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News & Views, published quarterly, is the newsletter of the Economic Development Division of the American Planning Association. We welcome articles, letters, suggestions and information regarding workshops and other educational opportunities for economic development professionals. Please forward your submissions by email to our Editor, Dr. Ned Murray, AICP (address below).

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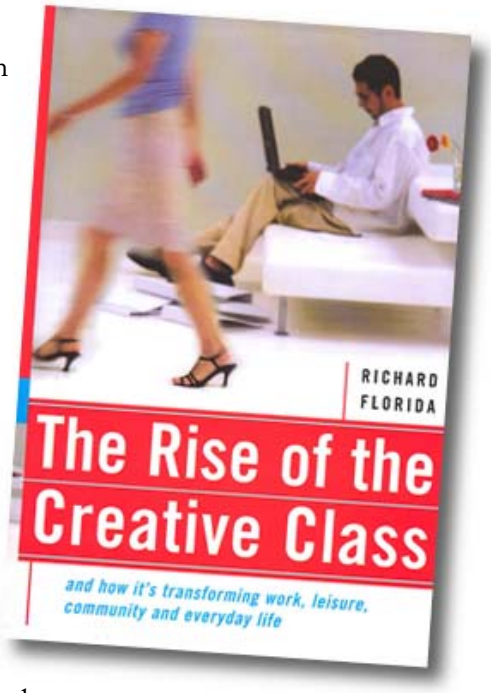
Benchmarking the Creative Class Within the Washington, DC Metropolitan Area

by Terry Holzheimer, AICP

Richard Florida's book, *The Rise of the Creative Class*, has gained substantial attention among the economic development community as a new paradigm for economic growth[1]. Building on regional growth theories focused on knowledge-based, cluster-oriented, and technology-led job growth, Florida correlates job growth in technology centers with specific demographic characteristics. He theorizes that communities with a high degree of diversity attract young, educated and creative people that contribute directly to economic growth. Conversely, the lack of diversity, tolerance, and a knowledge-based business base leads to a "brain drain" of this population to more attractive Creative Class communities. Such seemingly unrelated cities as Tampa, Providence, Memphis and Pittsburgh have based their economic development strategies, at least partly, on building amenity-rich communities attractive to the Creative Class worker.



The Washington, DC Metropolitan Area is ranked by Florida first among metros of one million or more in the percentage of Creative Class population and eighth on his Creativity Index.[2] This paper benchmarks the jurisdictions within the Washington region as Creative

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Thoughts From The Chair

It's hard to believe as we enjoy the holidays that the 2005 APA National Planning Conference is fast approaching! The Economic Development Division is looking forward to a great conference in San Francisco and I hope to see many of you there. We will have two division-sponsored sessions***: Integrating Economic and Urban Planning — Strategies, Elements and Measures***; and ***The Economics of Density.*** Be sure to check them out. In addition, there will a number of informative mobile workshops with economic development themes. The EDD business meeting will present some new information as well, with a presentation of the results from a University of Florida survey on the practice of economic development planning. A report on the proposed APA policy guide on Security will also be provided at the business meeting, along with an update on our joint project with the Transportation and Environment Divisions relating to airport planning.

A special note on student involvement with the EDD, Shana Retherford has done a great job highlighting student research and studio projects on the website. Shana got involved with the Division at last years conference and we expect more student attendance this year. The ED Division has always supported planning education, so do not forget our annual student scholarship competition — details are also on the EDD website. APA has also made an increased commitment to planning students, offering free APA memberships, discounted division memberships, and an expanded Mentors program; again, check out the APA website for more information. By the way, did you know that the EDD has 90 student members?

So, save your pennies and bribe the boss if you need to, but get to San Francisco on March 19-23 for a great APA National Planning Conference.

— Terry Holzheimer, AICP, Chair

News about *News & Views*

You will be getting two issues of *News & Views* this quarter — our traditional printed and mailed version and an electronic copy. With production, printing and mailing costs of the newsletter accounting for nearly 90 percent of the Division budget, EDD is considering moving fully into the digital age and going all electronic. The next couple of issues will test electronic distribution and we will ask for member feedback on a survey to all members early in the New Year. We do need your help and support on this. We still have 85 members without an email address in our records. **PLEASE go onto the APA website and update your record.** Snail mail went out with our colored pencils, so help us free up resources so that the EDD can undertake some innovative and valuable new initiatives for you, our membership. Do not worry, however, about the quality of the articles and writing for *News & Views*. Our editor, Ned Murray, and publisher, Jeff Mills, will continue to bring you the highest quality and most valuable newsletter possible.

In This Issue of *News & Views*

On behalf of the APA Economic Development Division's staff, I want to wish all our members a very successful and enjoyable New Year. This issue of *News and Views* will take us up to the 2005 APA National Planning Conference in San Francisco on March 19-23. Be sure to register and begin finalizing your travel plans for what will sure to be a very exciting and informative conference.

In this issue of *News and Views* we are pleased to present three quite different economic development articles. Our EDD Chair, Terry Holzheimer, provides an interesting application of Richard Florida's work in the lead article, "Benchmarking the Creative Class within the Washington D.C. Metropolitan Area." Jim Carras then offers a thoughtful "how to" on a growing popular economic development tool in his article entitled, "New Market Tax Credits: Leveraging Equity for Economic Development Projects." And, finally, we are excited to include the first of what will hopefully become a regular installment of APA/EDD Student Research Highlights by Shana Retherford, "Bringing Theory into Practice: Benoy Jacob's Modeling the Spatialization of Tax Policy." — Ned Murray, AICP

New Markets Tax Credits: Leveraging Equity for Economic Development Projects

by James Carras

Economic development professionals have used a variety of public incentives to leverage private capital for commercial real estate projects and business ventures. Community Development Block Grants, Section 108 loans, and other economic development resources from a myriad of federal, state and local agencies have been used to varying degrees of success. These programs have often been cited for their lack of flexibility in leveraging equity investments for catalytic development projects in lower-income areas.

