



FOUNDATIONS OF PRACTICE IN COMMUNITY DEVELOPMENT

LEVEL **1** Understanding Communities and Their Dynamics

Economic Development

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Learning Objectives

- Understand the structure of YOUR county economy
- Become familiar the economic drivers in YOUR county economy
- Review YOUR county's recent economic trends



Session Topics

- Defining economic development
- Business development and job creation
 - Basic and non-basic businesses/industries
 - Spending multiplier
 - Location quotients
- Retail sales leakages
- Strategies for fostering business development and job creation
- Economic development partners
- Role of agents
- Exercise – Business/industry trends in YOUR county



What is Economic Development?

- How do you know when your community/county is experiencing **economic development**? What changes do you see?
- **Economic development** includes business development and job creation; more goods and services; and rising incomes.
- **Economic development** also involves social, political and environmental change to enhance quality of life.



What is Economic Development?

- **Economic development** is a process of creating and utilizing physical, human, financial and social assets to generate improved and broadly shared economic well-being, fair and honest government, and a sustainable ecosystem for today's and tomorrow's generations.



Business Development and Job Creation

- In the U.S. economic system, private sector businesses are the primary sources of goods and services, jobs, income, and wealth, and provide the foundation for economic growth and development.
- Businesses account for 85% - 90% of the jobs in the U.S., depending on the state.
- Not all businesses and industries however contribute equally to the economic growth of the economy.



Business Composition

- For community leaders to make sound decisions to promote the community's economic growth and development, they need to have a good understanding of the **community's business composition**.
- The growth, decline or stagnation of a community rests upon the nature of its business activity. **Business activity can be classified into two broad industry categories- basic and non-basic.**



Basic Businesses/Industries

- **Basic businesses/industries** produce goods and services principally for markets and consumers outside the local community. **They bring new money into the community.**
- **Examples:**
 - Agricultural production, forestry, fishing, mining, and manufacturing
 - Federal and state government employees, social security recipients, transfer payment recipients, and residents commuting to work outside the community



Non-Basic Businesses/Industries

- **Non-basic businesses/industries** produce goods and services, for sale mostly to residents and basic and non-basic businesses in the local community and buyers outside the community. **They bring some new money into the community.**
- **Examples:**
 - Construction, wholesale and retail trade, utilities, transportation and warehousing, finance and insurance
 - Professional and technical services, education services, health care and social assistance
 - Arts, entertainment, and recreation, accommodation and food services



New Money Spending Multiplier

The circular flow of money and spending in the economy connects everything. Money that is earned flows from one person to another, and most of it gets spent again- not just once, but many times. What this means is that small increases in new money spending by consumers, businesses and government can lead to much larger increases in economic impact (e.g. business development and job creation).

- To illustrate, consider the scenario of a southwestern town, where
 - Lydia – works on the assembly line of a furniture manufacturer
 - David – owns a landscape business and operates a small ranch
 - Roberto – owns a farm and ranch supply store
 - Tom – owns a hardware store



New Money Spending Multiplier

- Lydia's factory had a great year with record furniture sales to upscale stores in California and New York. As a result, she and her co-workers each receive a \$1,000 bonus from her company.
- **Lydia** decides to spend **\$800** of her bonus on landscaping for her home. She contracts David to do the job. **David** now has an additional \$800, of which, he decides to spend **\$600** at Roberto's Farm and Ranch store on feed and vaccines. **Roberto**, in turn, decides to spend **\$500** of his new income at Tom's hardware store on home improvements materials.



New Money Spending Multiplier

- The impact of the **initial \$1,000 of new money** injected into the local economy is three more rounds of spending, with smaller amounts each time – \$800 + \$600 + \$500 **resulting in \$2,900** in total new spending in the community through the spending multiplier.
- **Conclusion:** While all businesses contribute to the local economy by providing goods and services and employment, **basic businesses/industries are the main drivers of economic growth and development.** They bring new money to the economy and, through the **spending multiplier**, fuel the growth and development of the community.



New Money Spending Multiplier

- **Note of Caution: The spending multiplier works in both directions.** A decline in spending levels in the economy will magnify, through the spending multiplier working in reverse, the decrease in demand for goods and services that leads to less business activity, job losses, and a local economy in decline.



Location Quotients (LQs) & Business Composition

What is a Location Quotient?

