

Understanding Economic Development

The purpose of economic development is two fold:

1. To give greater and greater number of people greater access to wealth.
2. To increase the tax base of communities in order to provide higher quality public services to citizens.

The focus of economic development is to diversify the economic base, thereby increasingly cushioning the community against economic shocks.

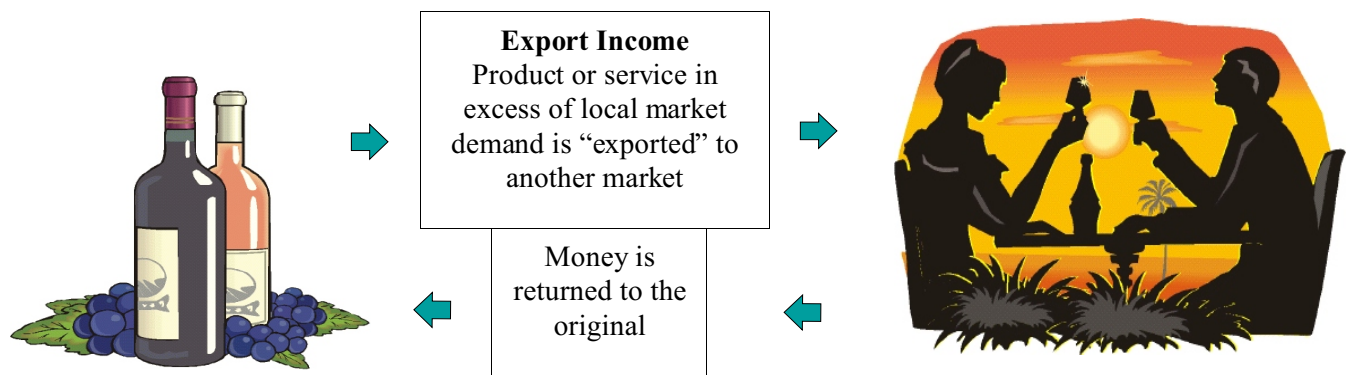
We achieve the purpose and focus of economic development by assisting in the creation and retention of primary jobs and/or increasing the amount of income coming into the community from outside its market area.

“Primary” or, as they are sometimes called, “export income” jobs are defined as jobs which produce goods and services in excess of what can be consumed in the local marketplace. For example, the Delta County area produces more shoes than can be “consumed” by area residents. The shoes are “exported” to another market (e.g. Denver) and money is returned to Delta County for the products.

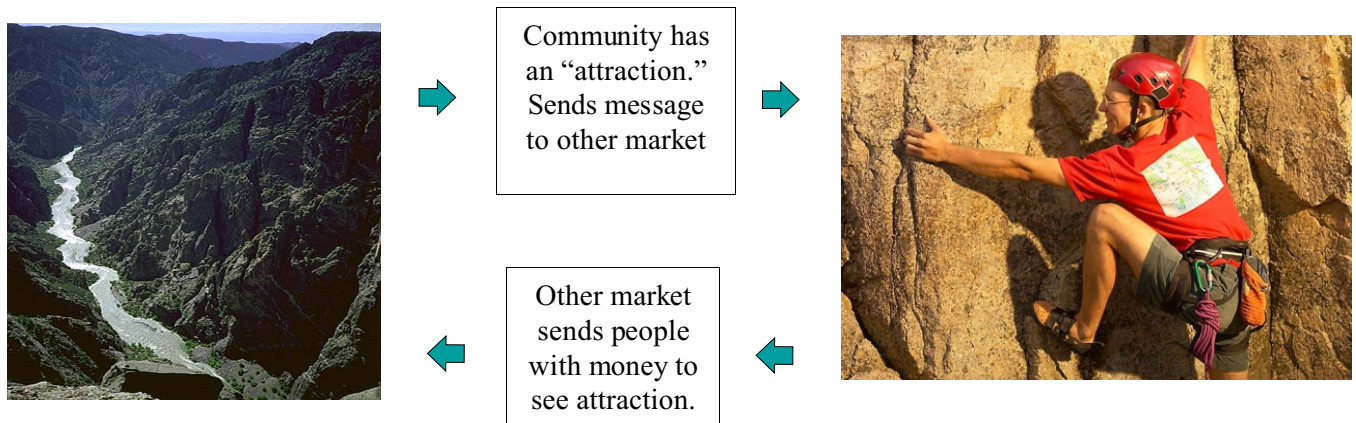
There are only two types of income that economic developers attempt to increase into their communities:

1. Export income: Income derived from the production of goods and services in excess of the consumption capacity of the local market. See the shoes example above.
2. Primary income: Income derived when the local market has an “attraction” (the Black Canyon National Monument, etc.), which draws visitors who spend money in the local marketplace. We call these people “tourists” or “conventioners.”

