



SHAKER
HEIGHTS

Economic Development Strategy Shaker Heights, Ohio

Strategic Investment Plan Update
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Submitted by:

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RATIONALE AND IMPORTANCE OF PLAN TODAY

As Shaker Heights approaches its Centennial in 2012, it is important to put plans in motion that will ensure that the City thrives in its next 100 years. The Mayor and Council took an important step in this direction when they hired Robert Charles Lesser & Co. (RCLCO) to develop an economic development plan for the City of Shaker Heights in April 2010.

The plan analyzed our community's unique assets and identified business segments in which Shaker Heights could have a competitive advantage if the City made a conscious effort to market itself as an office destination for professionals in these sectors. In order to nurture the development of new businesses in our City and to attract professionals, the plan outlines investments that will need to be made in our commercial districts that will signal to the brokerage and development community that Shaker is truly "open for business".

The recommendations RCLCO has put forth significantly increase the City's ability to diversify its tax base and generate the level of density required to support the types of amenities – restaurants and retail – that our community is clamoring for.

The strategy is a roadmap that Council and the Administration will use as a guide in structuring City processes and evaluating business opportunities. The strategy includes a toolkit that we can employ to create a climate that invites private investment.

It is now up to us as a community to implement this plan. Shaker Heights' greatest asset has always been its residents. In many ways, the most critical components of this plan are around the marketing and outreach efforts which can only be successful if our community embraces the plan and engages in its implementation. The City Administration looks forward to a partnership of staff, elected officials, residents and existing businesses to create vibrant commercial districts that complement our distinctive community.

Sincerely,



Tania Menesse
Director Economic Development

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EXECUTIVE SUMMARY

Shaker Heights can build a strong and sustainable economic future through policies that correct market imbalances as well as via actions that provide strong returns on investment. Shaker Heights will need to generate more income tax in order to maintain long term economic strength. Doing so will require more business-proactive policies, including competitive commercial tax rates and aggressive measures to enhance the climate of investment in and around its commercial districts and building stock. These investments will benefit all other City services and amenities, including schools and retail activity.

This Economic Development Strategy is a framework of action that is designed to produce positive financial results while being judicious in the use of limited City resources. It proposes a variety of action items and policy interventions that are designed to enhance the City's level of office-oriented and business activities. The plan envisions both a strategic and tactical response that includes:

- financial incentives to commercial property owners;
- financial incentives to businesses seeking to expand or locate in Shaker Heights;
- investments in upgrading programs and operations that address Shaker businesses and commercial properties; and
- an aggressive marketing, branding, and business recruitment effort

This strategy has identified key segments of the Cleveland metropolitan business community that can and will be targeted in this effort, as well as key commercial districts in Shaker Heights that will be targeted for investment and reinvestment. When Shaker Heights becomes successful in growing these segments – ambulatory health care and social services, design, government and legal services, and information services – it will

strengthen its fiscal base and set the stage for long-term economic health.

Finally, this strategy outlines short and long term goals and objectives, so that the City can measure its efforts against quantifiable performance metrics. The goals and metrics are flexible and aspirational in nature, giving City stewards high standards against which to gauge their activities and levels of investment while knowing that it may likely choose to pursue and achieve only some goals of the overall strategy given the use of manageable quantities of effort and resources.

UPDATE TO THE STRATEGIC INVESTMENT PLAN

This Economic Development Strategy serves as an update to the City of Shaker Heights' Strategic Investment Plan, which was approved in June of 2000. The Strategic Investment Plan outlined a vision for Shaker Heights that could be achieved through the following goals

Goal 1: Transportation

Shaker Heights offers an attractive, convenient, pedestrian-friendly transportation system that promotes alternatives to the automobile, provides access to the greater metropolitan area, controls traffic flow, and reduces congestion in the city.

Goal 2: Visual and Physical Image

Shaker Heights is a city of unified consistent beauty, excellence of design and appearance – a place of well-maintained and attractive housing (that includes architectural preservation), of well-maintained and attractive commercial/ retail, and of plentiful green spaces.

Goal 3: Commercial/Retail

Shaker Heights offers a vibrant mix of quality commercial businesses and distinctive stores and restaurants that serves all economic groups and attracts local as well as regional markets.

Goal 4: Housing

Shaker Heights offers a wide range of well-maintained housing that is accessible to a variety of income levels and household types, and that accommodates people of all ages and physical abilities.

Goal 5: Education

Shaker Heights has an education system that prepares all young people for a successful future within an educational community that fosters collaboration among various constituencies,

informs and involves families in decision-making, and serves the larger community.

Goal 6: Connections

Shaker Heights commits to looking beyond our borders in order to secure the long-term viability of our community.

This Economic Development Strategy proposes to amend the above via specific modifications to Goal 3 as follows:

Goal 7: Commercial Development

A. Shaker Heights is a competitive place to start, continue, or expand a business, and is a destination of choice for office workers and their employers in the Cleveland region.

B. Shaker Heights offers a wide variety of attractive locations to locate new office employment, and supports its office property owners in their efforts to provide appealing and market-competitive locations for businesses.

C. Shaker Heights supports the market for its retailers by committing to placemaking in and around its commercial districts as well as driving traffic to retailers and restaurants via accessible retail environs – by a variety of modalities – as well as by increasing the quantity of the demand pool from both daytime workers as well as residents.

THE ECONOMIC DEVELOPMENT STRATEGY IN BRIEF

Background and Objectives

In April of 2010, the City of Shaker Heights (“the City”) retained RCLCO to prepare an economic development plan for Shaker Heights. The overall purpose of the plan as stated by the City is to find ways to expand the City’s tax base, property, and income, and expand development efforts that would accomplish that goal. In constructing the plan, the City asked RCLCO to answer the following questions:

- What are the current obstacles to business development in Shaker Heights and what should the City do so that it is known as “business-friendly”?
- How does the City most effectively recruit businesses? What incentives and programs should be offered, if any?
- Given the regional economy and Shaker Heights’ competitive position in it, what business segments can and should the City attempt to recruit and retain?
- How should the City allocate its limited economic development resources? How much money can be devoted to incentives and financial assistance to revitalize existing buildings and encourage new development?

The objectives of the economic development plan were confirmed and refined at weekly meetings with city staff, periodic advisory group sessions, site visits, and through a public meeting. RCLCO prepared and executed a workplan, described below, to answer these questions and make actionable recommendations that fulfilled the plan’s objectives.