To address this gap, in the waning days of the Clinton Administration the New Markets Tax Credit (NMTC) Program was passed by Congress as part of the Community Renewal Tax Relief Act. The seven-year program's intent is to stimulate private investments in economically-distressed urban and rural areas. A total of $15 billion in private investment capital is eligible for tax credits that provide investors with 39 percent tax credits earned over a seven-year period.

This article will look at how the program works recent transaction examples and steps economic development professionals should consider in order to effectively utilize this important Federal funding tool.

Context

Economic development professionals who have figured out how the NMTC Program can work in their communities have begun to see results that can override initial industry wariness. While the program is in its growing stage and its full potential has yet to be met, development finance observers see the NMTC program as a much-needed economic development tool to leverage private-sector investments. NMTCs can close financing gaps and provide the "glue" to make difficult economic projects work.

The NMTC program has been described as a "shallow subsidy," in contrast to the deeper subsidy provided by other federal tax credit programs such as the Low Income Housing Tax Credit (LIHTC) program and is considered more flexible. NMTCs can be utilized by a mix of commercial and business investments including office, industrial, retail, mixed-use and community facility space as well as business ventures. The program's key advantage is that it provides access to equity and gap capital at generally a 3 percent reduction of the market rate. NMTCs are excellent for marginal transactions, but they do not make bad deals into good ones.

Most economic development organizations that apply for New Markets Tax Credits do so because of the program's ability to reassure private investors. These organizations often have the challenge of searching for private investment for major projects. The NMTC's clear goal is to bring private investment into urban projects.

New Markets Tax Credits can close financing gaps and provide the "glue" to make difficult economic projects work.

Community Development Entities

NMTCs are available only to private investors in certified U.S. Treasury Community Development Entities (CDEs). Private investors include corporations, banks, insurance companies and individuals. Banks are the most likely users of these tax credits because they are traditionally the predominant investors in community development projects and partnerships. The tax credits provide these institutions with capital, and in turn, receive a return on their investment as well as Community Reinvestment Act (CRA) investment test "credits."

A Community Development Entity must have as its primary mission serving or providing investment capital for low- and moderate-income communities. These entities must be certified by the Treasury and must maintain accountability to the community with either community representatives serving on the entities' board of directors or in an advisory capacity (the regulations are still under construction).

Community Development Financial Institutions

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New Markets Tax Credits, cont. from p. 3

(CDFIs) certified by the Treasury's CDFI Fund, or the Small Business Administration's Specialized Small Business Investment Companies, are automatically certified as Community Development Entities. Economic development organizations that establish for-profit subsidiaries or limited-liability companies or partnerships may also qualify. New corporations or partnerships that meet the community development mission and community-accountability requirement may also be eligible.

How does the New Markets Tax Credit Program work?

Tax credits are allocated to CDEs through the Treasury's community development program — the Community Development Financial Institutions Fund (CDFI Fund). The allocation process is competitive and community development entities with successful track records, either directly or through affiliate organizations, will receive priority. After a CDE has received its allocation, it may distribute the tax credits to its investors. Investors receive tax credits based on the amount of their equity investment. Equity investments (either stock or capital interest) must be paid in cash and made within five years of the Treasury's tax-credit allocation to the entity.

Tax credits are claimed by investors during seven years starting on the date of the investment and on each anniversary — five percent is claimed for each of the first three years and six percent for each of the next four years. This stream of credits totals 39 percent with a present value of approximately 30 percent. Funding for the program started at $1 billion in 2001 and rises in increments to an authorized total of $15 billion in 2007.

Community development entities (CDEs) can use tax credit investment proceeds to fund loans or make equity investments in for-profit and nonprofit businesses or other CDEs. For example, a CDE could invest in a development corporation's project to build a mixed-use development in a low-income area. The mixed-use project could consist of office, retail and residential components. The equity provided by the CDE may then enable the corporation to persuade other investors to support its project. CDEs may also purchase loans from other CDEs, provide financial counseling and other services, or finance their own eligible activities.

A community development entity must use "substantially all" of the tax credit investment proceeds for the above purposes. The Treasury Department defines the term "substantially all as: "85% must be invested in qualified projects with the remaining for allowances for administrative expenses, loss reserves, and expenses related to both a start-up period for placing investments and a wind-down period for recovering investments." In addition, a CDE must track how tax credit investments are used if less than 85 percent of its gross assets are so invested.

Two Treasury divisions administer the New Markets Tax Credit program: the CDFI Fund certifies community development entities and makes tax credit allocations, and the Internal Revenue Service develops regulations. Both the Fund and the IRS monitor program compliance.

Businesses eligible for investment by community development entities must meet the following four tests:

1. Fifty percent of the business must be derived from conduct within the low-income community;
2. A substantial portion of the services performed by the business's employees must occur within the low-income community;
3. The majority of the facilities must be located within the low-income community; and

4. Less than 5 percent of the business's assets can be held in unrelated investments.

A community is determined to be an eligible low-income community if its census tract has a poverty rate of at least 20 percent, or if the median family income does not exceed 80 percent of the statewide median; or, in metropolitan areas, if the median family income does not exceed 80 percent of the greater of the statewide median or the metropolitan area's median. The Treasury Department may also approve a particular area within a census tract as a low-income community.