- **Location quotients (LQs)** compare an area's (city or county) business composition to that of a larger area (i.e., state or nation).
- **Location quotient (LQ) analysis** is used to identify and track trends in basic and non-basic businesses/industries at the county level.



Location Quotients (LQs) & Business Composition

How is a location quotient (LQ) interpreted?

- A business/industry with a **LQ greater than 1.0** indicates it is a **basic business/industry**. A business/industry with a **LQ less than 1.0** indicates the business/industry is a **non-basic business/industry**.
- An **LQ of 1.25 or greater** indicates the business/industry is a strong exporter bringing new money into the economy. An **LQ of .75 or less** indicates the business/industry that is not meeting local demand and there may be an opportunity for existing businesses and new start-ups to close the gap, creating new jobs and growing the local economy.



Location Quotients (LQs) & Business Composition

How is a location quotient (LQ) calculated?

- LQs are calculated by dividing the percentage of local employment in a particular business/industry sector by the percentage of employment in the same sector at the nation or state level. In our case, we use the state level.
- Equation:
$$LQ = \frac{\% \text{ of local employment in sector } x}{\% \text{ of state employment in sector } x}$$



Location Quotients (LQs)

Example 1: Farming in County X

$$\text{LQ} = \frac{5.8\% \text{ (county X)}}{2.5\% \text{ (NM)}} = 2.32$$

Example 2: Retailing in County Y

$$\text{LQ} = \frac{6.0\% \text{ (county X)}}{11.3\% \text{ (NM)}} = 0.53$$



Retail Sector

- The **retail sector is an important economic player** in most rural (nonmetropolitan) New Mexico counties.
- The retail sector accounts for a significant portion (**12–30%**) of **local jobs and personal income** and is an **important source of tax revenues** (gross receipts tax) that fund county services (e.g., health, education, and public safety).



Retail Sales Leakages

- **When residents decide to shop outside their county for retail products, they take sales revenues away from local businesses, thereby limiting their potential for growth and future contributions to the area's economy.**
- In some counties, actual sales exceed potential sales due to sales to shoppers from outside the county; this generates additional jobs, personal income, and gross receipts taxes beyond what would be expected from sales to county residents only.
- Local businesses must compete for the consumer's dollar. It is in the county's interest to promote and support efforts to strengthen the competitiveness of local business.



Retail Sales Leakages

Does YOUR county have a retail sales gap?

- **Gap analysis** is a technique that can be used to measure the differences between **actual** and **potential** retail sales in New Mexico counties.
- The technique calculates a **retail sales gap coefficient** that indicates the degree to which a county retail sector captures all local potential sales or loses some potential sales to out-of-county businesses.



Retail Sales Leakages

Calculating the Retail Sales Gap (RSG) Coefficients (Con't)

- **Retail sales gap (RSG) coefficients** are derived by dividing actual sales (AS) by potential sales (PS) for a given time period: **RSG coefficient = AS / PS**
- A **RSG coefficient of 1.0** indicates that the county retail sector is capturing all the retail expenditures of county residents, but is not drawing from outside the county.



Retail Sales Leakages

Calculating the Retail Sales Gap (RSG) Coefficients (Con't)

- A **RSG coefficient greater than 1.0** indicates that the county retail sector is capturing all the retail sales of county residents and is also gaining the purchases of shoppers from outside the county.
- A **RGS coefficient of less than 1.0** indicates that the county retail sector is not capturing all the retail purchases of county residents since many are choosing to shop at businesses outside the county.



Retail Sales Leakages

- Does YOUR county have a retail sales gap?
- **How much in additional jobs, personal income, and gross receipts taxes would YOUR county gain by closing their retail sales gap?**
- What can YOUR county do to close the gap?