Key Findings

Shaker Heights is fortunate in that its current fiscal situation is one that can be addressed through policies that correct market imbalances as well as via actions that provide strong returns on investment. In fact, addressing the issues below suggests that the Shaker Heights of tomorrow may have an economic trajectory that is stronger than that of yesterday. Indeed, Shaker Heights can and will have a very bright economic future if it can correctly respond to the following:

1. ***Shaker Heights needs to generate more income tax in order to maintain long term economic strength.***

The City’s municipal finance is fueled primarily by income tax revenues, and the region’s prolonged structural economic adjustment means that Shaker Heights will need to site more jobs within its borders in order to strengthen this line item.

2. ***Shaker Heights needs more business-proactive policies, including competitive commercial tax rates – in order to increase its income tax base.***

Current policies and programs do not create market conditions suitable for accelerating employment growth in Shaker Heights. Property tax rates that are the highest not only in the region but the State reduce the city’s marketability to businesses and commercial property owners. Meanwhile, the city can increase the level of attention it gives to its commercial property owners, tenants, buildings, and business districts and extend to them the Shaker brand.

3. *Shaker Heights lacks quality office space and needs to develop or redevelop office property to attract jobs.*

Shaker Heights, similar to most first suburbs, has many commercial properties that are functionally-obsolete. In order for Shaker to expand existing and attract new businesses, it will need to create a climate of commercial property investment that will upgrade or replace existing facilities as well as catalyze the development of new office buildings suitable for modern tenants looking for space in a supply-rich leasing environment.

4. *Financial support to commercial property owners to modernize their facilities combined with business-segment specific incentives will be the optimal method of achieving the above over the next 5-10 years.*

Shaker Heights should correct market imbalances in order for its commercial properties to become strong contributors to the City's tax base once again. However, it must combine market corrections with aggressive outreach, marketing, and branding efforts in order to reach potential new Shaker businesses and convince them to expand and/or locate in Shaker Heights. The latter will require specific financial incentives as well as a support structure that will be compelling to the businesses as well as provide a sound return on investment for Shaker.

5. *All other city services and amenities, including schools and retail, will benefit from this strategy.*

Shaker Heights depends on its tax revenue in order to support its superior quality of life. City services will be better-funded if Shaker can increase its stock of occupied office space. Meanwhile, additional daytime employment will provide the foot traffic and spending power that retailers and restaurants

need in order to thrive – and in turn provide retail opportunities for Shaker's residents as well.

Strategy Elements

Responding to these findings in an appropriate manner suggests bold moves on behalf of Shaker stewards and stakeholders. Diversifying the City's revenue base, creating a climate of investment in its commercial buildings, increasing the number of daytime employees, and doing so in a fashion which is revenue-positive for the City will require new thinking, new ideas, and a focus on execution and implementation that is laser-like in nature.

This plan envisions just such a strategic and tactical response, details of which are given later in the document and the elements of which are outlined below:

Financial Incentives

- Reduction of commercial property tax rate to an effective two percent on new development through a tax credit that behaves mathematically like a 10-year tax abatement.
- Extension of the above tax credit to property reinvestment in existing buildings. Qualification parameters will need to be outlined by City Staff and approved by City Council.
- Consideration of low-interest loans, TIF financing, or leveraging State and County funds for building remediation or demolition, to the extent that analysis shows that the investment meets the City's return targets.
- Implementation of tenant incentives, such as matching grants for tenant improvements, and relocation assistance to defray the moving costs of businesses coming to Shaker Heights.

- Provision of low-cost loans fronted by a City revolving fund dedicated to small businesses.
- Maintenance of broad discretion in deploying the above to ensure that the City can remain nimble and strong.

Programs and Operations Investments

- Prioritize commercial district placemaking, including transportation improvements and especially improvements in existing commercial districts.
- Develop an ombudsman function to facilitate all permitting, licensing, and other issues. As the commercial office presence grows, create a bricks and mortar Shaker Heights business outreach center to house the ombudsman function.
- Initiate a “green taping” program - i.e. expedited regulatory permitting and paperwork for businesses and property owners that meet key Shaker Heights investment criteria.
- Play a role in the support of home-grown businesses, especially in transitioning them into existing office space within Shaker Heights.
- Harness ventures that may spin-off from the seed-stage companies and support “Stage II” companies which are further along in the product lifecycle,
- Repurpose underutilized or vacant space to accommodate these start-up businesses in a low-cost fashion.

Investigate best practices in commercial district building inspections and code enforcement and invest necessary resources to implement best practices.

Marketing, Branding, and Recruitment

- Assign resources to keep the pulse of the local business environment

- Developing on line information tools, so potential companies can quickly identify development sites or vacant space, understand the incentive programs being offered, and know who to contact for further information.
- Develop a branding campaign that publicizes Shaker Heights’ new commitment to businesses
- Conduct a vigorous “inreach” campaign to recruit businesses to locate in Shaker from within the Shaker community or Shaker schools alumni
- Conduct a vigorous outreach campaign to key industry segments to locate in Shaker Heights.

ECONOMIC DEVELOPMENT FOUNDATIONS

The Need for an Economic Development Strategy

With Cleveland's economy in a period of prolonged restructuring, Shaker Heights will need to locate more jobs within its borders in order to significantly boost income tax revenues. Accomplishing this will not happen on its own – it requires changes in the way Shaker Heights sees itself and conducts its business and for this reason, an Economic Development Strategy is needed.

Because of the way in which Shaker Heights' municipal budget is structured, office-oriented jobs locating in Shaker Heights will have the greatest positive impact on the City's fiscal health.

- There are segments of the Cleveland regional and overall national economy that are growing, and subsets of those growth areas for which Shaker Heights provides a site-selection competitive advantage.
- These growth fields are, in no particular order:
 - Ambulatory Care and Health Sciences;
 - Legal and Governmental Services;
 - Design, including Architecture, Engineering and Interiors, and “next-generation” jobs related to green design;
 - Information systems

Shaker Heights can compete well for these jobs – whether it means attracting existing businesses from across the region that may be considering a new location or providing a home for new companies and enterprises.

- The industry sectors outlined above are not only growing in the region and in the immediate vicinity of Shaker Heights, but also have numerous reasons for preferring a Shaker Heights location all things being equal.
- Moreover, they promise strong financial returns to the City when considering their relative tax base contribution vis-à-vis the resources required to site them within Shaker Heights
- Finally, some of these industries may have preferences not only for a Shaker Heights location, but also for some of the specific building-level opportunities that Shaker Heights presents today and tomorrow.

