

**An Evaluation of LFUCG Economic Development:  
Making Strides Towards Strategic, Performance-Driven  
Partnerships**

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## Executive Summary

Like many other municipal governments, Lexington utilizes a web of partnerships to support economic development. These relationships take many forms; LFUCG employs grants, tax incentives for businesses, and contracts with other organizations. Unlike some of its peers, though, LFUCG does not have a strategic plan in place to drive decision-making processes and sharpen its focus on outcomes. This report sets the foundation for future strategic management efforts by identifying opportunities and weaknesses that might be addressed by LFUCG through an environmental scan and establishing a performance management framework for existing contractual economic development partners. The key findings are as follows:

- There are two informal priorities that drive economic development policy. Through its efforts, LFUCG seeks to increase wages and increase jobs in Lexington. These two priorities can be leveraged to capture return on investment across programs and time.
- While LFUCG is not responsible for all aspects of economic development, there is an opportunity to better coordinate strategy between stakeholders, both locally and regionally. For example, while human capital is a focus of many external institutions in Lexington, there are not a great deal of municipal resources dedicated to this pillar of economic development.
- Furthermore, while many resources focus on business development, there is very little evident strategy that is neighborhood-based, even as there are large disparities between areas of Lexington in key economic indicators.
- While at least one economic development partner, Commerce Lexington, provides extensive quantitative performance metrics, there is an opportunity to align new metrics

across financial partners with their respective logic models and LFUCG's informal development priorities.

## **Introduction: The Problem**

Like many metropolitan governments across the country, the Lexington-Fayette Urban County Government (LFUCG) considers economic development a focus of its public policy and administration efforts. However, the municipal government is not the only public or non-profit stakeholder active in supporting and stimulating the city's economic activity. LFUCG works with many organizations on programs that aim to improve the local economy. There is a variety of tax incentive, grant, loan, and partnership programs the city has implemented to support both the recruitment and development of competitive businesses and the local workforce.

However, while the overall goal—increase and sustain the economic vitality of the city—is clear, the particulars are a bit fuzzy. From a strategic management perspective, what is the vision LFUCG is working towards through these programs? Are there particular targets the city is (or could be) setting to progress towards that vision? For instance, is the city prioritizing workforce development, stimulating local entrepreneurialism, and/or attracting new employers to the area? While other organizations focused on supporting specific industry clusters or segments of the population, the city has a public mandate to consider the “big picture.”

Each program or partnership, though, addresses a specific need and is tracked in a different way. In total, what is the city's impact on economic development through these programs and partnerships? What is the return on the city's investments in its partners, and how can that performance be measured? In considering the overall impact of its efforts, the city should also consider its activities in context: who are the other entities (both internal and external) that are also working in this space, and what are they doing?

The City does not have a strategic plan in place for either the city as a whole nor its economic development programs specifically, but it is important to take a step back and ask

these questions to make deliberate decisions. In spending money one way—on grants, for example—there is an opportunity cost. The new reality seems to be doing more with less in government and non-profits; defining the scope of the city’s role and its effect will help policy makers to make more efficient and informed policy decisions. Toward this end, this analysis:

- Sets the stage for LFUCG to formalize a strategic plan, particularly for economic development;
- Articulates the community’s strengths, weaknesses, opportunities, and threats, while also identifying potential gaps and/or overlaps in coverage;
- Provides a framework for a municipal economic development performance management system.

## **Literature Review**

Is there evidence that strategic and performance management, or indeed economic development programs in general, are effective? Or, are public administrators doing as Reese (2013) describes, seeing only nails when they have a hammer, when they might be better served focusing on local public services over incentives? The literature for both economic development and strategic planning are considered below.

## **Strategic and Performance Management**

While there are multiple methodologies for strategic planning in both the public and private sphere, the goals are universal—to articulate the connection between an organization’s mission, values, operational goals, and activities. One methodology, the Balanced Scorecard,

provides organizations a prescriptive process to create a strategic plan (Niven 2008). Niven walks through a multistep process to engage stakeholders, link objectives to indicators of success, and define how each department's work ties in to the organization's vision and goals (Niven 2008).

Lexington does not have a strategic plan. Is it missing out? Is this an important foundation needed prior to evaluating its investments in economic development programs? On its face, a strategic plan seems like an important, if not vital, management tool to maintain focus on an organization's purpose and how its progressing towards its goals. However, as Jennings (2010) notes, many governments have cherry-picked bits and pieces of strategic planning, and we do not really know if it works. For instance, some agencies have completely bypassed strategic planning and simply implemented performance measures (Jennings 2010). At its core, performance measurement "is intended to produce objective, relevant information" to "inform decisionmaking, achieve results and improve overall performance, and increase accountability" (Poister 2003, 4). Performance management methodologies and applications have evolved over time, but they can generally be categorized—for example by resource, output, productivity, efficiency, and cost-effectiveness (Poister 2003, 49-54). Measuring performance is a challenge, especially for alliances with other organizations (Bamford and Ernst 2002).

Poister (2010) has a slightly more optimistic view of strategic planning and performance measurement, citing specific examples of successful use of a strategic planning process that brought about positive change. However, as he states, "Though it has become orthodox practice in the public sector over the past 25 years, strategic planning will need to play a more critical role... if public managers are to anticipate and manage change adroitly and address new issues that seem to emerge with increasing rapidity" (Poister 2010, S248).

In order to be nimble, public organizations should then move from strategic planning and performance measurement to strategic management and performance management, which focuses less on “episodic” structured efforts and more on changing the way managers do their work from day to day (Poister 2010, S249). He argues for strategic planning to look less like a formalized document and more like a culture of continuous improvement, accountability, and results-driven operations from the top down. For municipal governments like LFUCG, strategic management may take a variety of forms, which can be *reinforced* by formalized planning processes.

## **Environmental Scans**

One facet of the methodology employed here is the environmental scan. After reviewing the literature, it does not appear that there are particularly prescriptive schools or methodologies for assessing the internal and external landscape in which an organization operates. However, there are some tools that can guide analysis. For instance, the Balanced Scorecard process includes an environmental scan, which includes an assessment of external factors like societal trends, and the ubiquitous SWOT analysis, which stands for Strengths, Weaknesses, Opportunities, and Threats (Niven 2008).

Observing how organizations complete this exercise is illuminating. As noted in the Government Finance Review, “many governments employ individual and large group meetings, surveys, and workshops” to assess the internal and external environment of an organization (Stockwell 2016, 35). For example, the International City/County Management Association’s strategic plan was influenced by a member survey, which helped the organization to frame the role its members and organization play in governance (International City/County Management

Association 2008). They identified a variety of factors in their assessment, including not just demographics, but technology, the changing role of government, globalization, and the other actors operating in their space (International City/County Management Association 2008).

## **Institutional Partnerships**

The Lexington-Fayette Urban County Government is not the first to institute financial partnerships with other organizations to provide services. Why would an organization partner with another—either through a grant, contractual agreement, or alliance, to deliver services, instead of taking on that task itself? Partnering with other organizations can achieve several objectives. Firstly, organizations can not only specialize in their alliances, but perhaps create something better together than they might otherwise apart (Kaplan, Norton, and Rugelsjoen 2010). Secondly, a pervading sentiment is the need for smaller, more efficient governance—coordinating services with an outside organization allows governments to have a higher level of services with a smaller civil service, theoretically (Light 1991, 6).