Program Track Record

The New Markets Tax Credit program began in Spring 2002 when the CDFI Fund received 345 applications for $2.5 billion tax credit allocations. The first-round applicants requested an aggregate of $26 billion with 66 CDEs receiving NMTC authority in March 2003. The average first-round allocation was $38 million and ranged from $500,000 to $170 million. Six CDEs received allocation awards of more than $100 million. Eighty percent of the NMTCs were awarded to CDEs that serve urban and suburban areas, as opposed to rural areas.

In the second round, $3.5 billion of NMTC allocations were announced in Spring 2004. According to the CDFI Fund, the second round received fewer applications than the first round (271 vs. 345), but more money was requested ($30.1 billion vs. $26 billion). Non-profit organizations or subsidiaries of non-profit organizations accounted for 38 percent of second-round applicants, 19 percent of the applicants were regulated financial institutions and six percent of applicants were government-controlled entities or their subsidiaries.

In the third round of NMTC applications this past Fall, there were 208 applications requesting $23 billion in tax credits. Allocation announcements are scheduled for Spring 2005.

Renovation of the dilapidated Oregon National Guard Armory, erected in 1891, is part of a $28 million construction project in the heart of Portland's Pearl District.

Examples of NMTC-Funded Projects

Though implementation of the NMTC Program has been slowed by the lengthy process of successful "allocation winners" signing Allocation Agreements with the CDFI Fund, the initial transactions utilizing NMTCs have proved useful in better understanding the effectiveness of the NMTC program.

- In San Diego, a $15 million loan utilizing NMTCs was made to a large mixed-use project called Market Creek Plaza in Southeast San Diego. Market Creek Partners LLC, a subsidiary of a non-profit community development organization, Jacobs Center, owns Market Creek Plaza. It consists of an 80,000-square-foot, 10-acre shopping center anchored by a Food4Less grocery store. The Jacobs Center has invested $28 million in the $77 million project. Originally 20 acres, Market Creek Plaza has been expanded to 45 acres to become a pilot village, a project selected by the City of San Diego to serve as prototype for smart growth. The project calls for a mix of housing, jobs, shopping and public transportation on sites around the city.

  The loan for Market Creek Plaza was made through Clearinghouse CDFI in Lake Forest in partnership with Wells Fargo & Co. and California Southern Small Business Development Corp., a local business lender. Wells Fargo has provided working lines of credit. The loan from the New Market Tax Credit program is the first permanent financing for the project.

- In Portland, Oregon, the City's largest resident theater company (Portland Center Stage) is planning to build a new two-theater complex for its operation in the heart of the Pearl District. The $28 million construction project calls for the major renovation of one of Portland's oldest buildings: the dilapidated Oregon National Guard Armory, erected in 1891. The site

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Stimulating Small-Scale Industrial Development, cont. from p. 5

yields a pair of venues: a 599-seat main theater and a flexible "black box" theater seating up to 200. The newly launched Portland Family of Funds, a certified CDE, provided approximately $11 million in New Market and Historic tax credit investments. The equity investment leveraged a $10.6 million loan from US Bank and a $4.6 million loan from the Portland Development Commission. The CDE is a public/private partnership developed by the Portland Family of Funds and its partners Goldman Sachs, US Bank and the City of Portland.

- In Durham, North Carolina, an historic garage was restored and converted into a biotechnology center. The Clark and Sorrell Garage was built in 1932 at the site of the first auto repair business in Durham. The structure was vacant for years but an opportunity existed since it was located in the surrounding area of Research Triangle Park. According to the National Trust for Historic Preservation (a subsidiary served as the CDE), the Triangle Biotechnology Center, as the property is now known, has returned to landmark status, but now as an ultra-modern facility that serves the medical and scientific start-up companies of the 21st century.

The Triangle Biotechnology Center falls within an Economic Development Zone and has over 20,000 gross square feet of office and laboratory space. The Center also houses a "Laboratory for Learning" that provides economically disadvantaged students with first-hand experience in the life sciences. The total development cost was $3,754,957 with $902,145 coming from NMTCs and historic tax credit equity investment from the National Trust Community Investment Corporation, the National Trust for Historic Preservation's for-profit subsidiary.

Considering Next Steps

Economic development organizations considering applying for an allocation of New Markets Tax Credits should consider the following steps prior to making the decision whether to apply (the next round is scheduled to be announced in the Summer 2005):

1. Assess Local Capital Needs — Economic development organizations should assess their key financial capital needs including equity, near-equity, permanent financing for their future projects including commercial real estate, industrial, community facility, mixed-use projects and business ventures. The key question to be answered during this step is "Why are projects not moving forward?"

2. Assess Local Capital Supply — Financial institutions have changed dramatically over the past ten years with shifting emphasis on Community Reinvestment Act enforcement, mergers and acquisitions and intense competition from non-regulated financial institutions. Economic development organizations need to understand who in their community is providing capital as well as assessing the effectiveness of available public programs to meet the previously identified capital needs.

3. Meet with Local and Regional Financial Institutions — A good starting point in garnering private sector interest in the NMTC initiative is to hold an educational/informational session with local financial institutions. Many of them are unfamiliar with the

NMTC program. At this meeting, an introduction to the program can be provided as well as a discussion of how to move forward to address leveraging capital needs.