While Shaker Heights may in fact be a suitable location for a wider range of employment categories, Shaker Heights should focus almost exclusively on the four categories described above during the period of this five-year strategy because it has an imperative to spend its finite resources on activities that provide the greatest chance of success with the greatest return possible. **Focus and discipline will ensure success in building the foundation of a thriving business culture**, and allow for Shaker Heights to explore business diversification once it has the fiscal luxury of doing so in seven to ten years.

Beyond addressing the City's need to diversify its tax base, the attraction of jobs and businesses will serve broader goals.

- More daytime employment will generate greater demand for retail services and restaurants, allowing the creation of new stores and restaurants and providing a greater diversity of choices to existing residents and employees.

- More commercial development will naturally expose more people outside the community to its unique qualities. Some of these people will eventually choose Shaker Heights as a place to not only work, but live.
- New commercial development will benefit the school district as well, by expanding its tax base and potentially relieving some of the burden on residents.

The strategy and tactics recommended by this report are not free of risk. Significant amounts of capital investment in the form of loans or grants will be required and there are no guarantees of future returns. Nonetheless, the recommendations are the best way to accomplish the City's goal of expanding the tax base. With the right level of commitment, focus, and engagement, the City can take action on these recommendations and ensure a stronger fiscal future.

WORKPLAN REVIEW

The conclusions contained in this report derive from a series of quantitative and qualitative analyses, interviews with key stakeholders, site visits, working sessions with the Mayor, City staff, and the Advisory group, which were conducted over several months. Preliminary recommendations were then shared at a Public Meeting on September 29, 2010. Over one hundred residents listened to the presentation and then small groups provided feedback on the plan elements. A brief description of each of the major tasks follows.

Economic Analysis

RCLCO undertook an analysis of the macro-economic trends affecting the Cleveland metropolitan area in order to build an understanding of the regional context in which the Shaker Heights economy operates. This analysis considered recent employment trends and projections, the geographic distribution of household growth, and regional demographics as they relate to the demand for real estate. Specifically, the analysis included a forward-looking quantification of the theoretical annual demand for residences in Shaker Heights by price range based on U.S. Census data, Claritas, Inc. (a demographic and economic data and forecasting company), and an analysis of recent home sales in the area.

Moreover, the economic analysis sought to place Shaker Heights within the regional context. RCLCO assessed the strengths and weaknesses of Shaker Heights associated with, among other things, its housing stock, accessibility, schools, and land use patterns, and compared them with numerous other comparable municipalities in the vicinity. In addition, RCLCO reviewed recent commercial and residential development activity

to understand emerging trends and discover potential opportunities for Shaker Heights.

Given the broad job losses in the Cleveland metropolitan area over the last three years, an additional aim of the economic analysis was to identify job segments with the most potential for growth. RCLCO reviewed existing economic opportunity analyses including those constructed by Team NEO, the regional business attraction and research entity, as well as conducted its own economic and cluster-mapping exercise to arrive at a set of economic opportunity segments that could impact Shaker Heights over the next decade and beyond. RCLCO then filtered the above analyses via a place-based lens to arrive at a set of industry opportunity groups that not only represented growth, but also had specific synergies and competitive advantages vis-à-vis a Shaker Heights location. RCLCO shared these findings with the City and an advisory group and used feedback from these sessions to further refine these opportunity groups. Detail on this analysis is included in the Appendix.

Fiscal and Financial Analysis

Closing the City of Shaker Heights' budget gap and establishing a trajectory for solid fiscal health was a key motivation behind the need for the creation of a new economic development plan. RCLCO worked to develop a strong understanding of the key revenue and cost drivers by reviewing the City's annual budget documents and meeting with the City's Finance Director and Chief Administrative Officer. With this understanding, RCLCO designed a customized fiscal and financial model that simulates the potential fiscal impact on the municipal and school budget of various quantities and types of development and employment activity, as well as the effect on the City and

school budgets from a variety of catalytic incentives and investments. RCLCO applied the model to inform the selection of strategies and tactics that maximized the return on the City's potential investments and guide the allocation of City investments.

RCLCO also interfaced with the Advisory Group to share the findings from the financial and fiscal modeling and to stress-test strategic options and ideas vis-à-vis the potential fiscal and financial outcomes. The Advisory Group weighed in on concepts as well as suggested additional ones for testing.

Incorporating input from all of the above, the final report was disseminated at a City Council work session on Monday, November 8, 2010,

City Management and Citizen Engagement

After reviewing the feedback of the Advisory Group, the information gleaned from the stakeholder interviews, and taking account of the economic and fiscal analyses, RCLCO generated a menu of potential strategies and tactics which the city could potentially employ to achieve its economic development goals. These tactics were the subject of a day-long working session attended by key City decision-makers. The pros, cons, and feasibility of each were discussed before the Shaker Heights representatives selected the potential tactics, which ultimately became the components of this plan.

Information from this meeting was stress-tested, reviewed, updated, and distilled into a Draft Economic Development Strategy, the contents of which were shared with the City Management team in a work session and with the community in a public meeting. Roundtable discussions from the public meeting provided additional feedback and input into the plan, and this feedback is summarized in the Appendix.

Following the public meeting, the Mayor convened a meeting of his Economic Development Taskforce, a parallel group of experts that discussed and provided feedback into the updated strategy elements. Finally, after

SUMMARY OF ANALYSES

Economic Analysis

Since its inception, the economic fortunes of Shaker Heights have been closely linked to the Cleveland regional economy. Without a job base of its own, Shaker Heights residents found employment downtown, and more recently, in other suburban employment centers. For most of Shaker Heights' history, this worked well. Its high-quality housing stock, excellent schools, and connection to transit made it one of the most attractive places in the metropolitan area if not the nation.

Over time, this advantage has begun to erode.

- Since the 1950s, the population of Cleveland proper has declined as families moved to the suburbs. While Shaker Heights may have initially benefited from this development, new suburban communities were founded even further from downtown with high quality housing and good schools of their own.
- In many cases, jobs followed, reducing the importance of the transit connection to downtown. In recent years, the engine of the Cleveland economy has sputtered, adding another challenge to the maintenance of the Van Swearingen's original vision. Notably, while Moody's economy.com, a nationally recognized source of economic forecasts, projects the labor market to recover somewhat in the near term, population losses are projected to continue.