Lastly (and perhaps most importantly), some argue the nature of governance today *requires* collaboration, defined as “the process of facilitating and operating multiorganizational arrangements to solve problems that cannot be solved, or solved easily, by single organizations” (Agranoff and McGuire 2003, 4). Governance today, then, relies less on hierarchy and more on interdependent networks with fluid boundaries (Agranoff and McGuire 2003, 2). Partnerships seem to be particularly salient in municipal and regional economic development (Hawkins 2011). Especially in economic development, the public administrator can not only be characterized as a “strategic investor” in a portfolio of collaborations, but also is concerned with the return on investment (Agranoff 2005, 36 and 38).

However, not all collaborations are the same. Agranoff and McGuire categorize types of local government management of collaborations with other actors along two dimensions— activity and strategy, and the types of observable undertakings one might see in these contexts (Agranoff and McGuire 2003, 45 and 69-70). Based on a survey, they found that while cities were most likely to engage in “information-seeking” and “policymaking and strategy-making” collaborative activities, they also were more likely than not to be engaged in projects and exchanging resources (Agranoff and McGuire 2003, 87).

On the other hand, it seems that “regional organizations and regional partnerships” and “local committees and EDC/redevelopment agencies” are instrumental in setting the policy agenda and facilitating communication in regards to economic development efforts (Hawkins 2011, 82-83). Regional economic development partnerships, many of which have come in to being only in the last 40 years, address challenges that cross jurisdictions and pool resources to more efficiently provide services, market to potential investors, and increase the group’s advocacy power (Welch et al. 2017, 1, 3, and 7-9). Furthermore, regional organizations may add value by leveraging additional federal funding dollars for local areas above and beyond local funding (Hall 2008, 123). One of the most important underpinnings of regional approaches, though, is clusters, which are “geographic concentrations of interconnected companies and institutions in a particular field” (Porter 1998). Industry clusters cross jurisdictional boundaries, creating interdependent networks—supply chains, complementary industries, and competitors (Porter 1998). Clusters feature prominently in the recommendations made to practitioners by economic development organizations and think tanks; for example, the Brookings-Rockefeller Project on State and Metropolitan Innovation worked with regional actors across the country to

implement “cross-sector partnerships” enhancing regional assets to increase economic growth (Carlson 2015, 1 and 9).

Social impact financing and results-driven contracting tie these ideas of performance and institutional partnerships together; with the former, which often goes by the names pay for success or social impact bonds, governments partner with private entities to provide a social service, only paying for it via a bond structure if the social program is successful (based on agreed-upon metrics) (Liebman and Sellman 2013, 8). Results-driven contracting, as the Harvard Kennedy Government Performance Lab puts it, marries ideas from the previous arrangement, such as “identifying specific desired outcomes, procuring and contracting for those outcomes, actively monitoring and managing contracts to achieve outcomes, and, in some cases, conditioning a portion of payment on success” within a prevailing institutional partnership framework (Harvard Kennedy School Government Performance Lab 2016, 1). Applying performance-driven concepts to partnerships governed by contractual agreements for social programs, such as economic development policy, is an important option for governments seeking to actively manage and improve the returns on their investments.

## **Economic Development Programs**

As outlined above, governments enter in to collaborative relationships to be more effective—perhaps to do something greater together than alone. However, understanding what those partnerships are achieving or even being able to articulate their strategic purposes may be a challenge. Applying these organizational theories and an environmental scan methodology also requires an understanding of the local economic development policy sphere. The definition of “economic development” is slippery, though—Hall distinguishes economic *growth* from

*development* by defining the latter as “a change in the local production function, wherein resources may be combined in new ways to create a new array of products and/or services” (Hall 2005, 26). This differentiation highlights the two ways public officials think about economic development efforts—business recruitment (quicker) and human capital investments, which can require time to bear fruit (Hall 2005, 34).

The tools local economic developers use fall in to four categories—the “built environment,” “business development,” the “human resource development,” and the “neighborhood” (Blakely and Bradshaw 2002, 162-165). The first focuses on creating a physical environment ripe for job growth and economic vitality—zoning, infrastructure, and land use come to mind (Blakely and Bradshaw 2002, 162). Business development targets cultivation of both capacity and resource availability for entrepreneurs, and developing human capital seeks to give people the skills they need to work in stable jobs (or to insure the local labor market has the skills needed by employers) (Blakely and Bradshaw 2002, 163-164). Lastly, the neighborhood approach targets the local area itself with a mix of the above initiatives (Blakely and Bradshaw 2002, 164).

Examining the depth and breadth of research dedicated to economic development policy is out of the scope of this project. However, it is important to note that many commonly used tools are not necessarily supported by empirical evidence. For example, of all the types of incentives and programs governments implement, Reese only finds three “factors most consistently and positively related to economic health,” namely investments in “the downtown,” “basic local public services,” and “using no economic development incentives at all” in her examination of Michigan cities (Reese 2013, 627). Further, some incentive programs (like tax increment financing) may also have unintended negative impacts on revenue generation (Reese

2013, 632). In light of the ambiguous nature of the literature on the efficacy of specific economic development programs, considering the strategic impacts of LFUCG policy is essential.

## Research Design

Lexington-Fayette Urban County Government (LFUCG) partners with many nonprofits and businesses in the area to further its economic development efforts. There are many strategic partnerships, and tax incentive, grant, and loan programs that have different policy mechanisms. While unique, all of these relationships are characterized by a municipal financial investment, made with the hope that more can be done together than separately. While there are some metrics that are measured, the City does not have an articulated, clear view of what the returns on investment these projects provide, nor is there clarity on the coverage of services—are efforts made redundant by duplication, and conversely, are there gaps in coverage? More formally, the research questions addressed are as follows:

- While the City does not have a strategic plan, what are its informal economic development priorities?
- What performance metrics might be used to define a return-on-investment for each alliance?
- Who is most impacted by these partnerships and programs? Conversely, are there gaps in coverage? What are we *not* getting from these alliances?
- What other entities are working in the same policy area in Lexington, and what do their programs look like in comparison?

There are a couple potential challenges to be mitigated in regards to causation and validity. Monitoring performance and attempting to define a return on investment will be

difficult. For example, I may donate a dollar to the United Way, which they use to fund a program, but measuring that program's impact on outcomes is very difficult. The same problem applies here—LFUCG may give the Chamber of Commerce money to fund its programs, but it could be tenuous to establish the marginal progress made towards outcomes. It is difficult to establish whether or not the economic development program's contribution directly caused the outcome. For example, a tax incentive may be awarded to a developer to “create” five jobs. However, we do not know that those jobs would not have been created in the absence of that incentive—can we really say the incentive “created” the jobs, then? These two challenges must be handled very thoughtfully.