4. Identify Pipeline of Projects and Their Financial Profile — Economic development organizations are well aware of proposed and conceptual projects in their target markets. It is important to detail these projects as well as their corresponding financial profile relative to their ability to come to fruition. This process will help identify gaps that potentially can be filled by a CDE with NMTC allocations.

5. Identify and Contact Existing CDEs — There are over 1,200 certified CDEs (see www.cdfifund.gov for an updated list of certified CDEs). Most have not applied for an allocation of CDEs but may be considering applying in future rounds. Meeting with CDEs in your areas and understanding their plans and strategies can influence your decision on future activities.

Practitioners offer conflicting recommendations regarding whether economic development organizations should themselves apply for an NMTC allocation or work through existing NMTC allocation winners. Those who have already gone through the process have important program experience and, perhaps, will know how these deals can be better structured. Using NMTCs to their full advantage requires specialized expertise to manage the entire process.

Other economic development organizations feel that applying for its own NMTC allocation is key to controlling the process. Regardless of whether an economic development organization partners with an existing CDE or creates its own, the applicant must be prepared to demonstrate a strategy that involves many stakeholders and partners.

6. Prepare for Applying — The NMTC application period is typically 60 days. Beginning the process at the point of the application availability announcement is too late. The process to prepare an application typically takes 6 to 12 months of intensive planning, assessing needs, identifying partners and securing management and investment commitments. Only a serious level of time resources to this effort will result in a winning application.

7. Only Complete Applications Need Apply — The application process for New Market Tax Credits is extensive. While the application itself is approximately 60 questions, the highly competitive process demands an intensive strategic approach to become successful. The application includes four parts: business strategy, capitalization strategy, management capacity and community development impact.

The business strategy section asks the applicant to identify opportunities, demand, products and services. The capitalization section identifies investors and future capital strategy. The management section details all the key personnel, board and staff, who will have responsibility in implementing the New Market Tax Credit allocation. The Community Development Impact section provides information about the economic and community impacts that are anticipated from the investments to be made by the CDE with its allocation of NMTCs.

The impact of the New Market Tax Credits program on economic development transactions can be significant.

Summary

Economic development programs such as the New Markets Tax Credit reflect the current public approach of utilizing market-driven initiatives to revitalize economically distressed communities. Coupled with economic forces turning to low-income urban communities for commercial, residential and retail opportunities, these capital resources will enhance the ability of economic developers to meet their mission and goals.

The impact of the New Market Tax Credits program on economic development transactions can be significant. First, more private sector equity dollars are in the "deal." Second, total debt for the project can be reduced, and/or needed reserves can be funded through cost savings on interest rate. Third, investor/lender confidence is increased. Finally, NMTC serves as a fundamental shift from relying on public sources for economic development projects to greater reliance on partnerships and private sector involvement.

For economic development organizations, well-thought out strategies and approaches, coupled with partnerships and resource identification can lead to new investment opportunities emerging in economically-distressed communities.

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Benchmarking, cont. from p. 1

Class communities. The purpose of this paper is to provide perspective on local and regional demographics as they relate to those attributes associated with the Creative Class. The methodology is easily replicable and provides a basis of comparison since the data is derived from readily available federal online sources.

Economic Growth Theories

Michael Porter popularized the cluster-based theory of economic growth a decade ago, and the economic development community has nearly universally embraced his approach.[3] Porter suggested that innovation is derived from specialization and dense networks of interrelated firms and workers. The workers may be related by industry, occupation, age or education. Economists suggest that agglomeration economies, essentially efficiencies and comparative advantage, occur when firms cluster in geographic space. Saxenian and Fukuyama advance a cultural element to the theory to explain the dissemination or dispersion of innovation within clusters.[4] Clusters build on their increasing specialization and rapid and constant innovation to increase their global competitiveness.

Richard Florida adds to this the notion that job growth in the new information economy is strongly correlated with labor force characteristics that match up to the requirements of technology-based employment. Education is especially important as the second of his three "T"s of economic growth — technology, talent, and tolerance. The third "T," tolerance, is a reflection of high levels of acceptance of ethnic and lifestyle differences. These, in turn, are a function of diversity, age, and education among other factors. Florida's analysis correlates these factors with economic growth and suggests that communities that have these demographic, community and economic characteristics are more likely to be economically successful.

Florida has used statistical techniques to create a series of indexes that are highly correlated with economic growth. He then combines these into an overall Creativity Index to describe a new social class— the Creative Class. He writes, "as with other classes, the defining basis of this class is economic. Because creativity is the driving force of economic growth, in terms of influence, the Creative Class has become the dominant class in society."[5] What, more precisely, is the Creative Class?

Florida's indexes that describe the Creative Class are somewhat complex to explain and replicate. Essentially, his overall Creativity Index is based on four factors:

- the Creative Class share of the workforce, based largely on occupational characteristics;
- innovation, as measured by patent activity;
- the high technology share of the economic base; and

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Location Quotient of Creative Class Attributes Washington, D.C. MSA Jurisdictions

Jurisdiction	Population 25-34	Foreign-Born Population	Education	Super Creative Core	Mobility	Tech-Based Economy	Innovation	Housing Affordability
Alexandria City	1.79	2.30	2.23	3.41	2.28	4.47	1.91	1.12
Arlington County	1.78	2.52	2.47	3.85	2.08	5.93	0.67	1.12
District of Columbia	1.25	1.16	1.60	3.20	1.27	2.24	0.40	1.02
Fairfax County	1.09	2.22	2.25	3.63	1.53	6.77	0.71	1.12
Loudoun County	1.25	1.02	1.93	3.46	2.08	2.52	0.71	1.11
Montgomery County	1.02	2.41	2.24	3.78	1.15	3.83	2.17	1.06
Prince George's County	1.11	1.25	1.11	2.46	1.10	2.42	0.48	1.08
Prince William County	1.14	1.04	1.29	2.68	1.72	0.92	0.27	1.10
Washington, D.C. MSA	1.13	1.53	1.71	3.15	1.40	4.12*	0.91	1.06

* for 8 jurisdictions only

Source: U.S. Bureau of the Census; U.S. Patent & Trademark Office

- diversity, based on indexes related to sexual orientation, bohemianism (counter culture or cutting edge arts and culture), and diversity (foreign born population).