Against this background, RCLCO analyzed the housing market to understand the market feasibility, independent of the fiscal advisability, of continuing to pursue an economic development strategy solely focused on the attraction of new residents.

- RCLCO modeled the theoretical demand for for-sale housing based on an analysis of

demographic information for Cuyahoga County and found that about 20% of the for-sale demand of roughly 4,300 units per year, is likely to be for homes worth \$300,000 or more and Shaker is already capturing more than it's "fair share" of homes in this segment.

- In addition, Shaker Heights is largely built-out so there is a relatively finite number of homes in Shaker Heights that appeal to high-income earners.

Analysis confirms that there are likely diminishing returns to continuing to devote all economic development efforts to the attraction of new residents. Since the fiscal analysis (described below) clearly indicated that more jobs, particularly office jobs, would be the best possible way to address the City's budgetary challenges, RCLCO considered the opportunities for an alternative economic development strategy centered on job attraction to augment the current household attraction strategy.

Fiscal Analysis

When the Van Swearingens founded Shaker Heights in the 1920s they envisioned a beautiful and quiet residential community, removed from the hustle and bustle of the city, but connected by transit to the downtown employment core. Commercial development never played a role in their concept. Since then, the vision has largely persisted among the residents and government of the City and for good reason – it worked for almost a century. In that time, Shaker Heights developed a national reputation as a premier residential community and attracted many wealthy families, who established a strong tax base.

The fiscal situation of the City of Shaker Heights has become increasingly challenging over the last ten years. In real dollars, 2009 income tax

revenues, which account for more than half of all city revenues, were 9% lower than in 2000.

To evaluate potential solutions to these budgetary challenges, RCLCO prepared a fiscal impact model designed to estimate the net fiscal impact (revenues less expenditures) of a given quantity and type of development.

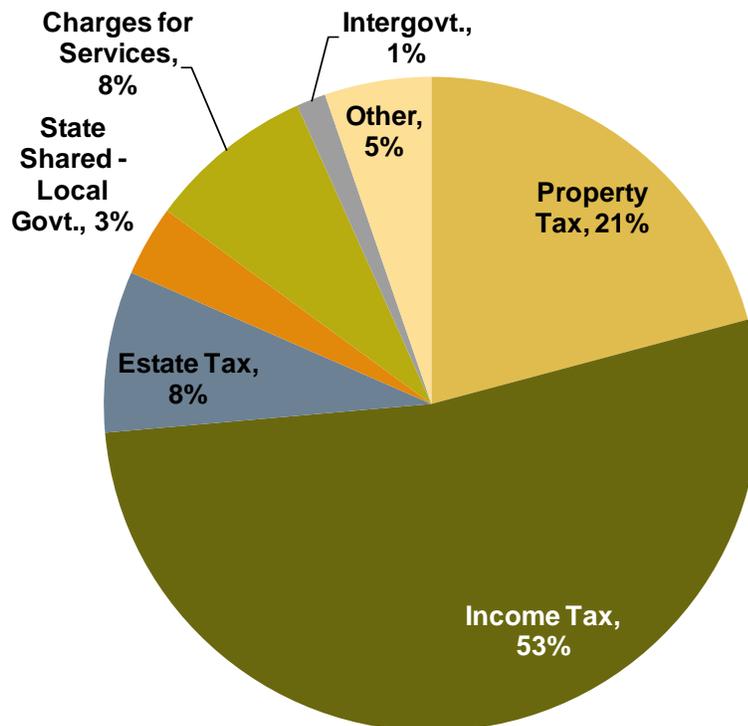
Hence, RCLCO analysis suggests that a shift in the focus of the City's economic development efforts has become necessary.

- Instead of concentrating solely on the maintenance and improvement of Shaker Heights as a premier residential community, it must also aggressively encourage commercial development.
- This conclusion is based on analysis of the City's fiscal structure, described below, and the strengths, weaknesses, and opportunities for the Shaker Heights economy going forward, described in the following section. The analysis is reinforced by the Mayor's

Financial Task force report released on October 7, 2010, and available online at <http://www.shakeronline.com/Media/PDFs/Uploader/10132010955510-02-10finalreport.pdf>

The RCLCO analysis also revealed that only 7.5% of Shaker residents today actually work in Shaker Heights, and an even smaller percentage of Shaker residents with incomes of over \$40,000 do so. Many Shaker residents currently work or have employment prospects in the business segments outlined below, and moving their place of business – or locating their next place of business – in Shaker Heights would provide to the City much-needed income tax and to the resident an actual reduction in income taxes paid. Interviews with the community confirmed that many residents currently living in Shaker but working elsewhere – especially in the industry segments outlined below – do have a desire to move their workplace into Shaker.

Analysis reveals that occupied commercial office space is superior to residential development because it has the capacity to



draw significantly more taxable incomes for any given area of land.