To address these research questions, I primarily use publicly available budgeting documents, contractual agreements, and firsthand informational meetings with subject matter experts. Economic data is also used from federal sources like the BEA, BLS, and the U.S. Census to further paint a picture of Lexington. The first step is to complete an environmental scan, considering societal, political, demographic, and economic trends alongside the spread of local economic development actors to identify strengths, weaknesses, opportunities, and threats. The next step is to compare the programs in place today to the findings of the environmental scan. The SWOT analysis is limited by time and resource constraints—future analysis should include community stakeholder input and further, more formal internal inquiry. In fact, the results of a recent community engagement campaign, “On the Table,” could be leveraged towards that end in the future. The environmental scan here will instead focus on analysis of publicly available data. Logic models for each economic development partnership are described, which then drive the performance management recommendations, which can be used in existing reporting mechanisms as a tool for future ROI analyses.

## Analysis and Findings

Lexington has nine partners with which it has Public Service Agreements, or contracts. However, for the purposes of this analysis, several will be excluded due to the fact their services fall outside the traditional economic development category. Furthermore, LFUCG provides grants and other incentives through other programs for economic development purposes. Table 1 lists these activities with a short description.

**Table 1: LFUCG Economic Development Programs**

<b>Program and/or Partner</b>	<b>Description</b>	<b>FY2017 Funding*</b>	<b>Primary Clients</b>
<i>Commerce Lexington</i>	Financial partner; Lexington's Chamber of Commerce.	\$457,000	<ul style="list-style-type: none"> <li>• Outside businesses</li> <li>• Local businesses (ex: target sectors)</li> <li>• Minority businesses</li> <li>• Students (new venture)</li> </ul>
<i>Downtown Lexington Corporation</i>	Financial partner; a downtown business association and events organizer.	\$42,710	<ul style="list-style-type: none"> <li>• Member businesses</li> <li>• Downtown businesses</li> </ul>
<i>Lexington Downtown Development Authority</i>	Financial partner; downtown urban planning organization.	\$324,540	<ul style="list-style-type: none"> <li>• Developers</li> <li>• Downtown businesses</li> </ul>
<i>Service Corps of Retired Executives (SCORE)</i>	Financial partner; local chapter of a national nonprofit providing mentoring for new small business owners. Entirely volunteer-run in Lexington.	\$7,000	<ul style="list-style-type: none"> <li>• New business owners, entrepreneurs</li> </ul>
<i>World Trade Center Kentucky</i>	Financial partner; provides export/import support services for Kentucky businesses in the form of training and networking opportunities.	\$72,000	<ul style="list-style-type: none"> <li>• Existing businesses</li> </ul>
<i>Tax Increment Financing (TIF) Projects</i>	Financial incentive offered in conjunction with state version to reduce burden of eligible development projects.	N/A**	<ul style="list-style-type: none"> <li>• Developers, large infrastructure projects</li> </ul>

	Administered by the Department of Finance.		
<i>Kentucky Business Incentive (KBI)</i>	A state tax incentive that is partially matched by LFUCG to incentivize job creation by lessening payroll tax burden.	N/A**	<ul style="list-style-type: none"> <li>• Businesses</li> </ul>
<i>Workforce Development Grant</i>	A new grant program administered by the City; provides \$25,000 to \$50,000 grants for workforce development programs. Administered by the Mayor's Office	\$150,000	<ul style="list-style-type: none"> <li>• Nonprofits catering to individuals with barriers to employment, living-wage industry training, etc.</li> </ul>
<i>JOBS Fund</i>	A financial incentive program that provides forgivable loans/grants to local businesses creating jobs above the median hourly wage. Administered by the Department of Finance.	\$1.25M***	<ul style="list-style-type: none"> <li>• Companies paying higher than the median wage rate.</li> </ul>
<i>Bluegrass Economic Advancement Movement (BEAM)</i>	Regional collaboration to support advanced manufacturing workforce development.	N/A**	<ul style="list-style-type: none"> <li>• Manufacturing</li> </ul>

\*Funding data accessed via Lexington Legistar system, R-444-2016.

\*\*Tax expenditures are not listed in budget documents. See subsequent table. No funds budgeted explicitly for BEAM.

\*\*\*According to LFUCG 2016-2017 Adopted Budget, 329-332.

The table below provides more detail on the value of state incentive programs that are currently active in Fayette County, some of which are matched by LFUCG. For example, KBI provides income tax credits for expanding businesses in Lexington up to almost \$44 million. The Kentucky Cabinet for Economic Development reports that there are six active TIF projects in Lexington, which could provide tax credits in future years up to almost 11% of the project costs.

**Table 1a: Select Final/Active State Incentives**

Type	Max Tax Incentive Amount*	Incentive : Project Cost Ratio
High-Tech Investment / Construction Pools	\$9,430,000	73.33%

<b>Economic Development Bonds</b>	\$13,574,000*	N/A**
<b>Kentucky Business Investment Program</b>	\$43,965,000	38.96%
<b>Kentucky Enterprise Initiative Act</b>	\$1,574,000	0.93%
<b>Kentucky Industrial Development Act</b>	\$5,180,000	7.97%
<b>Kentucky Jobs Development Act</b>	\$14,263,250	45.56%
<b>Kentucky Reinvestment Act</b>	\$2,000,000	5.09%
<b>Kentucky Small Business Tax Credit</b>	\$803,000	47.41%
<b>Tax Increment Financing</b>	\$103,556,600	10.96%

*Source: Kentucky Financial Incentives Database and Kentucky Cabinet for Economic Development.*

*\*Represents the maximum tax incentive amount authorized; in the case of the EDB recipients, represents the value of bonds.*

*\*\*Since EDB are bonds, some of the projects do not have a total project cost listed.*

There are several other programs that could be included in this list that support economic development activities. For instance, business and job growth are supported by development. The Department of Planning, Preservation, and Development plays an integral role—zoning, community planning, and infrastructure are all important to not just quality of life, but the local economy. These will be primarily considered in the subsequent environmental scan.

## **Informal Priorities**

While the city does not have a written mission statement for its economic development vision, there is clarity on the informal purposes. In discussions with the two officials that administer economic development programs, the Chief Development Officer and the Senior Administrative Finance Officer identify two primary goals: to increase wages, and to increase the number of jobs in Fayette County.

These goals are reinforced by the tax structure. The City of Lexington is a combined city-county government, meaning the county line is synonymous with the city-proper. Additionally, the city's general operating revenues come from a portion of the property tax assessments and

payroll taxes. Increased wages and expanded job opportunities not only improve the residents' quality of life, but also have tangible positive impacts on the government's ability to fund services. Additionally, the tax base, which is the county, is the sole constituent base— many economic development programs are regional, but Lexington is primarily concerned with (and somewhat responsible for) the wellbeing of *county* residents. Because the county cannot collect sales tax, LFUCG does not really capture the full impact of visitors or commuters in to the area outside of hotel occupancy taxes.

The City also recognizes the significant sectors that Commerce Lexington has identified as strategic targets, which are listed below (“Strategic Targets”). These seven industries represent both local assets and opportunities for growth and were developed by a consulting group for Commerce Lexington. Some of these industries represent jobs that require advanced skills and training, resulting in higher wages, while others have opportunities for career growth.

- **Advanced Manufacturing:** While Toyota is a major regional company, a local example would be Big Ass Solutions (“Advanced Manufacturing”).
- **Animal Sciences:** Commerce Lexington recognizes the value (both economic and cultural) of horses in our region (“Animal Sciences”).
- **Business & Professional Services:** This sector encompasses everything from legal services to banking or consulting (“Professional Services”).
- **Clean Technology:** Commerce Lexington identifies this sector as an “emerging industry;” for instance, Alltech recently expanded in to the field (“Clean Technology”).

