the Legislature. The state budget designates TIF District No. 3 in Oconomowoc as the first capital improvement area in the state. An applicant is eligible for such a license only after it shows the municipality that he or she made a good faith effort to purchase a licensed premise within the community.

Further Deregulation of Fireworks. Makes it easier to purchase fireworks by allowing a municipal chief executive to designate an individual, who does not work for the municipality, to issue a fireworks user permit. Also provides that if a municipality requires that a user's permit be signed or stamped, a person who is authorized to issue the permit may sign or stamp the permit before the permit is issued rather than signing or stamping the permit at the time that it is issued.

VETOED MUNICIPAL ITEMS

***Walgreens* Fix.** The Governor vetoed the *Walgreens* fix inserted into the budget by Sen. Bob Jauch (D-Poplar) at the request of the League, the Wisconsin Association of Assessing Officers, and the City of Milwaukee. The provision would have reversed the *Walgreens v. City of Madison* Wisconsin Supreme Court decision dealing with the issue of how assessors should value leased property. The vetoed language would have required assessors to consider the actual rent and terms of a lease when determining the value of leased property using the income approach.

The Governor said he objected to changing valuation methodology through the legislative process. He said that such a change should be pursued as an update to the Wisconsin Property Assessment Manual.

DOR staff has indicated that they are making adjustments to the Wisconsin Property Assessment Manual that will accomplish the same goal as the language vetoed by the Governor.

CONCLUSION

The 2009-2011 state budget has very little good news in it. That is one of the reasons it was enacted on time. Neither the Legislature nor the Governor wished to linger over a budget consisting of program cuts and tax and fee increases.

For municipalities, things are likely to get worse, before they get better. While the cost of health care and retirement benefits continue to rise, municipalities face shared revenue cuts and inflexible levy limits. Municipal officials will find it very difficult to provide the level of services necessary to maintain the quality of life Wisconsin citizens demand. Meanwhile, if state revenues fall below the revenue estimates this budget was based upon, the state may need to make further adjustments to the budget, which may involve more cuts to shared revenue.

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ASSOCIATED PRESS

Great Recession transforms workplace, work force

By JAY REEVES and CHRISTOPHER LEONARD (AP) – September 24, 2009

Going to work may never be the same again.

The Great Recession has reshaped the American workplace and work force in ways that will last years, if not longer.

The work force is graying as college graduates can't find jobs, young workers get laid off and older workers delay retirement. People in white-collar jobs are feeling increasingly vulnerable to economic downturns, an insecurity that blue-collar workers have known for years.

Perhaps the most enduring change is the permanent loss of millions of jobs across the manufacturing, services and retail sectors.

For textile factories and service sector employers like customer service call centers, the next wave of significant job creation will occur abroad, where labor is cheaper. That trend was under way before the recession and will accelerate, according to labor economists. Americans who would have held these jobs will have to retrain themselves for other jobs, such as assembling microchips and medical devices.

For retailers, growth will be limited by more cautious consumer spending, in part because the days of easy credit are over. That means fewer retail clerks milling about stores around the holidays, and fewer merchandise buyers and other staff jobs at headquarters.

"We're in a very deep jobs crisis, and we're not coming out of it," says William George, professor of management at Harvard Business School. "It's too glib to say that jobs are a lagging indicator" and that hiring will return to normal once the economy does, he says.

The national unemployment rate, now 9.7 percent, is forecast to rise above 10 percent before the end of the year and isn't expected to return to a "normal" level near 5 percent until 2014.

Of course, layoffs aren't the only thing transforming the workplace.

The need to cut costs deeply and quickly has forced businesses to get creative — not just go the easy route of layoffs. It's the central responsibility of managers these days, says Alec Levenson, a research specialist with the Center for Effective Organizations at the University of Southern California.

Through furloughs, fewer shifts and other cutbacks, employers have reduced the average work week to a near-record low of 33.1 hours.

About 400 workers at Nebraska meatpacker Premium Protein Products were told this week they will remain on unpaid furloughs for at least another two weeks, having been on unpaid leave

since June. States also have joined in, with Utah State University asking employees to take a furlough next summer after taking a weeklong furlough last spring.

Reducing hours of all workers instead of eliminating jobs of a few is a strategy that had slowly been gaining favor in recent years because it saved companies money in several ways: It reduced the need for severance packages, as well as the cost to rehire and train these new workers once the economy rebounded.

The practice became much more widespread during last year's financial crisis and is likely to be repeated in future recessions, says Peter Cappelli, professor of management at the University of Pennsylvania's Wharton School of Business.

Workers aren't necessarily complaining.

Bonnie Gerard, a business developer with the Knowledge Institute consulting firm in Exeter, N.H., has seen her work week cut from five days to four. That's made it harder to keep up with paying bills. But it beats losing the job. And, she acknowledges, it's made her more efficient.