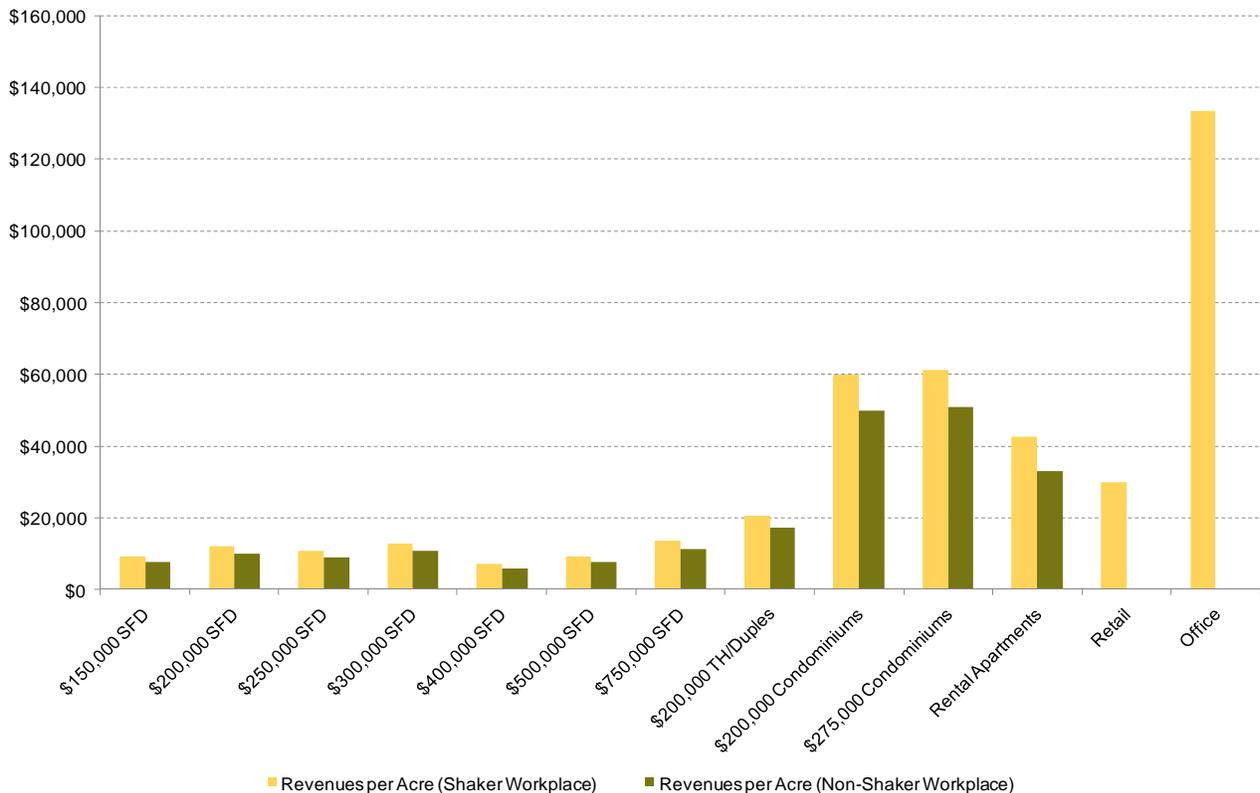
- One acre of land may reasonably support 3 to 6 single-family homes or up to 16 townhomes, which would represent, at best 32 taxable incomes assuming two income earners per household.
- On the same acre of land, however, a 50,000 square foot office building could be constructed, which, assuming the typical ratio of 250 square feet per employee that is commonly accepted in commercial real estate, could hold approximately 200 income tax payers.
- Moreover, Shaker Heights collects the full 1.75% income tax rate on workers in the City, while it only collects an effective 1.25% rate on residents of the City who work elsewhere.

Notably, while retail growth is important to community development and exhibits similar advantages relative to residential

development, office development remains a superior revenue generator.

- Retail developments typically support fewer employees per square foot at lower salaries than office developments, meaning less income tax revenue.
- Furthermore, retail development is likely to be less intense from a density standpoint, since retail uses prefer to be on the ground-floor only in most cases.
- Finally, retail sales tax is only a small contributor to the City’s revenues under any scenario and is distributed according to a state formula that is agnostic to the amount of retail sales occurring in Shaker Heights.

The scale of the potential revenues from commercial development is significant, and RCLCO estimates that on any given acre of land and using baseline assumptions, office development would bring the City at least 10 times more revenue than a single-family



residential development, and 3.5 times more revenue than a retail development. Consider, for example, the following scenario:

When fully occupied, a single 50,000 square foot office building is estimated to generate approximately \$230,000 in annual net fiscal impact to the city, amounting to a net present value of \$3.4 million over thirty years. The same building would generate approximately \$120,000 in annual property tax revenues, at no additional cost to the school district. While these estimates do not assume any financial assistance, they illustrate the return potential of an investment by the city government. For example, if Shaker Heights were to invest \$1 million upfront to help finance the development of this hypothetical office building, it could expect to break even on its investment within five years and achieve a respectable 15% rate of return in 10 years.

SHAKER HEIGHTS' ECONOMIC OPPORTUNITIES

The analysis completed for the economic development plan identified segments that are growth opportunities for Shaker Heights based on regional economic trends and site selection characteristics. The full list is provided in the appendix but they can be broadly grouped into four categories: Health Care and Social Assistance, Legal and Government Services, Design including “next generation technologies, and Information Systems. These segments, though not without their special challenges and considerations described below, represent the best fields of opportunity for Shaker Heights to recruit businesses and jobs.

Ambulatory Health Care and Social Services

The health care job segment is in many ways, a natural fit for Shaker Heights. Several major medical facilities are located in University Circle, adjacent to the northwest corner of Shaker Heights, and a large hospital, South Pointe Hospital is located just to the south. Additional hospitals and medical office buildings are located in Beachwood to the east. Major healthcare employment centers virtually surround Shaker Heights and this proximity to major healthcare facilities should serve as a strong selling point to medical practitioners given that they prefer to work near major hospital facilities. Employment data provides further evidence for the potential of healthcare as an employer. Within a three mile-radius of Shaker Heights, approximately 70% of jobs are health-care related. Yet within City boundaries, only 12% of jobs are health-care related, despite a significant presence by University Hospitals. Given the right space at the right price, it is reasonable to expect more healthcare jobs to spillover into Shaker Heights.

Since the major healthcare businesses in the area, University Hospitals and Cleveland Clinic, prefer their physicians to work out of their office space, recruitment efforts will be more fruitful if they target ancillary medical practitioners, such

as dentists, physical therapists, psychiatrists, chiropractors, etc. Interviews with local stakeholders have confirmed that these groups represent the greatest opportunity.

Design Services (Architecture, Engineering, Planning, and Interiors)

Shaker Heights has a strong opportunity to capture growth in design fields, such as architecture and engineering, interior design, graphic design, etc. Already a location for some of these businesses, Shaker's high quality housing stock and well-planned neighborhoods are a unique appeal to those with a high appreciation for aesthetics. Moreover, as Shaker's housing stock ages, homegrown demand for specialists in renovation will develop. “Green” design jobs including those related to environmental engineering, renewable energy development, and green construction and installation techniques among others has especially strong potential. These fields are projected to add over 20,000 new jobs in the Cleveland metropolitan area over the next thirty years.

A challenge to the development of a design identity for Shaker Heights is competition for such jobs within the region. The nascent District of Design in downtown Cleveland, for example, will also compete for design jobs. Since, however, this particular District places greater emphasis on industrial and product design, there may be an opportunity for Shaker Heights to complement, rather than compete with the plans for downtown, by focusing on elements of design as they relate to the home. In any case, Shaker Heights will need to find its own niche within the world of design and aggressively brand it to succeed.