In combination, the component indexes add up to an overall index that ranks the Washington, DC Metropolitan Area at the top among metro areas of one million or more population.

Methodology

This paper does not purely replicate all of the measures used by Florida, but substitutes some relatively simple measures that are consistent with the premises of the Creative Class theory. Eight measures are selected to reflect the attributes of the Creative Class. No overall composite index is derived. Each of the individual measures reflects an important attribute of the Creative Class based on Florida's construct:

- the proportion of the population aged 25 to 34 represents the mobile, educated, and creative heart of the Creative Class;
- the foreign born proportion of the population reflects cultural and ethnic diversity;
- the proportion of the adult population with a bachelors degree or higher level of education is the source of innovation and creativity;
- the proportion of the population in "super creative core" occupations — scientists, artists, designers, architects, engineers, writers, etc. — are the Creative Class as defined by their work;
- the percentage of the population moving within the past five years measures mobility;
- the concentration of employment in technology sectors measures high tech economic activity;
- patents per capita over a ten-year period measures innovation; and
- the percentage of renters spending less than 35 percent of their income for housing costs indicates relative housing affordability.

Data is drawn from the Bureau of the Census (www.census.gov) and the U.S. Patent and Trademark Office (www.uspto.gov). All indicators are expressed as location quotients, which are generally used to measure economic specialization, but are equally suitable as a measure of concentrations of all sorts.[6]

Age 25-34 Population

The proportion of the population aged 25 to 34 is of primary importance in any analysis of the Creative Class. A study prepared for Tampa found that "statistically, 25-34 year-olds are the hardest working segment of the population. In their mid-20s, they are also at the peak of their mobility and more likely to move across state lines than at any times in their lives. In the time between their 25th and 34th birthdays, these young adults not only start careers, but also find mates, start families, and put down roots. Once rooted in place, the likelihood of their moving to another state or metropolitan area will decline precipitously."[7] The Tampa study describes this group as "the gold standard in the knowledge-based economy" because they are critical to long-term economic health of their communities.

Over the past decade, the nation lost some three million 25-34 year-olds as the size of this cohort shrank. In many communities, migration resulted in a further loss of this young, educated and talented population; representing a "brain drain" as this highly mobile group relocated. To many economic developers, the recruitment or capture of mobile 25-34 year-olds is as important as corporate recruitment was a decade ago.

Alexandria City and Arlington County have the highest proportions of 25-34 year-olds within the metropolitan area with location quotients of 1.79 and 1.78 respectively (see Table). Within the region, young people are more likely to live in the most urban environments. These two communities, plus Loudoun County, are the only ones to experience an increase in this age group, in spite of the substantial increase of the overall population in most suburban jurisdictions. The increases in Loudoun County were largely due to the rapid and substantial growth of population overall. Unfortunately, in spite of an above average percentage of young adults, the Washington Metropolitan area lost more than 60,000 persons in the 25 to 34 age group in the 1990s in spite of an overall population increase of 536,000.

Foreign-Born Population

Florida places a great deal of importance on diversity. He points out that "diversity is something that they (the Creative Class) value in all its manifestations…I take it to be a fundamental marker of Creative Class values."[8] Nationwide, about 40 percent of population growth has been the result of international immigration. The proportion of foreign-born population is a simple but important measure of cultural diversity.

According to the Census Bureau, Arlington County has the highest percentage of foreign-born population among local jurisdictions. Arlington has a location

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Benchmarking, cont. from p. 9

quotient of 2.52, with some 27.8 percent of all Arlingtonians born outside of the United States, more than twice the national average. Several other area jurisdictions also have relatively high percentages of foreign-born population, including Montgomery County, Alexandria City, and Fairfax County. Each of these communities had percentages of foreign-born population significantly above the District of Columbia, which was about 16 percent above the national average.

According to Audrey Singer of the Brookings Institution, Washington's foreign-born population itself is highly diverse, with no one country comprising more than 10 percent of the total.[9] Singer also found that, if not for the foreign-born immigrants, the Washington region would have lost population over the past decade, as both domestic migration and natural population growth was negative over that period. Further, the foreign-born are dispersed, with 90 percent of the new immigrants locating in the suburbs, especially Fairfax County. While the inner suburbs of Arlington County, Montgomery County and Alexandria City have the highest percentage of foreign-born population, the outer suburban jurisdictions of Loudoun and Prince William Counties are experiencing the greatest percentage growth in this population segment.

Educational Levels

Educational levels are generally highly correlated with creativity, innovation, and economic growth. While Florida did not use education as a single variable, it is however, imbedded in a number of indexes. Education is fundamental to the human capital theory on which the Creative Class is based. The highest-ranking Creative Class communities all have levels of educational attainment well above the national average.