- **Life Sciences:** This sector includes Lexington’s six regional healthcare providers and a number of biotechnology companies; according to their analysis, there are almost 20,000 jobs in this sector in 2015 (“Life Sciences”).
- **Software & IT:** Commerce Lexington points to outposts of long established companies like Lexmark and IBM as key players in Lexington; however, they estimate around 6,500 jobs in this sector in 2015 (“Software and Information Technology”).
- **Visitor Industries:** Like Animal Sciences, this sector plays to the cultural assets of Lexington. Commerce Lexington recognizes the strategic importance of the Bourbon Trail, the University of Kentucky, Keeneland, and the Kentucky Horse Park to the county’s economic vitality, estimating almost 45,000 people are employed by these industries (“Visitor Industries”).

## **Environmental Scan: Survey of Institutions**

The economic development policy landscape is considered on two planes. The first categorizes the various economic development actors (both internal and external) using the classifications Blakely and Bradshaw define—the built environment, business development, human capital, and neighborhood (Blakely and Bradshaw 2002, 162-165). The results are shown in Table 2. Several of the organizations are listed multiple times; these organizations perform multiple functions and have programs that meet more than one goal. In addition to these local actors, there are also state and federal institutions active in Fayette County. For example, there are Department of Labor grants that may enable local organizations to extend programs in ways that would previously have been restricted by resources.

**Table 2: Institutional Scan**

	Built Environment	Business Development	Human Capital	Neighborhood
Internal	<ul style="list-style-type: none"> <li>• Department of PPD</li> <li>• Department of Parks and Recreation</li> <li>• TIF Projects*</li> </ul>	<ul style="list-style-type: none"> <li>• KBI Projects*</li> <li>• JOBS Fund</li> <li>• Bluegrass Farm to Table</li> </ul>	<ul style="list-style-type: none"> <li>• Workforce Development Grant Fund</li> </ul>	<ul style="list-style-type: none"> <li>• Department of PPD</li> <li>• Urban County Council*</li> </ul>
External	<ul style="list-style-type: none"> <li>• LDDA*</li> <li>• Bluegrass Area Development District</li> </ul>	<ul style="list-style-type: none"> <li>• Commerce Lexington*</li> <li>• Bluegrass Small Business Development Center</li> <li>• Downtown Lexington Corporation*</li> <li>• SCORE*</li> <li>• University of Kentucky (ex: Venture Studio)</li> <li>• Lexington Farmers Market</li> <li>• KY Export Initiative</li> <li>• World Trade Center Kentucky*</li> <li>• KY Innovation Network</li> <li>• 23 other I-990 filing nonprofits, totaling ~\$15.6M in revenue.***</li> </ul>	<ul style="list-style-type: none"> <li>• Commerce Lexington*</li> <li>• SCORE*</li> <li>• BEAM*</li> <li>• Fayette County Public Schools</li> <li>• University of Kentucky</li> <li>• Bluegrass Area Development District</li> <li>• Community college system (BCTCS)</li> <li>• 26 other I-990 filing nonprofits, totaling over \$23M in revenue.**</li> </ul>	<ul style="list-style-type: none"> <li>• Downtown Lexington Corporation*</li> <li>• LDDA*</li> <li>• LDMD*</li> <li>• North Limestone Community Development</li> <li>• Neighborhood associations</li> </ul>

*\*These programs are a mix of external and internal; they may be jointly administered or represent a collaboration. They are categorized by the institution that is primarily financially responsible.*

*\*\*According to 2016 I-990s, accessed via the National Center for Charitable Statistics. NTEE group “J-Employment.”*

*\*\*\*According to 2016 I-990s, accessed via the National Center for Charitable Statistics. NTEE group “S – Community Improvement & Capacity Building,” subgroups “chambers of commerce & business associations,” “rural economic development,” “business & industry,” “economic development,” and “small business development.”*

One of the immediately clear observations from this list is the inverse relationship between external and internal actors in each category; most of the built environment efforts, for example, are shouldered by internal actors. Conversely, workforce development programs are dominated by external actors. While the workforce development grant is an internal program, its programmatic objectives are implemented by local nonprofits through funding for expanding existing initiatives and starting new ones to support residents finding work with increased wages.

Additionally, the neighborhood-based approach to economic development is sparse. While there are organizations that primarily focus on particular areas downtown from an economic development perspective or work on quality of life projects in other neighborhoods that might relate to economic development, there is not a robust, coordinated effort by local partners to assess and address gaps in physical amenities, business development, and workforce development by location. Why this is important will be revealed in the next section.

## **Environmental Scan: SWOT**

To better understand not just who the institutional actors are, but also Lexington's characteristics, a SWOT analysis is useful. The beauty of the SWOT process is that it can blend both qualitative and quantitative evaluations. Below are the results, which were developed through analysis of both U.S. Census data and observation by the author.

### ***Strengths***

Lexington has a number of characteristics that play to its advantage. It is home to a major public higher education institution, the University of Kentucky. What does this mean for the community? It brings thousands of people to the area that might not otherwise have come here to

teach, research, learn, and contribute to our community. The University also brings a large medical center and other professional programs to our metropolis. Overall, the city has high educational attainment rates; in 2015, 41.2% of Lexington adults had a bachelor’s degree or higher, compared to 22.3% of adult Kentuckians and 29.8% nationally (U.S. Census 2015a). Furthermore, many of the strategic sectors that Commerce Lexington identifies are impacted by the University of Kentucky. For example, UK has programs of study and research that directly play to these industries; college sports are a cornerstone of local tourism, too.

And, since 2001, the three biggest growth industries are all in sectors associated with high-wage jobs: finance, insurance, real estate, rental, and leasing; professional and business services; and educational services, health care, and social assistance (according to author’s analysis of Bureau of Economic Analysis data).

**Table 3: GDP by Industry Comparison (Millions of Current Dollars)**

Industry	2001	2015	Percent Change
Finance, insurance, real estate, rental, and leasing	\$2,899	\$4,977	171.7%
Professional and business services	\$1,626	\$3,069	188.8%
Educational services, health care, and social assistance	\$1,138	\$2,121	186.4%

*Source: Author’s analysis of the U.S. Bureau of Economic Analysis data.*

In addition, the community does value its “heritage” industries as cultural assets—the fact that animal sciences made the list of Commerce Lexington’s target sectors shows this. There are several businesses that capitalize on the alcoholic beverage and local agriculture industries. One simply has to drive out to the Distillery District to see new businesses that simply did not exist ten years ago here in Lexington.

The community is also willing to civically engage. For example, the Bluegrass Community Foundation recently hosted “On the Table,” which engaged over 11,000 residents across the community to think strategically about Lexington’s current state and where they

would like to see it change in the future (Bluegrass Community Foundation 2017). While the results of those discussions in March have yet to be released, it shows that residents are invested in their community—they care enough to want to be a part of the conversation.