Information Systems (including technology and data processing)

Information Systems represents a broad category

related to data processing and analysis, a field gaining in importance as the world becomes increasingly digitized. Businesses in this segment could include, among others, data entry and scanning operations, data storage facilities, web hosting services, and specialized search and analysis services. Shaker Heights' proximity to Case Western Reserve University and the previously mentioned hospitals and medical labs may support demand for these services. Moreover, as the Cleveland Health-Tech Corridor, a proposed concentration of biomedical, healthcare, and medical technology companies along a corridor that ends just off the western border of Shaker Heights, develops, the need for information systems and knowledge management services is only likely to grow.

In supporting this segment, the City needs to understand that buildings with unique electric power systems are often necessary. Building the infrastructure for this kind of development may require more financial assistance than otherwise. In addition, the City must be careful to focus its attention on enterprises that actually employ workers on-site, instead of simply storing data or processing equipment.

Government and Regulatory Segments

Attracting a government tenant to Shaker Heights could bring significant fiscal and economic benefits. Government employers typically provide stable employment at reasonable wages, which could translate into a secure source of income tax revenue for the city over a long timeframe. Moreover, a government tenant could be exactly the type of anchor needed to stabilize the potential development of new office space in Shaker Heights. Naturally, recruiting a government tenant is a difficult undertaking. Communities and office owners understand the benefits of government tenants and compete fiercely for them. Moreover, decisions about where to locate government employers are often highly political, meaning that opportunities may be unpredictable and difficult to plan for. Nonetheless, the fiscal reward, which many government tenants would bring, justifies a

continuing effort to identify potential tenants and seek to recruit them to Shaker Heights.

Boutique Legal Offices and "Flexexecutives"

Even if Shaker Heights is unable to secure a government tenant in the near future, it may be able to cultivate a legal employment cluster, which is often closely related to government work. The opportunity here lays less in attracting large firms because they typically prefer downtown locations, but instead to offer office space that caters to individual lawyers with independent practices. Similar space arrangements may serve demand for office space from "flexexecutives," people who do not always work from their company's main office or have a home based business but would like a professional space nearby. It is difficult to quantify the current level of demand for this type of space, but demand is likely to grow as baby boomers approach retirement age because at least 20% of them will continue to work in part-time consulting or advisory capacities.

Implementation Trajectories – a Call to Action

The plan of action has the potential to bring new energy to the City, and establish the foundations for long-term growth and stability. A failure to act, whether it be due to an unwillingness to take financial risk, indecision about appropriate investments or a lack of appreciation for the current situation will mean that residents will continue to be the financiers of the City's services.

Shaker Heights has limited office space to attract companies compared to other municipalities and needs to spur office redevelopment and new development to realize its economic development goals. Current market dynamics, however, do not support the development of a new office building. Beyond any issues specific to Shaker Heights, recent job losses, a stagnant Cleveland economy, tight credit, and developers that have become more wary of risk, make it very difficult to finance new development. When one adds the poor perception of doing business in Shaker Heights and its high tax rate the probability of the private market building a new speculative office building in the City tends toward zero.

Intervention, however, has the potential to alter the dynamics. By providing assistance to the private market through measures like the ones outlined below, the development of office space can become a more realistic prospect. For example, if the City develops a tax-increment financing program in which future revenues from taxable income (above and beyond today's levels) at a specific site are leveraged today to pay for site development, it reduces the cost of the project. Alternatively, providing low interest loans or tenant improvements, coupled with actively recruiting tenants and addressing traffic and other infrastructure issues could increase the chance that the building will achieve full occupancy and generate returns to the bank and the developer. With this level of assistance, the assumptions behind the developer's and the banker's math is different, and the development of an office building may become possible, even

in today's economy. At a minimum, intervention can ensure that Shaker Heights becomes one of the first choices for new development when the economy recovers.

The presence of a new, occupied office building in Shaker Heights will set in motion a positive process. The income tax revenue from the office workers will help to alleviate the City's fiscal situation and the addition of significant daytime employment will increase demand for new restaurants and retail nearby. Moreover, one successful office building will prove the potential of the market, drastically increasing the chances that another developer will consider a project in Shaker Heights or that existing property owners will renovate their space.

The City will then be in a better position to devote resources towards initiatives that build the foundation for the future economy. Following the model of Shaker LaunchHouse, it can fund the renovation of underutilized space to support start-ups just getting off the ground as well as companies which have matured to the point where they are in a growth stage – the future large corporations of the Cleveland economy.

In the absence of new development or redevelopment and serious recruiting efforts, Shaker Heights will struggle to maintain its current commercial tax base. Adopting the recommendations of the economic development strategy, however, will change the perception of Shaker Heights as a place that is known only for its excellence in serving residents and instead send a signal to the region that Shaker is also a great location for business.

ECONOMIC DEVELOPMENT STRATEGY

The principal recommendation of this strategy is to build the income tax base in Shaker Heights by enhancing the climate for commercial investment and attracting jobs.

Goals

The Goals of the strategy are to:

1. Enhance the climate for commercial investment via ...

- one of the most competitive non-residential commercial property tax rates in the region
- an aggressive marketing/branding/outreach campaign that communicates directly to property owners and executives that Shaker Heights means business
- leveraging the Shaker Heights brand via outreach to business networks, Shaker Heights schools alumni, existing residents, and regional/national champions
- a focused and disciplined effort to grow target industry segments in Shaker that can reinforce each other and sow the seeds for long-term business growth in the city
- targeted planning and transportation investments in key commercial districts to upgrade their overall marketability both today and tomorrow.

2. Put Shaker Heights in position to recruit new and expand existing businesses via...

- incentives for businesses in target industry segments to expand and/or locate in Shaker Heights
- partnerships with financial institutions to provide financial assistance to selected enterprises seeking to grow in Shaker

- seamless business opening procedures that allow speed and predictability for enterprises and building owners
- allocating the right internal resources within and beyond city departments to proactively embrace the business community
- placemaking investments in business districts and commercial buildings that signal to the marketplace overall enhanced marketability and an extension of the Shaker brand
- investments in start-up and incubator facilities that put Shaker on the map for next-generation entrepreneurs and science- or energy-based new ventures

3. Set the stage for sharing regional growth in next-generation job growth via...

- Occupancy-ready buildings suitable for Stage II companies beyond seed funding stage and/or new ventures affiliated with sciences/renewable energies/design fields already moving to Cleveland
- Well-established networks in growing fields that allow Shaker to be the “first call” for companies looking to grow/expand in the Cleveland suburbs

4. Strengthen the market support for additional “lifestyle” uses via...

- Investing in retail and services, especially those that reinforce the new focus on daytime employment and commercial offices
- Completing placemaking investments in Shaker’s commercial districts, including transportation improvements and changes to the zoning code.