"It keeps you more focused on the days you're here," she says. "You've still got the same goals, whether you're here four days or five days, and you've got to do the work."

No matter how creative companies get at cost-cutting, or how strong the recovery is, millions of jobs will never come back, George, the Harvard professor, says.

Over the past year, the U.S. non-farm payroll has shrunk to about 131 million people, a decline of more than 5.8 million auto workers, stock brokers, bankers, landscapers, carpenters, truckers, journalists, mechanics, cooks, maids and more. More than 1.6 million manufacturing jobs have disappeared in the last 12 months, along with 1 million construction jobs and 435,000 financial sector jobs.

In low-skilled manufacturing, the U.S. can't compete with countries like China, India or Mexico where labor costs are a fraction of those here. Likewise, cost pressures will continue to push information technology jobs overseas.

American workers will need to be retrained in the coming years to have a shot at the jobs that will be created. George says these jobs will require specialized knowledge, such as how to install energy-saving systems in buildings.

Community colleges and vocational schools that train people for such jobs could become as important as four-year universities.

Plenty of today's unemployed could benefit from such training.

"There are a lot of good people who are really stuck," says John Challenger, chief executive of the outplacement firm Challenger, Gray & Christmas. "They've been out of work for a long time, and that's made it all the harder for them to compete because they have to explain why they have not been chosen."

A record 4.98 million people had been out of work 27 weeks or longer in August, in part because this recession, which started in December 2007, has stretched longer than any since World War II.

That has forced a record number of people into part-time work. People forced to work part-time jobs because they can't get full-time positions has jumped 54 percent from a year ago to 9 million.

For those who still have a full-time job, flexibility is key.

At a factory that makes foundry equipment in suburban Birmingham, teams that once did specific jobs — welding, grinding castings, fitting parts, assembling machines — have had to learn multiple skills.

The shop, which once had 150 workers, now employs only 30.

"The ones we have now have to do it all," foreman Gerry Peoples says. That includes sweeping the floors since the janitors were laid off. "This is probably going to linger for years," says Peoples, who has survived two rounds of cuts and is down to a 32-hour work week.

About 40 percent of workers are now over 55 or older, the highest level since it was 40.8 percent in 1961, according to a Pew Research Center survey released this summer. More workers are delaying retirement for economic and personal reasons, locking up jobs that are sought by younger workers entering the work force.

Years ago, Jerry Bannister, 67, anticipated a more leisurely routine at his age. He oversees 10 maintenance workers at the Mays Chapel Ridge retirement community and has no plan to quit soon. He took the job seven years ago, after working 38 years at a Bethlehem Steel plant.

His Social Security and retirement benefits might be enough to live on, but he couldn't quit without making big changes to his lifestyle, such as cutting out vacations and golf.

"When I get to a point where I say, 'You know, I'm as old as the residents,' then it's time to step down," Bannister says.

Fewer workers these days feel as confident as Bannister does about controlling their destiny.

Job security has diminished after every recession since the 1970s, says David Lipsky, professor at Cornell University's School of Industrial and Labor Relations.

As workers fought to get their jobs back, unions dropped long-held contract provisions like cost-of-living adjustments and job-security clauses, he says. That contributed to declining union membership, further weakening workers' bargaining position with employers.

Among white-collar workers, job security began to disappear in the recession of the early 1990s as technology allowed jobs to be shipped abroad. It may be gone now.

Over the past year, the unemployment rate jumped 64 percent for managers and professionals like lawyers, doctors and fund managers. That compares with a 56 percent increase in overall unemployment, according to Labor Department data.

Among people with a bachelor's degree or higher, the unemployment rate is still low at 4.7 percent, but it's up from 2.7 percent a year ago.

For some younger white-collar workers, job insecurity is so high that just hanging on has replaced asking for a raise or a promotion.

Rusty Meador, 35, a development manager at Plantation Building Corp., a construction company in Wilmington, N.C., walks past empty desks daily. He once worked in the office as a general manager and had a team of project leaders who reported to him from the field. Now he's back on job sites, doing the work of laid-off colleagues — without a word of complaint. Even if the economy turns around, the memory of this recession will stick with him.

September 25, 2009

Today, it was reported that the median price of a single-family home dropped 2.3% in August. The stock market sold off on the news. For some perspective into the US real estate market, the chart below illustrates the US median price of a single-family home over the past 39 years. Not only did housing prices increase at a rapid rate from 1991 to 2005, the rate at which housing prices increased itself increased. The chart illustrates how housing prices are currently 30% off their 2005 peak. A home buyer who bought the median priced single-family home at the 1979 peak has seen that home appreciate by a mere 4%. Not an impressive performance considering that three decades have passed. Over the past two months, single-family home prices have resumed their decline and remain (until proven otherwise) in an accelerated downtrend.