Arlington County has the highest education level in the region, with more than 60 percent of the adult population holding a Bachelors or advanced degree, yielding a location quotient of 2.47. All Metropolitan Washington area jurisdictions, including the District of Columbia, rank above the national average in educational attainment. This is especially significant in that Arlington County, and the region as a whole, has a high level of foreign immigrant population, which is often associated with lower levels of education. The presence of the international diplomatic corps and H1B visa-holders may be reasons why Washington's foreign-born population may have higher levels of education than those nationwide.

The Washington region ranks highest in educational attainment among the top nine Creative Class large regions with a location quotient of 1.71. Somewhat surprisingly, Washington scores well above such major educational centers as Boston, Austin, and San Francisco.

Creative Occupations

Florida uses the percentage of the employed population in those occupations considered part of the "super creative core," such as scientists, writers, artists, educators, architects, engineers, athletes, entertainers, etc., as the principal measure of the Creative Class.[10] Florida credits Jane Jacobs with making the connection between a city's ability to attract creative people and economic growth.[11]

Arlington County leads the region on this measure with a location quotient nearly four times the national average. All of the Washington region jurisdictions have location quotients of 2.46 or higher, well over twice the percentage nationally. The regional economy is largely service based and is dominated by the federal government as both an employer and purchaser of services. This high concentration of "super creative core" workers led to Florida's ranking of the Washington, DC Metropolitan Area as the top large Creative Class region. Approximately 25 percent of those employed in the Washington area are in "super creative core" occupations.

Mobility

Much of the interest in the Creative Class is focused on the potential for "brain drain" due to the relatively high mobility of the 25-34 year-old demographic cohort. Florida found that "the migratory patterns of the Creative Class cut across the lines of race, nationality and sexual orientation. People of varied backgrounds are all migrating to the same kinds of cities. Members of the Creative Class are moving away from places that…do not reflect their interests in favor of those that validate their identities in the very structure of daily life."[12] The Creative Class is highly mobile.

Mobility, as defined here, is the percentage of the population over the age of five that moved from another county within the 1995 to 2000 period. It does not measure intra-county moves, but does count moves from within the metro area. High levels of mobility can be associated with either high levels of population growth or rapid population turnover. Areas with greater proportions of rental housing tend to have higher population turnover.

The communities of Alexandria City, Loudoun and Arlington Counties each have high levels of mobility. All three have location quotients above 2.0 on this measure. In each of these communities more than 43

percent of the 2000 population lived elsewhere in 1995. Every community in the Washington area has a level of mobility above the national average.

Both population growth and turnover affect mobility rates. While Loudoun County's mobility is largely due to growth (90 percent), Arlington County's mobility rate is reflective of a much more transient population, one where only about 11 percent of the population mobility is attributable to population increases. Arlington County's population mobility is more than twice the national average and its population turnover is well above that of any other community in the Washington region.

Technology Base

Much of Florida's thesis involves the emergence of the information age, the increase in the number of knowledge workers, and the growth of technology clusters. Technology is one of four indexes he used to compute an overall Creativity Index. This paper measures the technology base with location quotients for an aggregate of six specific technology industry clusters.

Within the Washington Metropolitan Area, Fairfax County ranks first and Arlington County second for the aggregate of six technology sectors used in the comparison, with location quotients of 6.8 and 5.9 respectively. Within the individual technologies, Fairfax County has the greatest concentration in computer systems design with a location quotient of 11.8, while Arlington has a location quotient of 10.6 in scientific research. Both Fairfax and Alexandria also had high concentrations of employment in scientific research. The region as a whole has a location quotient for technology-based employment of 4.1. If government employment were excluded from the base (there are many scientists and technology workers in government agencies which are not counted using this particular measure) this overall technology concentration would be much higher.

Innovation

Florida used patents per capita over the 1990-1999 period as his measure of innovation. This measure was one of four (along with the Creative Class share of the workforce, high-tech industry, and diversity) that he used to develop his "Creativity Index" which was itself a measure of the ability of regions to "translate that underlying advantage into creative economic outcomes in the form of new ideas, high-tech businesses and regional growth."[13]

Using the same measure as Florida, only Montgomery County and Alexandria City have location quotients significantly above the national average. The biotechnology sector represents most of the patent activity in Montgomery County, most of which results from National Institute of Health funded research.

Much of the $4.5 billion spent by federal agencies on research and development in the region, especially the Department of Defense, did not lead to local patent filings. The Washington Metropolitan Area has a location quotient for innovation of only 0.91 and significantly trails tech centers such as Austin, Minneapolis, Boston and Raleigh-Durham, each of which exceeds 2.0 on this measure.

Housing Affordability

While the *Rise of the Creative Class* did not address the cost and affordability of housing, it is a significant issue for the highly mobile 25-34 year-old age group. Housing costs clearly affect the attractiveness of a community, especially for those in their early earning years.

This measure is a composite of both rental costs and the income of the renter household. It measures the percentage of all households paying less than 35 percent of their income on rent. The focus is on rent, since many in the 25-34 year-old cohort are renters and housing affordability is less of an issue for those that have already purchased a home.

Alexandria City and Arlington and Fairfax Counties all have similar location quotients of 1.12 as affordable communities, meaning that they are relatively more affordable than housing nationwide. Housing affordability actually increased over the past decade, with the percentage of renters paying less than 35 percent of their incomes for rent increasing by 8.7 percent overall. All of the Washington area jurisdictions have location quotients above 1.0 on this factor, meaning that they are more affordable than the national average. Washington is, in fact, the most affordable of the top large Creative Class metro areas, with a location quotient of 1.06. Again, this is not indicative of low housing costs, but the balance between rents and incomes.