EXPORT INCOME



PRIMARY INCOME



Marketplace defined in relation to primary employment

Primary employment is further defined by how the “local market” is defined. For example, retail centers are not typically defined as primary employers by a State. Why? Because the shopping centers located within a state are typically spending money that has already been “created” by primary employers in the state. It is not “new money.”

However, a State such as Colorado would define a shopping center located on its border as a primary income generator, because much of its income will be generated outside the state’s boundaries – or its “defined market.” The local Stop-N-Save is not a primary employer in a city, but if the market is defined as the local neighborhood where the Stop-N-Save is located, then it becomes the neighborhood’s primary employer. In other words, the definition of “primary or export income” employment changes depending on your definition of the market.

Using the Denver Metropolitan area as an example, a local copying company in Arvada may derive 30% of its income from Lakewood. That portion of its income is “primary.” But on a metropolitan scale, since its entire product is “consumed” by the six county area, the copy company is not a primary employer for the region.

“Indirect” or “Spin off” jobs

Jobs that are created as the result of the demands for goods and services generated by the primary employer are called “indirect” or “spin-off” jobs. ***These jobs do not create wealth.*** They are the product of “wealth” created by primary employment. Generally, they are jobs like retailing, lawyers, doctors, government workers, non-profit employment, etc. These occupations provide services to primary jobs. They may also include jobs that meet the required “input” needs of primary jobs.

For example, a beverage company may export 100% of its product outside the local market. But to do so, the beverage manufacturer needs other “inputs” such as aluminum cans, glass bottles, labels, cartons, etc. While the companies producing these inputs may be manufacturers, they are not “primary jobs” if all their products are consumed by the local beverage manufacturer. If, however, they sell their inputs to other companies outside the local market, they become “export income” employers to the extent they sell outside the local area.

Spin-off or indirect jobs are typically associated with the term “multiplier.” The term “multiplier” comes from a series of economic calculations that estimates the number of jobs required to meet the needs of one primary job. The larger the multiplier, the greater the economic impact of the primary job. Two things determine the size of the multiplier: average wage paid to the primary employee and the amount and cost of “inputs” required for the primary employee to accomplish his or her work.

For example, the multiplier for an automobile manufacturer is higher than the multiplier for a software developer – even if both the workers are paid the same wage. Why? Because the autoworker requires a multitude of inputs not required by the software developer. The autoworker needs tires, wiper blades, glass, steel, electronics, seats, mirrors, lights, etc. to accomplish his task. This requires a host of other companies supplying him, which, in turn, creates many spin-off jobs. The software person on the other hand needs computer chips, a screen, storage media, keyboard and printer. These inputs are significantly less than the autoworker. Hence, the “multiplier” for a software engineer making the same amount of salary as the autoworker is less.

A “typical” multiplier on the Western Slope is in the 3.0 to 7.0 range. Translated, this means that the primary job needs between 3 and 7 indirect or spin-off jobs to accomplish his work and to meet his living needs. Retail employment, because of its low wages and limited “primary income generating capacity” will have multipliers in the .3 to .6 range. Therefore, retail is not generally considered a good investment of the time of an economic development professional. Retail is seldom a good primary employer because of the old adage, “Retail follows rooftops.” In other words, retail must follow customers and those customers are created through primary employment’s wealth generating ability.

A mature regional economy that offers a wide array of goods and services for purchase by the primary job will also have a larger multiplier than a smaller market. In other words, a diverse economy “holds on” to the primary worker’s income longer. In an immature market, lacking many of the goods and services demanded by the primary job, the dollar exits more quickly, thereby reducing the multiplier.

Strategies to Increase Primary Employment

Communities seeking to improve their economic position engage in three principle activities to achieve their desired result:

1. Attraction of primary employers
2. Retention of primary employers
3. Start-up operations

Attraction

Attraction activities, performed in Delta County by Delta Area Development, Inc., usually start with a Targeted Industries, or “Clusters” study. This process analyzes the growing industrial segments of the national economy and compares these growth sectors with the local community’s industrial base. It examines why these sectors are growing or not growing in the local community. It determines reasons why some segments are not suited for the local economy (too distant from markets, workforce shortages, too smelly, etc.) and what gaps might be filled to make the local community more desirable to these companies. It looks at companies that are a “good fit” for the community and that can diversify the local economic base.

In Denver, the Metro Denver Network commissioned such a study in 1986. Using a nationally recognized accounting firm, the region determined that:

1. Growing sectors in the national economy included: insurance, medical products & services, computer-aided manufacturing, biotechnology, computer storage devices and financial services.
2. Metro Denver had a glut of office space suitable for many of these types of jobs to locate.
3. A highly trained workforce in Metro Denver that could fill these jobs was, at the time, underemployed or unemployed.