### *Weaknesses*

While the community is vibrant in so many ways, there are weaknesses. The government does not have a strategic plan. As noted in the literature review, a strategic plan is not necessarily a magic bullet to better, more efficient governance, but it does provide public administrators an important tool. The process of developing a strategic plan (if only for economic development efforts) can help articulate vision, align programs/initiatives to this vision, and define how a network of organizations can work in harmony to achieve those aims. LFUCG is somewhat unique in its lack of strategic plan; several of its peers have some sort of strategic document that aligns its economic development efforts with its expressed goals, including: Durham, NC; Fort Collins, CO; and Madison, WI.

One of the biggest weaknesses Lexington has is the local variation in labor force participation, poverty, and educational attainment. These three elements are both foundational and indicative of economic prosperity; the economy of the future needs an educated, prepared workforce. The barriers that prevent people from working at their full capacity, providing stability for their families, and obtaining the training they need to do the work to which they are most suited are also hurdles for economic development.

While Lexington is a success story on many of these measures, when you take a closer look at the trends on a neighborhood level, it is clear that there is wide variation in the prevalence of economic prosperity. Table 4 highlights the range. Overall, nine out of ten

residents have at least a high school diploma. However, there are tracts (which are the closest U.S. Census approximation to a neighborhood) in which only half the residents have at least a high school diploma. This is true of all of the measures shown below.

The last three measures are also quite revealing. Of those residents that are choosing to participate in the labor force, only 59.7% of them are working full-time, year-round in Lexington, compared to 63.4% state-wide and 63.7% nationally (U.S. Census 2015c). Across Lexington, women are participating in the labor market at 82.9% of the rate their male counterparts are. While Lexington is not unique in this gender gap, it presents a challenge for the local economy. What are the barriers to women participating in the market at the same rate men do, locally? If women participated at the same rates men do, what would be the added value to the local economy, and thus LFUCG's payroll tax coffers? Table 4 highlights these disparities. There are 82 Census tracts in Fayette County. For each metric below, the county average is given alongside the range in tract figures.

***Table 4: Neighborhood Variation on Measures of Economic Stability***

Metric	County	Tract Range
Adults with Less than an HS Diploma	4.4%	0% - 23.7%
Adults with HS Diploma or Better	89.8%	52.3% - 100%
Adults with some College (No Degree)	20.4%	6.1% - 35.6%
Adults with Associate's Degree	7.6%	0% - 15.4%
Adults with Bachelor's or Better	41.2%	4.5% - 86.3%
Overall Percent in Labor Force	67.7%	18.5% - 83.8%
Overall Percent Unemployed	4.6%	0% - 12.2%
Percentage of Women in Labor Force	63.4%	26.6% - 81.5%
Percentage of Workers Self-Employed (unincorporated business)	4.9%	0% - 16%
Percentage Living in Poverty	18.9%	0.6% - 72.5%

Percentage of Workers Working Full-Time, Year-Round	59.7%	6.9% - 81.6%
Percentage Male Workers Working Full-Time, Year-Round	65.1%	6.1% - 88%
Percentage of Female Workers Working Full-Time, Year-Round	54%	6.2% - 83%

*Source: Author's analysis of U.S. Census 2015a, b, c, d. American Community Survey estimates. Accessed via the FactFinder.*

The last weakness to note is the organizational silos present in LFUCG. Economic development activities happen across the city's departments, but the most glaring example is the separation between the Department of Planning, Preservation, and Development, the Department of Finance, and the Mayor's Office. Each has its own staff, priorities, responsibilities, and perspective—as they should. There are some overlapping constituents, but each also has its own stakeholder base. While all of these departments are very intentional in working together on projects, it takes additional energy to coordinate across them.

As a consolidated city-county government, Lexington must balance both urban and rural economic development programs for its constituents. While not categorically a weakness, this arrangement presents particular challenges. In its commitment to the natural beauty of the rolling hills dotted with horse farms that ring the urban core, LFUCG has “drawn” an urban service boundary—in effect, limiting development to within a ring around the metropolitan area. Population growth is placing pressure on this policy—developers are potentially choosing to build new housing options in neighboring counties as suitable land options are squeezed in Lexington (Truman 2016).

### ***Opportunities***

Where strengths and weaknesses are thought of as internal characteristics, opportunities and threats are outwardly- and future-facing. How is Lexington positioned, both literally and

figuratively, to take advantage of outside factors, events, and characteristics? Its geographic location is an opportunity. Lexington is well-positioned both regionally and nationally, which Commerce Lexington identifies as a key “selling point” for attracting companies to the area (“Central Location”). Cincinnati, Louisville, Indianapolis, and Nashville are all within four hours’ drive. Within the state, Lexington also is a natural convening point for its rural neighbors. Frankfort, the Commonwealth’s capitol, is close by. So, Lexington provides a market for regional businesses.

As previously noted, Lexington is also home to many transient people who otherwise might not be here—university students. Many of these students come to the area for a few years, and then head back out in to the world. Lexington has an opportunity to keep this mobile talent here after graduation to build new businesses, provide an attractive human capital pool for new businesses, and contribute to our local community. According to a brief published in 2006, out-migration of in-state students outpaced the in-migration of out-of-state graduates choosing to stay in the state (UK Institutional Research Brief 2006). Along these same lines, LFUCG also has opportunities to partner with the local school systems in new ways. The county does not govern the school system. However, there is opportunity and a political appetite to more closely knit together our educational and workforce development systems to offer competitive choices to students and businesses.

The target sectors identified by Commerce Lexington offer a mix of skillsets, educational requirements, and interests to residents looking for a new career. There is an opportunity to be more thoughtful in how disadvantaged populations in the community access these key sectors. What might the workforce development pipeline for these populations look like to access the strategic sectors? For example, a young person growing up in a disadvantaged block here in

Lexington may never have had the chance to visit Keeneland or a horse farm. That young person may have an undiscovered passion that could lead to a seasonal job through high school, to a degree in agriculture, to a stable, living wage in a skilled job in animal sciences as an adult.

There is also an opportunity to identify and mitigate the barriers to year-round, full-time work discussed in the previous section. In this sense, child care, disability, transportation, and workforce attrition could become economic capacity problems. If the high cost of quality child care that matches well with a caregiver's work schedule is prohibitive to workforce participation, a caregiver may choose to stay home to meet that need. Life events, such as new or reoccurring health problems, unstable transportation or housing conditions could also be factors contributing to workforce attrition.

### *Threats*

Lexington's economic vitality is subject to threats. The export market, which will be further discussed below, is a challenge. While the state's export productivity has increased over time, Lexington's share of that productivity has not kept up. Since 2000, the number of jobs supported by exports in Kentucky has grown 144.4% (International Trade Administration). However, the total value of exports of the metropolitan area, both as a dollar value and as a share of the state's production, has gone down (International Trade Administration). We can conclude that other areas of the state are driving this market forward, meaning Lexington may be missing out on some opportunities.