Conclusions

Washington area communities have location quotients well above the national average for most Creative Class attributes, as might be expected from the region's high ranking by Florida. Measures of the "super creative core" population, educational attainment, and foreign-born population and technology-

(*continued next page*)

BENCHMARKING, CONT. FROM P. 11

based employment are especially high.

There is an intra-regional geographic differentiation among the local jurisdictions. The inner-ring suburbs — Alexandria City and Arlington and Montgomery Counties — have the highest scores on Creative Class attributes. The next ring comprised of Fairfax and Loudoun Counties have slightly lower scores followed by the central city — the District of Columbia. Prince William and Prince George's Counties scored slightly lower, but still above the national average on most measures.

The District would have fared slightly better using Florida's Creativity Index with its emphasis on bohemianism and tolerance for differences in sexual orientation. The central city is still the cultural and entertainment center of the region and contains some of the "edgier" neighborhoods.

The methodology used in this analysis provides a simple and highly comparative basis for looking at differences in Creative Class attributes within a metro area. Most of this data is aggregated at the city or county level and may be hard to apply on a finer grained neighborhood level. Even so, it allows comparison among communities where some clear distinctions are possible.

Lauren Hodgin of the Arlington, Virginia Economic Development Department assisted with this research.

Endnotes

[1] Florida, Richard. *The Rise of the Creative Class*. Basic Books. New York, NY. 2002. All references to the "Creative Class" are derived from this text.
[2] Florida, p. 237.
[3] Porter, Michael. 1990. *The Competitive Advantage of Nations*. The Free Press. New York, NY.
[4] Saxenian, Annalee. 1996. *Regional Advantage: Culture and Competition in Silicon Valley and Route 128*. Harvard University Press, and Fukuyama, Francis. 1996. *Trust*. Simon & Schuster.
[5] Florida, p. ix.
[6] The location quotient measures relative concentration. It is the ratio of a variable in one geographic area, expressed as a percentage, to the percentage of that variable nationwide.
[7] *The Young and the Restless: How Tampa Bay Competes for Talent*. 2003. p. 5.
[8] Florida, p. 79.
[9] Singer, Audrey. 2003. *At Home in the Nations Capital: Immigrant Trends in Metropolitan Washington*. The Brookings Institution Center on Urban and Metropolitan Policy.
[10] Occupational categories comprising the "super creative core" include computer and mathematical occupations; architecture and engineering occupations; life, physical and social science occupations; education, training and library occupations; and arts, design, entertainment, sports and media occupations.
[11] Jacobs, Jane. 1984. *Cities and the Wealth of Nations*.
[12] Florida, p. 242-3.
[13] Florida, p. 244.

Welcome to Our New Members…

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Student Research Highlight

Bringing Theory into Practice: Modeling the Spatialization of Tax Policy

by Shana Retherford, MacroSys Research and Technology

This article is the first installment of a series of News & Views *articles that will feature current student research. Any student interested in submitting their research for consideration as a future highlight should email sretherford@alumni.clarku.edu for details*

Could your municipality's tax policy be implicitly aiding sprawl and damaging its longer-term economic development and transportation plans? Benoy Jacob, a first year Ph.D. student in the University of Illinois-Chicago's College of Urban Planning and Public Affairs and Research Assistant in the college's Center for Urban Economic Development, believes that for some municipalities this may indeed be the case. This past fall he began a research project that aims to shed light on the relationship between municipal tax policy and land use. According to Jacob, "Our [Jacob and his advisor, Dr. Michael Pagano] feeling is that all land use has a fiscal motive (or at least consequence) so what we (as well as other researchers) are really trying to understand is the spatial impacts of tax policy."

Jacob's interest in the relationship between municipal tax policy and land use stems directly from his experience in both public and private planning in New York. Jacob, originally from Canada, found employment in New York directly following his graduation from Concordia University with a BA in Urban Studies and an MA in Public Administration. While working in New York, he says he was consistently surprised that client municipalities asked only two questions about potential developments: The first being, is this development plan going to make us money or cost us money, and the second on how a development plan would impact the transportation system. "The questions planners were asking were never about the broader sense of community but instead focused on the municipality's fiscal and monetary issues," said Jacob.

Jacob came to feel that the approach of his client municipalities in assessing the economic pros and cons for proposed new developments was being hindered by a lack of a framework in which to asses the long-term value of these developments to a community. Instead he found that the types of developments sought after by municipalities were directly related to their tax structure. For example, he observed that a municipality was more likely to encourage big box and sprawl type development and an over-dependency on a single form of development if they were heavily dependent on a sales tax, which created a push to attract big box retailers. Jacob became intrigued by this relationship and began to immerse himself in the emerging body of literature on the "fiscalization of land use." The research of his current advisor at the University of Illinois-Chicago, Dr. Michael Pagano, and Ann M. Bowman, published in their book *Terra Incognita: Vacant Land and Urban Strategies* (2004) has gone so far as to examine idealized case cities that only have one type of tax to show a correlation between tax structure and land use development, where they developed abstract spatial models for three generalized tax structures (sales tax, income tax, property tax). However, these models represent idealized scenarios that assume a city is dependent on only one of those three general tax structures. While serving as a useful heuristic, these models fail to reflect the complexity of "real-world" municipal revenue portfolios.