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Retail Sales Leakages in NM Counties, 2015

Retail Sector: Sales, Jobs, Personal Income, and Gross Receipts Taxes for New Mexico					
Counties, 2015 -- Gained and Lost					
	RSG coefficient AS/PS	Retail sales gained or lost	Jobs gained or lost	Wage Income gained or lost	Gross receipt taxes gained or lost
Metro Counties					
BERNALILLO	0.99	\$73,777,999	328	\$9,179,272	\$2,713,581
DONA ANA	0.77	\$476,230,941	2,421	\$55,625,216	\$20,629,048
SANDOVAL	0.44	\$900,708,334	4,263	\$110,762,565	\$32,219,426
SAN JUAN	0.97	\$46,330,079	224	\$5,810,915	\$1,952,616
SANTA FE	0.89	\$250,084,603	1,148	\$33,035,378	\$10,452,990
TORRANCE	1.04	\$5,693,324	21	\$479,391	\$136,178
VALENCIA	0.75	\$174,383,684	775	\$18,803,090	\$6,308,910
Non-Metro Counties					
CATRON	0.33	\$23,105,481	135	\$2,336,336	\$625,199
CHAVES	1.11	\$81,230,621	334	\$8,386,663	\$2,814,698
CIBOLA	0.83	\$37,239,619	182	\$4,268,604	\$1,237,289
COLFAX	0.85	\$21,594,713	112	\$2,496,263	\$846,309
CURRY	0.73	\$172,159,679	895	\$22,777,167	\$8,129,490
DE BACA	0.38	\$14,456,321	103	\$2,075,985	\$457,766
EDDY	1.11	\$102,489,111	306	\$8,436,731	\$4,239,605
GRANT	0.75	\$77,879,367	400	\$8,810,966	\$3,554,626
GUADALUPE	1.78	\$32,222,455	87	\$2,083,121	\$731,493
HARDING	0.27	\$6,752,052	27	\$360,409	\$201,302
HIDALGO	0.94	\$2,822,748	15	\$297,867	\$56,823
LEA	1.31	\$238,659,709	804	\$22,130,404	\$10,600,815
LINCOLN	1.07	\$17,182,541	82	\$2,070,578	\$854,650
LOS ALAMOS	0.37	\$222,508,854	922	\$23,235,049	\$6,132,664
LUNA	0.97	\$7,714,710	37	\$825,772	\$255,185
MCKINLEY	1.07	\$38,792,600	222	\$5,147,786	\$1,601,626
MORA	0.22	\$53,492,424	256	\$4,711,848	\$2,155,335
OTERO	0.72	\$189,217,445	1,016	\$23,377,018	\$7,777,462
QUAY	1.27	\$24,657,585	94	\$2,094,643	\$728,668
RIO ARRIBA	0.61	\$149,925,482	708	\$18,649,917	\$6,643,801
ROOSEVELT	0.86	\$29,336,390	106	\$2,644,824	\$1,047,257
SAN MIGUEL	0.63	\$101,565,688	552	\$11,978,411	\$4,504,815
SIERRA	0.71	\$35,591,744	184	\$3,827,809	\$1,526,132
SOCORRO	0.61	\$67,718,643	292	\$6,912,208	\$2,340,119
TAOS	0.94	\$20,919,187	100	\$2,428,221	\$913,267
UNION	0.86	\$6,045,637	23	\$518,065	\$179,921