**Table 5: Export Economy Over Time**

Metric	Value
<b>MSA Total Export Value:</b> 2015 dollar value expressed as a percentage of 2005 value.	98.5%
<b>State Export-Supported Jobs:</b> 2015 number of jobs expressed as percentage of 2000 value.	144.4%

<b>MSA Share of State Exports:</b> 2015 share expressed as a percentage of 2005 share.	59.5%
<b>MSA Value of Top Industry &amp; Region:</b> 2015 share expressed as a percentage of previous year's share.	Asia Pacific – 91.1% Trans. Manufacturing – 91.1%

*Source: Author's analysis of International Trade Administration data.*

Legislative uncertainty is a threat at both the state and federal level. For the first time in decades, the GOP controls both the executive and legislative branches of Kentucky's government. This change disrupts the status quo, which could (and already has) brought changes to the state. The uncertainty is a threat, not because the policies are good or bad, but because it is difficult to anticipate the unknown and because change is risky. Change can also be good for economic development—for example, the state may implement new programs that support business growth. Nationally, there has been a similar shift of political power. Previously, we had a split government, and today the government is unified under one party. There are many federal programs that directly affect local governance through grants and other funding mechanisms, and regulation. There is a pronounced uncertainty, for example, in what healthcare will look like in this country in two years. There are potentially enormous local economic impacts, which cannot be anticipated.

Lastly, the lack of a regional economic development framework is both a weakness and a threat. Since other governments are leveraging regional approaches to economic development and potentially enhancing their own capacity (and potentially creating missed opportunities for Lexington), it is discussed as an external threat in this section. For example, two of the themes featured in the Fort Collins Economic Health Strategic Plan are “Place Matters” and “Think Regionally” (19 and 31). On the latter, the City of Fort Collins acknowledges “a number of current... challenges do not respect municipal boundaries... This theme focuses on leveraging collaboration and partnerships within our community and region to address these economic

issues,” which includes developing their key regional clusters (Fort Collins Economic Health Strategic Plan, 32-33). While LFUCG focuses almost exclusively on economic activity within the county, the Bluegrass region more broadly does not have a partnership or organization that provides those benefits described in the literature review—namely coordinating efforts to capitalize on regional assets, such as industry clusters, and enhance cross-jurisdictional policy problems, such as workforce development. For example, more than 70% of workers in only one of the six surrounding counties works in their county of residence according to 2015 estimates (U.S. Census 2015e). In Woodford and Jessamine County, less than half of all workers are employed in their county of residence (U.S. Census 2015e.). It stands to reason that at least some of those people are coming to Lexington to work, and are important human capital assets for the region; additionally, the Fayette County economy collaborates and competes with its neighbors. In short, other metropolitan regions recognize the opportunity to capitalize on their regional assets—by not doing the same, LFUCG may not be as competitive in attracting investors or living up to its economic potential.

## **Partners and Programs: Measuring Performance, ROI**

LFUCG monitors its economic development programs in multiple ways, depending on the partner or recipient. The section below examines the underlying logic of each partnership—the intervention’s intended outcome and how that line up with LFUCG’s priorities, how the partnership could be measured for performance and ROI, and how these activities line up with local needs.

Every year, economic development partners submit formal budget requests during the standard municipal budgeting process. These requests are considered alongside other budgeting

priorities, taking revenue forecasts and other city needs into account. A Purchase of Service Agreement (PSA), or a contract, is put together for each economic development partner. The Council approves each via a vote. Each recipient organization then must adhere to their agreement, which includes a stipulation for quarterly reporting; the contents of each report vary.

### ***The Vision***

It would be very difficult in most cases to estimate a return on investment in regards to the informal economic development priorities, given the current quarterly reporting requirements for these economic development partners. However, LFUCG has laid the foundation for meaningful performance metrics with its two funding programs—the jobs fund and the workforce development grant. For the former, the PSA with the recipient business names an agreed-upon number of jobs to be created by the agreement, a timeframe, and an average wage. LFUCG monitors progress towards these goals via compliance reports. The City Council has approved contracts for 15 companies, promising a total investment of \$1,730,038. These companies have signed contracts to create 209 jobs total. Table 6 below takes this information, and calculates the return on investment as a function of payroll taxes compared to total investment. Assuming the prevailing occupational tax rate of 2.25%, the promised jobs would create \$1,108,213.52 in tax revenue above and beyond the investment (“Occupational license fees - rates”).

***Table 6: Jobs Fund Recipients***

Company	Sector	Amount	No. Jobs	Median Wage	Completion Date	Anticipated Total Wage Value	Anticipated Payroll Taxes (2.25%)
Avail	Professional Services (Tech)	\$250,000	4	\$40.00	2026	\$3,328,000	\$74,880.00
Annulox	Manufacturing	\$100,000	5	\$23.40	2025	\$2,433,600	\$54,756.00
Belcan	Engineering	\$100,000	100	\$27.45	2025	\$57,096,000	\$1,284,660.00

James Pepper	Manufacturing (Beverages)	\$100,000	3	\$31.50	2026	\$1,965,600	\$44,226.00
Fooji	Professional Services (Tech)	\$100,000	16	\$34.55	2026	\$11,498,240	\$258,710.40
Consolo	Software Services	\$100,000	30	\$26.88	2026	\$16,773,120	\$377,395.20
EIE	Nanotechnology	\$70,038	6	\$42.87	2025	\$5,350,176	\$120,378.96
Sumitomo	Manufacturing	\$100,000	10	\$23.69	2024	\$4,927,520	\$110,869.20
Summit Biosciences	Pharmaceutical Manufacturing	\$100,000	9	\$31.75	2025	\$5,943,600	\$133,731.00
Identify 3D	Professional Services (Tech)	\$100,000	4	\$48.08	2027	\$4,000,256	\$90,005.76
Awesome Inc	Professional Services (Education, Support)	\$70,000	1	\$25.00	2025	\$520,000	\$11,700.00
MakeTime	Manufacturing (Tech)	\$100,000	5	\$35.20	2025	\$3,660,800	\$82,368.00
WearWare	Technology	\$100,000	4	\$22.94	2026	\$1,908,608	\$42,943.68
Fluent	Professional Services (Finance)	\$90,000	1	\$43.27	2026	\$900,016	\$20,250.36
MedSignals	Technology (Healthcare)	\$250,000	11	\$25.52	2024	\$5,838,976	\$131,376.96
<b>Total</b>		<b>\$1,730,038</b>	<b>209</b>	<b>\$29.02</b>		<b>\$126,144,512</b>	<b>\$2,838,251.52</b>

*Source: Author's analysis of LFUCG resolutions 231-2016, 165-2015, 463-2015, 769-2016, 673-2016, 044-2016, 650-2015, 650-2014, 196-2015, 071-2017, 339-2015, 615-2015, 481-2016, 232-2016, 745-2014. Accessed via Legistar system.*

The workforce development grant, which is a new program, has also been designed with performance metrics in mind. Seven nonprofits or partnerships received a total of \$150,000 in grant funding to provide training and employment assistance to at least 134 people (Dickinson 2017). The workforce development manager will track these nonprofits' outcomes, including employment (Dickinson 2017). The average cost per participant is projected to be \$1,094.89; if LFUCG were looking at the return on investment in terms of increased wages (and increased occupational tax revenue) over a period of five years, for example, each participant would have to increase their wages by \$8,759.12 annually to "break even."

***Table 7: Break Even Point Per Grant Participant Over Time***

1 Year	5 Years	10 Years
\$43,795.62	\$8,759.12	\$4,379.56

According to the author’s calculations, LFUCG would recover the grant investment if annual wages increased by the amounts listed in table 7 in the corresponding periods. For example, each participant would have to see a \$43,792.62 increase in one year, or a \$4,379.56 increase every year for ten years.