Jacob's current research with Pagano aims to take Pagano's work a step further by comparing it to reality — where no municipal revenue streams are based on a single type of tax. His research asks essentially asks how hybrid and uncommon revenue structures manifest themselves in the physical and spatial development of a municipality. For a paper he and Pagano are preparing for March, Jacob is using the City of San Jose, California as a case study in examining the relationship between development and tax structure. His personal goal is to create a simulation of the development process that enables planners, city officials, and citizens

(*continued next page*)

Bringing Theory into Practice, cont. from p. 13

to see and manipulate the development decision making process. In such a simulation people would be able to come to understand how their city will be shaped over both the long-term and the short-term. Jacob says that this enable one to "look at the city in a 3-D and see how the city will grow along a map but also the black boxes of how it will grow along fiscal lines." While he is not sure if his simulation model will actually become something that is translates well off the drawing board, Jacob would really like to see it work and become a powerful tool for planners. He says that "seeing how the tax structure will predict what the city will look like based on specific types of revenue streams will allow a municipality to assess the impact of the of tax policy across time. This way a municipality can assess the true long-term benefits and impacts of development. It will also allow one to see what happens to the land use and city revenue stream under different types of taxes." With his model Jacob is also hoping to discover if the tax-land use connection is really predictive on a larger-scale, across nations.

Jacob likens his proposed simulation model to the environmental impact statements that are required when new developments are proposed. His simulation and research will offer to assess how municipal tax policies are not only affecting land use but also provide a broader framework to assess tax policy implications for the transportation system, city economic development, and the environment. Thus, it would enable officials to think more broadly about their city, and even see if their tax policy might be unduly "burdening" a city. By expanding the range of questions planners and city financial officials can reliably asses during the development process he hopes to eventually add a significant new analytical tool to the profession.

Jacob acknowledges that as planning and development occurs in a political environment with individuals functioning in a short-term political arena then the pros and cons of a development are naturally viewed in a short-term timeframe. Municipal officials whose goal is to generate revenue and minimize city costs often gravitate towards developments on the edge of their boundaries, pushing costs onto adjacent municipalities. In Jacob's proposed simulation one would have the opportunity to conceptually see how such practices impact the neighboring municipalities, hopefully creating a framework for bilateral or regional negotiations between municipalities. Jacob hopes that planners in all areas of the profession can become stakeholders in this process. "Typically you have planners and city accountants each doing their own thing, but in fact there is a relationship between their work. Hopefully a study like this will open the doors between these different kinds of stakeholder groups, " said Jacob.

While Jacob still has a few more years of coursework to complete before he begins his dissertation, he is already thinking about continuing this research project as a dissertation topic. However, he trying to discover what type of methodology is best suited to examine the relationship between tax policy and land use. Jacob said that "I know this relationship to exists because of the places I was working at. The question now is if we can show this relationship and to go a step further to a predictive level, and these are the questions over the next two or three years that I'll be grappling with."

Related Readings

Anderson, John E. and Robert W. Wassamer. *Bidding for Business: The Efficacy of Local Incentive Use In a Metropolitan Area*. Kalamazoo, Michigan: W.E. Upjohn Institute for Employment Research, 2000. 220 pages, $17.00, ISBN 0-88099-201-8.

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Bowman, Ann M. and Michael A. Pagano. *Terra Incognita: Vacant Land and Urban Strategies*. Washington, D.C.: Georgetown University Press, 2004. 232 pages, $24.95, ISBN: 1-58901-007-8.

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Calendar of Upcoming Events

January 23-25, 2005
International Economic Development Council (IEDC), IEDC Leadership Summit; Litchfield Park, Arizona; www.iedconline.org/leadershipSummit/index.html

February 3-4, 2005
International Economic Development Council (IEDC); Real Estate Development and Reuse; Tempe, Arizona; www.iedconline.org/prodev_Real_Estate_AZ.html

February 23-24, 2005
Gulf South Idea Exchange and Alliance Program, International Council of Shopping Centers (IDSA); Mobile, Alabama; www.icsa.org

March 9-10, 2005
Association of University Research Parks (AURP) Winter Workshop; Washington D.C.; www.aurp.net/meet/calendar.cfm

March 11-15, 2005
National League of Cities (NLC) Congressional City Conference; Washington D.C.; www.nlc.org/nlc_org/site/conferences/future_conferences/index.cfm

March 14-16, 2005
International Economic Development Council (IEDC) Economic Development Summit; Omni Shoreham Hotel; Washington D.C.; www.iedconline.org/EDSummit/index.html

March 19-23, 2005
American Planning Association (APA) National Planning Conference; San Francisco, California; www.planning.org/2005conference/registration.htm

April 10-12, 2005
National Association of Development Organizations (NADO); Washington National Policy Conference; Washington D.C.; www.nado.org/meetings/index.html

May 15-18, 2005
National Business Incubator Association (NBIA); 19th International Conference on Business Incubation; Baltimore, Maryland; www.nbia.org/nbia_events/index.php

May 23-25, 2005
The Funders' Network & PolicyLink; 2nd National Summit on Regional Equity and Smart Growth; Philadelphia, Pennsylvania; www.fundersnetwork.org or contact Jesse Leon at jesse@fundersnetwork.org or (305) 667-6350, ext. 204

June 4-7, 2005
National Association of Installation Developers/Association of Defense Communities; 2005 Annual Conference; Denver, Colorado; www.naid.org/conf_top.html

June 18, 2005
Association of University Research Parks (AURP); BioParks; Philadelphia, Pennsylvania; www.aurp.net/meet/calendar.cfm

September 25-28, 2005
International Economic Development Council (IEDC) Annual Conference; Hilton Chicago; Chicago, Illinois; www.iedconline.org

September 27-October 2, 2005
National Trust for Historic Preservation; National Preservation Conference; Portland, Oregon; www.nthpconference.org

See also www.planning.org/economic/calendar.htm for links to many of these events.

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