The CARE Model

Creation

Attraction

Retention

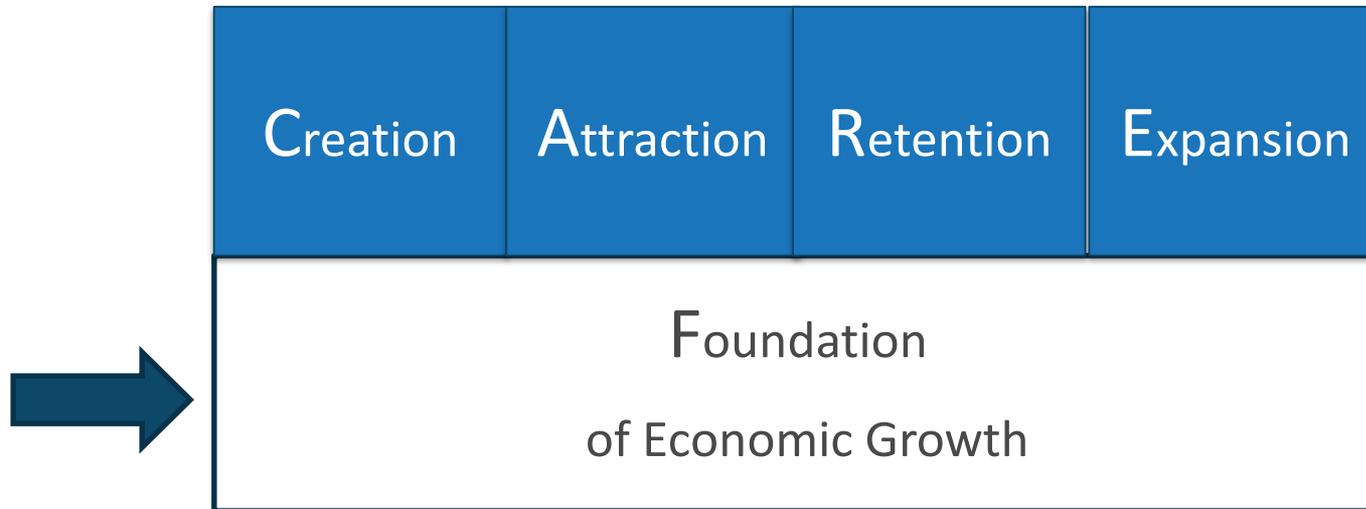
Expansion

Foundation
of Economic Growth

Source: *Suzette Barta, Jack Frye, James Nelson, Steve Peterson, Stan Ralstin, Pete Wittman, Mike Woods* (2010) CARE Model. Available at: <http://srdc.msstate.edu/care/>; also, 2016. "SET Phase V: Module 2 – Evidence Based Planning." Available at: <http://srdc.msstate.edu/set/coaching-teams/curriculum>



Starting from a Solid Foundation



- Workforce development
- Healthcare
- Public policy
- Financing
- Physical infrastructure
 - Sufficient housing
 - Adequate transportation systems
 - Broadband access
 - Water & energy



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C.A.R.E.

Creation

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***Creation* - Entrepreneurship**

- ***Business creation*** (entrepreneurship) involves growing new businesses locally to provide goods or services not currently available locally or in the region.
- Studies show the success rate of entrepreneurs increases with training, resources, and a supportive community environment.
- Many communities now include entrepreneurship training in their middle and high school curriculums.



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C.A.R.E.

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Attraction - Community Business Matching Process

- **Business attraction** seeks to bring firms to the community that employ local people in providing goods or services that are not currently available locally or in the region while contributing to the social fabric of the community.
- The **Community Business Matching (CBM) process** provides communities with an efficient tool for business attraction.



Attraction - Community Business Matching Process

- The **CBM process** contributes to the design of a community's economic development action plan by identifying:
 - Community goals and priorities for economic development
 - Community assets that will help achieve goals and priorities
 - Industry needs and factors important for locating operations in a community
 - Businesses that are consistent with community goals and assets



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Retention & Expansion

- Studies show, particularly in rural areas, 40-80% of all new jobs are created by the ***retention and expansion of existing businesses*** rather than by attracting new businesses to the community.
- In terms of tax contributions, the expansion of existing business operations, not new operations, is greater in most communities over time.
- **Existing businesses already have a stake in the community and contribute to the social fabric of the community as well as its economic vitality.**
- Communities are adopting business retention and expansion (BR&E) programs to build more self-reliant local economies and improved business climates.



Economic Development Partners

- **Federal**

- U.S. Small Business Administration
- U.S. Department of Agriculture
 - Rural Development (RD)
 - Natural Resources and Conservation Service (NRCS)
 - Farm Service Agency (FSA)
 - Risk Management Agency (RMA)
- U.S. Department of Commerce
 - Economic Development Agency (EDA)

- **State**

- NM Economic Development Department (NMEDD)
- NM Small Business Development Center Network
- NM Department of Tourism
- NM Council of Governments and Economic Development Districts



Economic Development Partners

- **Local**
 - **Chambers of Commerce**
 - **MainStreet Programs**
 - **Other business and civic organizations**
 - **Economic development organizations**
 - **County and municipal government planning and economic development departments, offices, and programs**



County Agent Roles

- Facilitation
 - Community meetings and dialogue
 - Networking individuals, organizations and agencies
 - Strategic planning
- Education and training
- Leadership development
- Technical assistance
 - Community assessments
 - Asset mapping
 - Identifying resource sources
 - Program/project information and data collection, analysis, design and evaluation



Economic Development

Recap – Takeaways

Economic development is a process of creating and utilizing physical, human, financial and social assets to generate improved and broadly shared economic well-being, fair and honest government, and a sustainable ecosystem for today's and tomorrow's generations.