### ***World Trade Center Kentucky***

The mission of WTCKY is to “accelerate trade and economic development through innovation, education, trade advisory services and international business missions” (World Trade Center Homepage). The Center services the entire state, providing training and networking opportunities for existing businesses to expand in to global markets. According to their PSA, they received \$72,000 for FY2017 to support Lexington businesses. Figure 1 shows the logic model underpinning this alliance.



*Figure 1: World Trade Center Kentucky Logic Model*

The primary client for WTC KY is existing businesses that have established markets and/or products developed here that have the opportunity to expand markets globally. The WTC

KY intervention is their training and networking programs, which should then provide businesses the knowledge and professional networks needed to export their products globally. The intuition is that this globalization will help the local economy to expand by increasing productivity and creating new jobs, which is one of the informal priorities of economic development initiatives locally.

Currently, WTC KY submits a narrative quarterly report that addresses questions about their previous quarter's trainings, activities, partnership participation, and financial sustainability. To better align the performance metrics with the informal economic development priorities, LFUCG's desire to better understand their ROI, and make it easier to make comparisons across programs, the metrics listed in table 8 are proposed. The first six outcomes listed are available via federally-generated data sets (which can be drilled down to the MSA or county-level).

**Table 8: Proposed Performance Metrics**

Inputs	Outputs	Outcomes
<ul style="list-style-type: none"> <li>• Number of events               <ul style="list-style-type: none"> <li>• Ex: Trainings, meetings, visits</li> </ul> </li> <li>• Cost per person of each event</li> <li>• Cost covered by LFUCG funding per event</li> </ul>	<ul style="list-style-type: none"> <li>• Number attending each event or program overall</li> <li>• Number of Lexington-based businesses attending each event</li> <li>• Industries represented at each event by percentage</li> <li>• Age of business represented at each event by percentage</li> <li>• Number of certifications or trainings completed by Lexington-based businesses</li> </ul>	<ul style="list-style-type: none"> <li>• Export activity by region (annual)</li> <li>• Export activity by industry (annual)</li> <li>• Percentage of state export activity (annual)</li> <li>• Change in total export activity (annual)</li> <li>• Overall job growth in local high-export industries (annual)</li> <li>• Number of jobs created by participating clients (annual)</li> <li>• Average wage of jobs created by participating clients (annual)</li> </ul>

## SCORE

This volunteer-run organization is a local chapter of a national organization that partners with the Small Business Administration (“SCORE Business Mentor”). SCORE provides mentoring opportunities for new entrepreneurs or small business owners, connecting participants with seasoned, retired businesspeople. Figure 2 shows the logic model for this economic development partner, which received \$7,000 from LFUCG in 2017.



Figure 2: SCORE Logic Model

The target audience are individuals are starting new enterprises. These individuals are paired with a mentor, with whom they are to build a relationship and glean insights that will ultimately make them more successful in their business pursuits—perhaps more likely to actually launch a business, make better business decisions, or grow faster. The ultimate outcome expected, then, is expanded business growth and job growth as a result.

Like WTC KY, SCORE submits quarterly reports about their activities in a narrative format, which is helpful, but does not fully address the goals of the partnership. Table 9 presents new performance measures that complement these narratives. The first two outcomes come from federal data. The inputs and outputs directly address some of the informal economic development priorities and the weaknesses identified here. A unique challenge with this

partnership is the relatively small grant amount and the number of other organizations doing similar work, like the Small Business Development Center, programs at UK, and any number of other informal arrangements found in other trade organizations. Given this context, it is improbable that the impact SCORE is having on the outcomes listed can be singled out; however, if we follow the logic model, these are the results that should be tracked.

**Table 9: Proposed Performance Metrics**

Inputs	Outputs	Outcomes
<ul style="list-style-type: none"> <li>• Number of events               <ul style="list-style-type: none"> <li>○ Ex: mentor meetings</li> </ul> </li> <li>• Number of volunteers</li> <li>• Industries volunteers represent by percentage</li> <li>• Experience-level volunteers represent by percentage</li> <li>• Cost covered by LFUCG per service</li> </ul>	<ul style="list-style-type: none"> <li>• Number of clients</li> <li>• Percentage of clients that successfully start a business</li> <li>• Industries clients represent by percentage</li> <li>• Percentage of clients that are women</li> <li>• Percentage of clients that are minorities</li> <li>• Zip codes clients represent by percentage</li> </ul>	<ul style="list-style-type: none"> <li>• Establishment birth rate (as released)</li> <li>• Establishment death rate within 2 years (as released)</li> <li>• Number of jobs created by participating clients (annual)</li> <li>• Average wage of jobs created by participating clients (annual)</li> </ul>

### ***Downtown Lexington Corporation***

DLC and LDDA, which is discussed subsequently, both focus on downtown. While these organizations have been funded separately in the past, they are exploring becoming one organization in the future. The analysis here must be reviewed with that in mind. In fiscal year 2017, DLC received \$42,710. Currently, DLC is a membership organization comprised of businesses that seek to “enhance” downtown for residents through events, advocacy, and promotion (“Our Mission”). Their activities, then have two logic models, displayed below.



Figure 3: DLC Logic Model A

This first model focuses on the membership structure. The member businesses are interested in growing their businesses. Contributing to DLC allows them sponsorship opportunities, which extend their brand and bring potential customers to them. The idea, then, is to increase sales or market activity, ultimately growing DLC member businesses. Figure 4 shows the second logic model. The events DLC executes contribute to the quality of life, which is attractive to mobile businesses.



Figure 4: DLC Logic Model B

These events increase downtown activity, which has two effects—more businesses should want to stay or come to Lexington to be a part of the activity, and customers patronize downtown businesses more often because there are events.

Like the other economic partners, DLC completes a narrative quarterly report. This report could be enhanced by the proposed performance metrics in the following table. Measuring the impact of this organization’s activities is uniquely challenging, because it relies upon events and promoting culture, which are difficult to quantify. Instead of coming up with poor measurement tools to capture those impacts, it is better to focus on qualitative assessments for those types of outputs.

***Table 10: Proposed Performance Metrics***

Inputs	Outputs	Outcomes
<ul style="list-style-type: none"> <li>• Number of events</li> <li>• Breakdown of targeted audience for all events by percentage               <ul style="list-style-type: none"> <li>• Ex: young families, professionals</li> </ul> </li> <li>• Number of members</li> <li>• Industries members represent by percentage</li> <li>• Cost covered by LFUCG per event/service</li> </ul>	<ul style="list-style-type: none"> <li>• Number of attendees at events</li> </ul>	<ul style="list-style-type: none"> <li>• Change in downtown business growth (annual)</li> <li>• Change in downtown business employment (annual)</li> </ul>

### ***Lexington Downtown Development Authority***

While DLC focuses on producing events and impacting the cultural activities downtown, LDDA focuses on urban planning projects downtown. LDDA’s primary service is its expertise—it provides thought leadership on development projects downtown, like the new Courthouse renovation (“Current Projects”). In FY2017, the organization received \$324,540 via a PSA with LFUCG. And, like its counterparts, it produces quarterly, narrative-driven reports.



Figure 5: LDDA Logic Model

What are the mechanisms this partner employs to impact economic capacity? The Downtown Development Authority helps set the agenda for downtown development, offering its expertise in a variety of settings to developers and other governmental and quasi-governmental actors to drive increased investment in downtown development projects. These projects increase the quality of life, as more people are visiting and living downtown, which, similarly to DLC, maximizes usage of downtown amenities.

