

Legacy of Place and Economic Development

by Christopher Steele and Adam Ploetz, AICP

Once the economic engine of the nation, the Great Lakes region in America's Midwest has been grappling with successive shifts in the global economy for the past fifty years. Recently, the global recession, particularly the collapse of the U.S. automobile industry, has exposed the naked weaknesses of the Great Lakes' economy and its relative inability to adapt to the global marketplace. No American region has been as affected by the challenges of globalization; and — perhaps — no region stands to gain as much from structural economic changes. Past economic inertia in the region has been due to continued adherence to the previous era's economic models, growth patterns and industrial base.

These older legacies of place must be re-cast to support the region's resurgence. With these new realities in mind, local governments in the region will need to move beyond their past triumphs and find new ways of engaging with and excelling in the new global economy; this article will examine the critical role local governments must play in reinventing the Great Lakes as an economically vibrant location for business and entrepreneurship. We will view the region through the site selection process to help illustrate how communities can proactively attract new activity.

Regional Independence Moves to Global Interdependence and Economic Decline

Once the economic engine of the nation, the Great Lakes region has grappled with successive shifts in the global economy for the better part of 50 years.¹

The region became the Rust Belt when companies and jobs initially went south and west; Japanese manufacturing and technological innovation brought another wave of outsourcing in the 1980s. The intense and open
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Photo Credit: JM Schilling

The Great Lakes region's industrial past, has burdened the region with large numbers of brownfields/greyfields, vacant property, and land assembly issues.

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competition associated with globalization threatens to eclipse the impacts of these past changes.

Many groups — public and private — have analyzed the economic and economic development challenges that the region faces and have further tried to come up with new solutions. Notably, the Brookings Institute's Great Lakes Economic Initiative — a multi-year research and policy project started in 2005 — attempted to find strategies for improving the economic vitality of the region. This initiative's capstone report *The Vital Center*, identified several specific challenges brought about by globalization including: underdeveloped human capital, a flat economy and lagging entrepreneurialism, and uncompetitive metropolitan communities.

Many of these challenges are associated with the Great Lakes region's "legacy of place" costs — the result of a declining industrial base that has left the region with older infrastructure, high unemployment, and a tax base that is not sufficient to support demand for services.² Regions burdened with these costs are at a disadvantage when repositioning their economies for growth relative to newer metro areas. There are hard and soft legacy costs. Hard costs include decaying transportation and water/sewer infrastructure, aging housing stock, and challenges associated with brownfield redevelopment. Soft costs include the social implications of industrial decline such as lower educational attainment and greater demand/costs for social services.

The Site Selection Process

As a result of the above, the Great Lakes region tends to lag behind in attracting new development to the area. Understanding how companies make key location decisions helps to frame the discussion. The first several months of the location process typically occur outside the view of the public or — indeed — beyond the view of all but a select group of corporate executives. In this first stage, the group recognizes and defines the need for a new location and lays out the goals that

the new location must fulfill. It might be access to a new market, to new partners for product development, to gain or retain cost competitiveness, or to mitigate some form of operational risk.

These goals will be used to progressively narrow the universe of possibilities to a very short list of final candidates. For example, once the goals are defined the team identifies regions that meet basic thresholds for the operation. Will it have enough of the people that we need? Can our people, our customers, and our goods get there?

Data on the business characteristics on each location are then entered into a weighting and ranking model to test which community will consistently meet the various requirements for the various functions and uses to be housed there. The team will test several scenarios to ensure that the short list candidates will perform well under each potentiality.

In order to understand the story behind the data and actually see the final locations under consideration, the team will travel to each candidate. There they will meet representatives from the state and regional economic development agencies, speak with other local employers, other possible partners in the area, and will examine possible facility options. This field stage is often the first time that communities are even aware that they are under consideration.

Reasonably comprehensive cash flow and GAAP models of each finalist option are developed to estimate costs for each location. Real-world data from the field calibrates the model to what the company was likely to experience as they actually established operations.