This plan sparked what many believe was the economic turnaround of the late 80's and early 90's. This process was repeated in 1998 when the Metro Denver Network published "Tech Vision" – their next strategic plan for the decade of the year 2000.

Following the completion of a targeted industries study, the local community embarks on a program to improve the *area's competitiveness*. This may include such things as: increasing air service, building different kinds of buildings, adding new courses at the local college/trade schools, or changing regulations which discourage location of desired companies.

Coincident with the efforts to fill gaps in local services, the community embarks on some type of advertising and marketing effort, usually a combination of the following:

- Website development
- Print advertising
- Recruitment trips
- Media or CD production
- Economic briefings
- Site selection conferences
- Trade shows
- Cold calling
- Public and media relations

Some marketing methods are more effective than others. The combination used also depends upon the available budget.

Every economic development program has some basic products and services, which it provides to prospective companies. **Remember... Economic development organizations do not create new jobs.** They provide information and assistance to companies who create new jobs. A good economic development program will strive to have the most comprehensive and current information available. The program's goal is to have information that is so good, it will be used to compare against all other competitors.

1. Demographic information: Most commonly requested information from companies. Includes population, educational institutions and achievement, race and ethnicity breakdowns, income levels, wage and salary schedules, housing, costs, etc.
2. Public infrastructure and costs: Transportation corridors, distance to national and international air service, major public construction projects recently completed or planned, sewer, water and telecommunication infrastructure availability and age, public facilities such as convention centers, schools, higher education institutions, courses taught at local colleges and universities, etc.

3. Taxes, fees and regulations: Income, sales and property tax information. Development fees, regulatory processes and timelines. Unusual requirements such as land donations, impact fees, etc. Off site improvement requirements, tap fees, electrical hook ups and telecommunication taxes or fees.
4. Quality of life: Parks, trails, open space, attractions, sports, school athletics, music, performing arts, museums, etc.

Retention

Over 80% of all jobs created in a local economy come from existing employers. Any good economic development program has a retention program.

For a retention program to accomplish its goals, it must have two components:

1. A strategic element that focuses on public infrastructure improvements.
2. Value-added services that are meaningful to the local company.

The same things that attract new employers will keep existing firms. Communities with good capital investment programs, attentive training institutions, moderate tax and regulatory environments and affordable housing are always desirable locations. These elements can be achieved with a strong vision from elected officials, government employees and the private sector working jointly. Communities without vision will fail.

The second element requires direct assistance from the local economic development organization. If the local group sees itself as a business partner with local companies, retention is high. Providing such things as regulatory and training assistance, new business leads, competitor analysis, technology advances, marketing assistance, etc. provide a needed “value added” service to local employers. A full understanding of “who” are primary employers, their strategic directions and the components of their success should dictate the types of services provided.

Start-Up Operations

Many good ideas for business come from within the community. Delta County is fortunate to have a Small Business Development Center (SBDC), located at the Delta-Montrose Vocational Technical Center. The SBDC is designed to aid those companies trying to get their business idea off the ground and to the market.

This third element also requires assistance from a local economic development partner. Small Business Development corporations assist companies to develop a business plan, find financing, offer educational training, and one-on-one business counseling.

Reasons Companies Locate to Your Community

If you read the newspaper, you are quickly convinced that a company locates only to those communities who cough up the big bucks. Not true. There are a host of reasons for the final location decision with incentives ranking near the bottom of their top ten. “Location” is still the major determining factor, but its definition has changed over the years. With technological advances in telecommunications, “location” may mean the CEO likes to live in a certain area where he/she can still operate the company through modern telecommunication services. According to a survey taken by *Area Development* magazine (December 2001), the following are the top ten reasons a company will relocate:

1. Availability of skilled labor
2. Labor costs
3. Highway accessibility
4. Energy availability and costs
5. Availability of telecommunications services
6. Tax exemptions
7. Occupancy or construction costs
8. State and local incentives
9. Proximity to major markets
10. Availability of land

Remember... a community is not judged by where it is today. It is judged by where the community is *going*. In the 1980's, Denver was not on any company's Top Five list for relocation. As the region BEGAN to make important infrastructure investments, such as Denver International Airport and the Convention Center, companies began to notice. The region moved from #25 as the most desirable location for office and manufacturing in 1987 to #2 and #3 respectively by 1991. DIA was not completed until 1992. It was the community's forward momentum that drove international interest, not the position it found itself in 1987.

Delta County is in transition, and will soon be in an excellent position to attract qualified primary employers. Through its strong leadership, trained workforce, superior quality of life, and most importantly, its *strong vision*, Delta County is and will continue to be an excellent place to call home.