Business Development and Job Creation

Recap – Takeaways

- The composition of businesses/industries in (your) county is an important determinant of it's economic growth and job creation.
- While all businesses contribute to (your) county economy by providing goods and services and employment, **basic businesses/industries** are the main drivers of economic growth and job creation.
- Public and private investment and public policy can play an important role in the promotion, support, and growth of (your) county's **basic businesses/industries**.



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Exercise – Identifying YOUR COUNTY’S Basic Businesses/Industries and Trends

	2001			2010			2016			Employment Change		
			LQ01			LQ10			LQ16	2001-2010	2010-2016	2001-2016
Total Employment	27,407			28,874			30,107			1,467	1,233	2,700
Non-services related	6,471	23.6%	1.45	5,552	19.2%	1.33	5,883	19.5%	1.35	-919	331	-588
Farm	1,596	5.8%	2.33	1,221	4.2%	1.75	1,431	4.8%	1.76	-375	210	-165
Forestry, fishing, & ag. services	268	1.0%	1.83	237	0.8%	1.67	199	0.7%	1.31	2	0	2
Mining (including fossil fuels)	1,193	4.4%	2.12	1,633	5.7%	2.22	2,062	6.8%	2.42	440	429	869
Construction	1,267	4.6%	0.71	1,364	4.7%	0.82	1,238	4.1%	0.76	97	-126	-29
Manufacturing	2,147	7.8%	1.67	1,097	3.8%	1.17	953	3.2%	1.04	-1,050	-144	-1,194
Services related	16,027	58.5%	0.93	18,617	64.5%	0.99	19,660	65.3%	0.98	2,590	1,043	3,633
Utilities	101	0.4%	0.84	96	0.3%	0.76	71	0.2%	0.54	-5	-25	-30
Wholesale trade	861	3.1%	1.08	866	3.0%	1.18	1,136	3.8%	1.41	5	270	275
Retail trade	3,062	11.2%	0.99	3,462	12.0%	1.15	3,757	12.5%	1.19	400	295	695
Transportation and warehousing	776	2.8%	1.15	941	3.3%	1.48	1,098	3.6%	1.49	165	157	322
Information	312	1.1%	0.57	264	0.9%	0.57	320	1.1%	0.73	-48	56	8
Finance and insurance	754	2.8%	0.87	986	3.4%	1.05	939	3.1%	0.99	232	-47	185
Real estate and rental and leasing	712	2.6%	0.87	899	3.1%	0.84	905	3.0%	0.81	187	6	193
Professional and technical services	944	3.4%	0.56	1,094	3.8%	0.51	1,023	3.4%	0.47	150	-71	79
Management of companies	52	0.2%	0.31	75	0.3%	0.51	76	0.3%	0.45	23	1	24
Administrative and waste services	678	2.5%	0.45	865	3.0%	0.59	1,207	4.0%	0.83	187	342	529
Educational services	82	0.3%	0.24	174	0.6%	0.38	205	0.7%	0.43	92	31	123
Health care and social assistance	3,005	11.0%	1.21	4,261	14.8%	1.31	3,923	13.0%	1.06	1,256	-338	918
Arts, entertainment, and recreation	369	1.3%	0.69	348	1.2%	0.55	365	1.2%	0.55	-21	17	-4
Accommodation and food services	2,820	10.3%	1.31	2,809	9.7%	1.27	2,997	10.0%	1.18	-11	188	177
Other services, except public admin.	1,499	5.5%	1.07	1,477	5.1%	1.01	1,638	5.4%	1.06	-22	161	139
Government	4,909	17.9%	0.85	4,705	16.3%	0.79	4,564	15.2%	0.80	-204	-141	-345

All employment data are reported by place of work.



Exercises

1. For YOUR county, identify the basic businesses/industries (those with LQs greater than 1) in each of the time periods – 2001, 2010, and 2016
2. What have been the trends in the basic businesses/industries in YOUR county between 2001 and 2016? Which ones have become stronger (increasing LQs). Which ones have weakened (decreasing LQs).
3. What new businesses would you like to see in YOUR community/county.



Exercises

4. What business development strategies (e.g., C.A.R.E) would you pursue to increase and grow the number of businesses in YOUR local economy?
5. Does YOUR county experience retail sales leakages? What can be done to stop and reverse the leakages?