This makes for a comprehensive view of the company's new business — a process not unlike finding a new town in which to live, and for good reason. While finding a nice house at low cost is nice, it can only make a good home if the schools are good, the commute works, and you like the neighbors.

Incentives — tax credits, infrastructure loans, employment grants and the like — often get much public attention during the selection process. Discussions during field visits often emphasize later items like buildings and incentives, causing communities to ascribe more importance to these items than is due. However, the company will have performed many months of due diligence before entering *any* incentives discussion. A good incentive package cannot make up a bad match between area characteristics and business need.

On the other hand, the incentives and permitting discussion *can* be an ideal setting for explicitly building
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The Great Lakes region's legacy of place costs, including aging housing stock, put the region at a competitive disadvantage.

the partnership between corporate and community goals. Here compromises and collaboration can create relationships between the prospect and a variety of area entities — relationships which benefit not only the company in the short term, but which provide a robust, wide-ranging and long-term forum for success and innovation.

There is logic and an eye towards long-term business success behind each location decision. Underlying characteristics of place make for a good business location, not incentives.

The Advantages of a Proactive Economic Development Policy

Only through proactive planning can communities build truly sustainable economic development policy. In reactive mode, these communities can only chase the opportunities brought to their doorstep. In a proactive strategy, each community seeks to build early-term partnerships with a variety of public and private sector

institutions (research, development, manufacturing, assembly, distribution, servicing, administration, education, vocational training, financing) to develop and enhance clusters that have reasonable chance of success.

Such a proactive approach also involves a frank discussion on capabilities and values, and explicitly brings them into the strategy discussion. For example, there must be a full discussion of what the region is capable of supporting from the standpoint of:

- Labor and talent
- Infrastructure
- Cost of doing business
- Tax and regulation
- Land use

At the same time however, the region needs to be able to balance this against the driving values of the society at large.

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In other words, the Great Lakes could once again become a low-cost manufacturing Mecca, but it would involve significant subsidization of operating costs and development of a low-skill, low-paying workforce and could also involve significant environmental compromises.

Importance of Working Regionally

The opportunities of tomorrow will involve incredibly involved, complicated value chains requiring broad networks of partnerships to gain success. Regional economic development agencies need to learn quickly, and must understand that — as far as corporations are concerned — borders are arbitrary. The national borders which had held companies to their nations of origin have become much less rigid. States and regions need to find a way of amassing their strength when making economic development plans, finding a way of sharing the rewards, and also find a way of sharing the investment. Only by building these partnerships will they be able to fully succeed in bringing sustainable opportunity to their citizens.

State governments also need to work more actively with each other in terms of setting goals, and priorities. There then needs to be a clear direction in developing and instituting land use, site plan, transportation and other regulatory policies which explicitly and clearly operationalize these goals and priorities. As part of this, states need to streamline their complex and fragmented state economic development incentives and assistance programs. As noted before, the aim is not to knuckle under to any pressure, but to instead draw a clear path between community goals through public policy to likely outcomes. It is to create practicality and predictability, not to ease difficulty for uses that don't match community goals.

Other areas of the Midwest are already well along in driving such change. The Kansas City Area Development Council — a regional economic development group established by private industry — took pains to understand their regional strengths and were able to identify transportation and animal life sciences as key area industry clusters. Both had strong employment and industry bases, and both showed promise as ongoing economic engines for the future.

Based on this knowledge, the KCADC helped establish both KC SmartPort and the KC Animal Health Corridor to actively foster new investment in both clusters.

The KC SmartPort takes the concept on step further by acting as a full port authority in the area, driving economic development, finding investment partners, and facilitating the cooperation of two state, eighteen county, and dozens of municipal governments. All parties to the SmartPort entered with the understanding that if any community gains employment and investment, the entire region benefits.

Retooling for Growth — Local Government Responsibilities

Local governments can play a critical role in creating economic development policy/practices that can help the Great Lakes region compete in a flat world. With the understanding that many local jurisdictions are constrained financially, limiting both their ability to incentivize economic development and direct personnel hours to the issue, we feel that municipalities should focus on three core issue areas that build on its role as service provider and regulator.