GUIDING PRINCIPLES

The following Guiding Principles are not only at the core of this Strategy, but will be the keys to its success.

1. Focus and Discipline

The Strategy as conceived is laser-like in nature – it presumes that Shaker Heights must focus on doing a few key things exceptionally well in order to stabilize its foundation and prepare for future growth. Attempting to do everything all the time, or being everything to everybody, will hamper success.

2. Enhance the Climate for Investment

This plan is market-based. It suggests correcting market imbalances in Shaker Heights and leveraging private sector forces to fuel economic growth

3. Commitment to Jobs

Economic growth for Shaker Heights is linked to its capacity to expand its base of good jobs. This Strategy places emphasis upon this as a mission-critical goal

4. Enhance the Market for Placemaking Efforts

Neighborhoods and districts in need of reinvestment can realize their potential when property owners, developers, and businesses believe that their investment will pay off. This Strategy seeks to make clear to these stakeholders that Shaker Heights is a sound and wise investment.

5. Marketing/Outreach

The best ideas go to waste if nobody knows about them. Key to making this Strategy work is an aggressive marketing and outreach effort to communicate the ideas to key stakeholders – both residents and businesses – in Shaker Heights and far from its borders.

6. Align Funding with Anticipated Levels of Tax Base Return

Public investments can often be catalytic, but public resources must be used responsibly. This Strategy has established measurable levels of return that can and should be expected of public investments, and posits that the City should seek to maximize its return on investment.

7. Identify and Target Opportunity Areas

The focus on jobs and economic activity cannot happen in theory only – it must happen in real places. This Strategy focuses efforts in key areas of the City that are most likely to absorb jobs-related economic activity in the near term, knowing that the entire City will benefit should those areas succeed.

STRATEGY - ELEMENTS

The strategy – the “what”, not the “how” – can be grouped into three main categories: Financial Incentives, Program and Operations Investments, and Marketing/Branding/Outreach. The strategy elements provide a framework that City Council and the Administration will need to operationalize in the implementation phase. Priorities will be established and parameters developed around the financial incentives.

Financial Incentives

For Shaker Heights to compete effectively for new businesses, it must address its high commercial property tax rate. With an effective tax rate of 4.62%, its tax rate is substantially higher than that of nearby communities, whose rates range generally from 2% to 3%. A reduction of this tax rate to 2% on new development through tax abatement (that could be limited to 10 years in duration) would make the Shaker Heights tax rate one of the lowest in the region, sending a powerful signal to the market. Moreover, by restricting the application of the abatement to new development or the added value resulting from a renovation, the abatement would not cause the school district or the City to lose any of its current property tax revenue.

Macroeconomic conditions that are in-place today and expected to persist through 2015 suggest that a reduction in tax rates alone may have some effect on property ownership, but may not be enough to lure tenants en masse. As such, the City must be prepared to invest capital into the attraction of businesses. Commercial property developers are unlikely to be able to finance new development in the current environment without government assistance and new development is clearly necessary. To realize new development, capital grants, the provision of low-interest loans, TIF financing, or land donation, should all be on the table but only to the extent that a fiscal impact analysis shows that the investment meets the City's return targets. In addition, the development

of incentive programs, such as matching grants for tenant improvements, and relocation assistance to defray the moving costs of businesses coming to Shaker Heights are advised. Small businesses and retailers may benefit from the provision of financial assistance via low-cost loans fronted by a City revolving fund.

The use of the incentive programs described above should be both judicious and flexible. The list of criteria in play when the City decides whether to invest in a particular tenant or project should not only include the return target, but also the location and the business segment of the tenant or project. Incentives should be targeted to generate economic activity in the places most well-suited for commercial development by their zoning, transportation access, and surrounding land use. In addition, incentives will be most effective if they are focused on the key growing business segments identified by this report. These segments are the most likely to expand in the future and generate the most positive returns for the City. Finally, the City needs to preserve flexibility in leveraging these incentives. The City may at times wish to combine incentives to create customized assistance packages, or reserve the right to deploy incentives based upon a developer or potential business' proposed or actual actions.

Program and Operational Investments

With its historic focus on residential development, Shaker Heights has not yet developed the physical and service infrastructure necessary to support job-creating businesses. In the physical realm, plans have already been drafted to correct the traffic issues around the Warrensville/Van Aken intersection. The execution of these plans must be given high priority as this is a key focus area for future commercial development. Also, as the City increases its commercial office base it should consider the creation of a bricks and mortar Shaker Heights business outreach center, staffed by a City ombudsman who serves as a single point of contact for all permitting, licensing,

and other issues that may arise between the City government and business. In addition, the City should initiate a “green taping” program, in which selected economic opportunities may receive expedited permitting and paperwork handling, to ease the process of establishing a business in Shaker Heights.

Beyond this underlying infrastructure, Shaker Heights should actively play a role in the support of home-grown businesses that may become the major revenue drivers in the future. With its support of the LaunchHouse business incubator, the City is already moving in this direction and it should continue. Specifically, RCLCO recommends that the City prepare itself to harness ventures that may spin-off from the development of the nearby Health-Tech corridor and support so-called “Stage II” companies that have moved beyond the initial stages of research and product development, but are still in the process of developing their organization. Since the financial returns from these efforts may not be realized for many years, the city should avoid investing large sums of money in these efforts. Instead, the city should seek to repurpose underutilized or vacant space, which is likely to remain that way, to accommodate these start-up businesses in a low-cost fashion. It should be understood that even though the direct financial returns of these efforts may be meager, they add significant value by bringing excitement to Shaker Heights and help change external perceptions.

Marketing and Branding

A critical component of any business recruitment effort is the active marketing of the location to potential tenants and Shaker Heights must be willing to devote resources to this effort. Competition among localities for new businesses can often be intense, and given that Shaker Heights is not perceived as an office destination, it may not even come to mind as a place to locate a business. Therefore, Shaker Heights needs resources assigned to keep the pulse of the local business environment, to know when major tenants, whether businesses or government agencies are moving, to appeal to start-up

businesses, and even to contact former residents who now own businesses elsewhere. All of these target audiences need to hear the message that Shaker Heights wants to attract businesses and is prepared to offer financial assistance to recruit them. Moreover, the City should consider developing on line information tools, so potential companies can quickly identify development sites or vacant space, understand the incentive programs being offered, and know who to contact for further information.