While LDDA's intangible contributions are difficult to quantify, there are more options for quantifying the inputs, outputs, and outcomes than for DLC. The following table shows some new performance metrics that could complement the narrative report already submitted.

Table 11: Proposed Performance Metrics\*

Inputs	Outputs	Outcomes
<ul style="list-style-type: none"> <li>• Number of projects on which LDDA consults</li> <li>• Location of projects consulted, by percentage</li> <li>• Number of hours devoted expertise to public projects</li> </ul>	<ul style="list-style-type: none"> <li>• Percentage of infill opportunities realized</li> <li>• Downtown occupancy rate (residential, retail/office)*</li> <li>• Value of in-progress projects**</li> <li>• Walkability score**</li> </ul>	<ul style="list-style-type: none"> <li>• Property values*</li> <li>• Percentage of population living in downtown Census tracts</li> </ul>

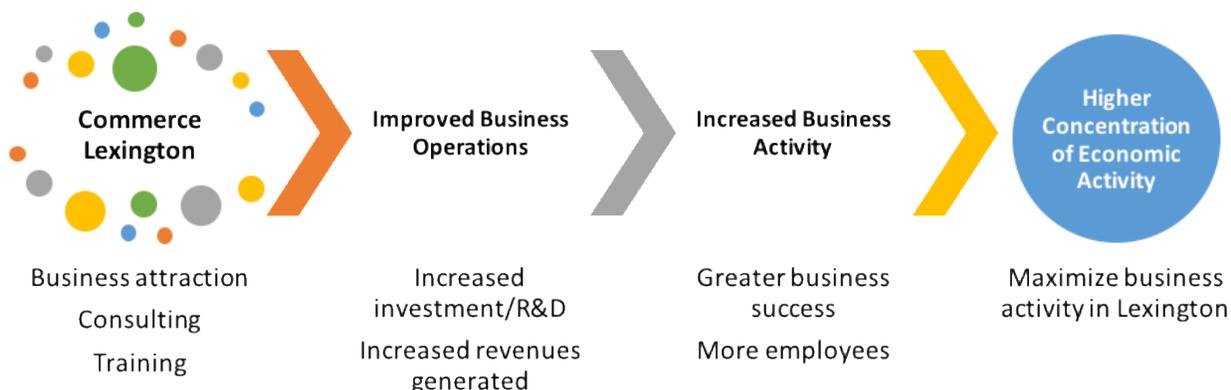
- Grant dollars raised for downtown place-making projects

*\*Source: University of Wisconsin Extension newsletter, and Ammons and Morgan.*

*\*\*Source: LDDA Downtown Market Inventory 2015.*

### ***Commerce Lexington***

Commerce Lexington receives the largest PSA amount of any economic development partners considered in this report—over \$450,000. They also have the most robust reporting metrics in quarterly reports and the largest set of services. The partnership with Commerce Lexington focuses primarily on business recruitment, consulting on incentives, workforce development, commercialization services, and services through their small business center.



*Figure 6:CLX Logic Model*

Because of the depth and breadth of their services, the logic model for Commerce Lexington is the most difficult to distill down to its primary causal mechanisms. Ultimately, though, they seek to maximize private revenue and job generation in Lexington via their consulting, training, and attraction activities to extend business success past what it might be otherwise. Because they already report so many metrics, the below list seeks to complement (not

replace) these metrics to better quantify what the investment is doing for Lexington taxpayers. Currently, Commerce Lexington reports metrics like: the number of clients served, number of client meetings, jobs created or businesses started, training attendance, funding received, site selection meetings, and capital investment (Greathouse 2017).

The output metric would require Commerce Lexington to define the goals per client, and measure completion—are clients seeking technical assistance (perhaps on federal funding), mentorship, new space, information about the market, or capital? Do they meet the needs?

**Table 12: Proposed Performance Metrics**

Inputs	Outputs	Outcomes
<ul style="list-style-type: none"> <li>• Number of clients served               <ul style="list-style-type: none"> <li>• By type, industry, age of company</li> </ul> </li> <li>• Client meetings               <ul style="list-style-type: none"> <li>• By type (initial, follow-up)</li> </ul> </li> <li>• Number of outreach activities</li> </ul>	<ul style="list-style-type: none"> <li>• Business outcomes per client served               <ul style="list-style-type: none"> <li>• By service, industry, age of company</li> </ul> </li> </ul>	<ul style="list-style-type: none"> <li>• Average wage of jobs generated by clients served.</li> <li>• Change in employment in target sectors</li> </ul>

Today, return on investment would be very difficult to quantify. In discussing the goals of these partnerships for the City with the Chief Development Officer, it became clear that requiring each partner to report the average wage in addition to the number of jobs created, as JOBS fund recipients do, would allow for a very easy ROI calculation. Using that information, LFUCG could calculate the ROI as follows:

$$(\text{Payroll Tax Rate} \times \text{No. of Jobs} \times \text{Avg Wage}) - \text{FY Investment} = \text{Net ROI}.$$

If the result is positive, then LFUCG is generating revenue with the investment. If it is negative, LFUCG is subsidizing the activity. That being said, there should not be a goal set here; activities today may have impacts a decade in the future, which would not be realized in this formula. Conversely, LFUCG is not in the business of generating a profit off of these alliances,

either. However, this information would be useful as LFUCG thinks through its strategic priorities in future years across programs. This formula could also then be further broken down by sector, neighborhood, or business age to further analyze where these investments have had ripple effects.

## **Policy Implications**

There are many versatile, moving parts in economic development policy, even in a mid-sized city like Lexington. For every one of the partners that Lexington chooses to fund, there are several others working in the same space. Further, every dollar spent on program A is a dollar that cannot be used for public safety or social services. Ultimately, there is opportunity for improving performance measurement to better understand what the investment is producing, while also instituting strategic management practices. Below are a few final policy recommendations to consider as LFUCG moves forward.

- LFUCG should identify strategic priorities, goals, and owning organizations for these to better coordinate economic development efforts. The city has a unique opportunity to leverage emerging community engagement efforts, such as the community-wide “On the Table” event, to drive a strategic plan for economic development. If this project were completed in the next 8 months, the next budget cycle could capitalize on changes.
- The city government could consider refocusing efforts not on organizations, but on program outcomes—who and what needs support? How can we best address that? In addition, there may be an opportunity to consider how policy problems cross jurisdictional boundaries and create new partnership(s) to address them.

- While LFUCG is taking steps today towards workforce development efforts, it appears that there are opportunities to focus on neighborhoods that consistently underperform the rest of the county on measures of economic vitality. Consider an in-depth review of workforce development problems and shifting resources from duplicative economic development services.
- Implement performance dashboards for each economic development partner, working with each to define expectations. These dashboards could be created in conjunction with updated reporting metrics in time for the next budget cycle (in 12 months).

## **Conclusion**

This analysis provides a framework for LFUCG to move towards a more results-driven approach towards economic development partnerships. After considering the context in which LFUCG operates via an environmental scan and its informal economic development priorities, this report proposes a standardized performance measurement framework that would provide the needed data to complete future ROI analyses. There is still much work to be done!

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