Recognize Economic Development as a Local Issue

Most municipalities recognize economic development as a local issue, but too many do not convert this recognition into positive action. Clearly, municipalities can play a central

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role in the economic development process, from establishing long term policy/planning related to economic development, setting an efficient regulatory environment or addressing regulatory barriers to economic development, providing services and infrastructure, and its ability to be an intermediary between local/community interests, land owners/developers, state entities, and regional organizations (both public, quasi-public, and private).

The planning community has made great gains in the last several years in helping the public and public officials make the connection between transportation and land use; conversely, planners working in economic development need to do a better job of making the connection between economic development and other

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municipal planning issues like housing, capital improvement planning, transportation, and environmental and “sustainable development” issues.

Become a Partner

Municipalities maximize their impact on economic development by partnering with organizations that focus solely on economic development. Over the past several years many regional business organizations (i.e. large regional chambers of commerce) have embraced a more holistic outlook to economic development.³ These groups once viewed municipal government as an antagonistic hindrance to growth but now see government as partners in addressing barriers to economic development. By partnering with these groups — as well as state entities and quasi-public organizations focused on economic development — municipalities can:

- Help shape, provide input, and lend their voice to coalitions in support of specific projects or broader economic development policy issues;
- Utilize these organizations’ contacts to disseminate information about development opportunities within your municipality;
- Take advantage of technical assistance offered by these organizations for municipal planning related to economic development; and
- Identify available incentives and technical assistance offered by these organizations that are available to businesses within your municipality.

Strong partnerships and working relationships at the local level with chambers of commerce, main street/downtown development groups, commercial real estate brokers, and developers can also help municipalities:

- Better understand the needs of the local business community and help set priorities for infrastructure investment, workforce, development, and public services;
- Help build public support for actions needed to make local economies more successful;
- Identify barriers to economic growth in municipal policies/regulations;
- Craft new policies and regulations that support business interests;
- Improve the interaction and exchange among business owners; and

- Tap into knowledge about trends in the local commercial real estate market.

Invest in Physical Assets

Investing in physical infrastructure and preparing land for development should be key focus areas for municipal economic development efforts. Legacy of place costs have left the Great Lakes region with aging and decaying water/sewer and transportation infrastructure, limited/dismantled public transportation linkages, and aging public facilities. Addressing these physical deficits requires financial support from state and federal governments and there is good reason to believe that federal funds will increase in the near and long term for these investments. Capital improvement planning is the best way for municipalities to identify and prioritize infrastructure improvements and to set the stage for state and federal funding.

The Great Lakes region’s industrial past, dramatic population loss, and disinvestment has burdened the region with large numbers of brownfields/greyfields, vacant property, and land assembly issues. The municipal role in land development puts them at the front line of these challenges. Municipalities in the region need to continue to focus on land assembly and land recycling/brownfield redevelopment as a key strategy to attract private investment and economic growth.⁴ Communities can also work through the state legislative process to ensure that legislation governing public involvement in redevelopment is simple to implement and administer.⁵ ■

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Footnotes

- ¹ For the purposes of this article the Great Lakes region is defined as: Ohio, Indiana, Michigan, Illinois, Wisconsin, Minnesota, and the western portions of New York and Pennsylvania.
- ² Eberts, Randall, George Erickcek, and Jack Kleinhenz. Dashboard Indicators for the Northeast Ohio Economy: Prepared for the Fund for Our Economic Future. Cleveland, OH: Federal Reserve Bank of Cleveland, Working Paper 06-05, 2006.
- ³ Futureworks. Minding Their Civic Business. Arlington, MA: Futureworks, September, 2004.
- ⁴ The American Assembly. Retooling for Growth: Building a 21st Century Economy in America’s Older Industrial Areas. New York, NY: The American Assembly, November, 2007.
- ⁵ Finkle, Jeffery A., Shari Garmise, and Shari Nourick. Retooling for Growth: Building a 21st Century Economy in America’s Older Industrial Areas. Ed. Richard M. McGahey and Jennifer S. Vey. Washington, DC: Brookings Institution Press, 2008.