STRATEGY - TACTICS

The strategy – the “how”, not the “what” – is comprised of the following tactics. The tactics are a list of tools that City Council and the Administration will need to prioritize and apply as opportunities arise.

Financial Incentives

1. Institute a 10-Year Tax Property Tax Abatement (or equivalent as per City/County law) on the value of New Commercial Development and Renovation

The abatement should reduce the commercial property tax by approximately 56%, from an effective rate of 4.62% to an effective rate of 2% on the value of new commercial improvements only for a period of ten years. By applying the abatement to new development and the incremental increase in value caused by renovation only, implementing the abatement would not reduce current commercial property tax collections by the city or the school district. Additionally, the City could outline parameters, with input from property owners, defining the extent of renovation necessary to obtain the tax abatement. It would be important to explore the possibility of freezing the assessed value of the renovated properties at the pre-renovated value for the life of the abatement, or at least giving property owners the financial equivalent of a freeze.

The Shaker Heights tax rate on commercial properties is the highest in the state and substantially higher than most nearby municipalities. This level of tax imposes significant costs on property owners, who in turn pass that cost onto office tenants. Applying the abatement would eliminate the deterrent to locating in Shaker Heights and actually give the City a tax advantage over most other municipalities in the area. By

reducing the tax burden associated with new commercial development, Shaker Heights will increase the chances that private property owners will renovate their properties, construct new buildings, or find a buyer willing to do the same. Initiating the tax abatement will help unleash the market to develop space suitable for new businesses in Shaker Heights.

To the extent new commercial development or renovation is undertaken, the City and especially the school district will forego the receipt of some property tax revenues. Since, however, it is unlikely that any new commercial development would occur and therefore no new revenues would be collected without the abatement, the foregone revenues should not be a cause of concern. Instead, the abatement should be viewed as a tool to spur new development that will increase the size of the property tax base over time.

Implementing the abatement will require close cooperation with the school district, which accounts for the bulk of the 4.62% effective tax rate. Since this measure will not jeopardize the current tax base and will expand the tax base over the long term, the school district should be a willing partner. Moreover, to be effective, the existence of the abatement must be advertised through the marketing/outreach effort, described below.

2. Relocation Assistance for Businesses Moving into Shaker Heights

The City should consider providing cash grants to defray relocation expenses for businesses in target industry groups moving to Shaker Heights that meet certain criteria.

Relocation costs can become a critical site selection criteria when a business is facing the choice of renewing their existing lease or

moving and incurring moving expenses, especially for tenants like medical offices where the cost of moving is high. By offering to pay for some or all of these costs, Shaker Heights can increase its chances of attracting businesses.

The relocation assistance should support increased occupancy of existing buildings and help developers of new buildings find tenants for their space. Moreover, in an environment that is constrained with respect to new development, this incentive provides a demand-side prod to the tenant community that can be used to breathe new life into old buildings. The City will have to expend funds to implement this program but the amount expended can be calibrated to achieve the City's return targets based on a review of the prospective tenant's payroll and projected income tax contributions.

Use of these funds should be guided by the key industry opportunities as well as risk/reward metrics that balance the expenditure against future anticipated revenue from income and property tax accretive to the tenant. Analysis should include the payroll of the company, number of employees and the lease term. In general, the City should seek to recoup its investment in any given tenant within a 3- to 5-year timeframe.

3. Matching Grant for Tenant Improvements

The City should provide a cash contribution that is capped at an amount equal to the amount the tenant or property owner spends to fit out office space when the tenant moves in. Major opportunities that may be expensive to execute but which promise justifiable financial rewards should be considered by the City and Council beyond the capped value

This matching grant will serve as an incentive for potential tenants to move to Shaker Heights.

The City will need to develop an evaluation process, similar to the thinking used for relocation assistance, to select appropriate tenants from among those who apply for the funds.

4. Partner with Local Lenders to Offer Financial Assistance to Businesses

The City should work with local lending institutions to establish and maintain a line of low-cost capital that businesses can tap to finance tenant improvements. This is above and beyond the tenant improvement (TI) matching that is offered by the City, and will allow prospective tenants to finance their TI or relocation at attractive or even below-market financing terms without which such outlays would be cost-prohibitive. The low cost financing can be backed either with City funds or extending the City's credit rating, but the former is preferred as it does not incur the risk of a City-backed default.

The City should work with local lenders to establish pre-screening criteria for businesses and conduct the pre-qualification process on behalf of businesses that may apply for the assistance. In this manner, the City can bring to lending institutions pre-screened and credit-worthy applicants for financing, reducing the transaction and processing cost for the lending institution and keeping the point-of-contact between the business and the City. Lenders would obtain the benefit of a stream of new clients, and the City can offer to back up the loans – which should be targeted at least at a 100 basis points (or one percent) discount to market-rate loans for such purposes.

Loan purposes could include the following activities: architecture/design services for commercial interiors; tenant improvement hard costs; relocation expenses; computers and other office equipment purchase; information technology installation/upgrades; fire/life safety upgrades; and other activities at the discretion of the City and based on

case-by-case basis.

5. Tax-Increment Financing (TIF) for Commercial Buildings

Shaker Heights should consider the use of tax-increment financing to support the development of new office space. Under this program, the City would issue a bond backed by the increase in property tax revenues, which the new development would generate. The proceeds would be used to assist the office development. Consideration of commercial TIFs will be on a case-by-case basis and used only in circumstances where the debt coverage ratio and ROI justify the risk.

In the current economy, particularly in areas with struggling regional economies like Cleveland, it can be challenging for developers to finance new construction. In the wake of the financial crisis, banks have toughened their underwriting standards and are unwilling to take risks that they might have only a few years ago. Developers too, may be wary of constructing a new office building in Shaker Heights. Overall office demand in the area is not strong and even if it were, Shaker Heights is not an established office location. In this environment, it is unlikely that the private market, of its own accord, will seek to build a speculative office building in Shaker Heights.

Under these circumstances, government financial assistance is warranted. By providing financial assistance, the city can take some of the risk burden off the shoulders of the developer and the bank, making both parties more willing to engage in a development. It very well may also make the project more likely to succeed. For example, if the financial assistance enables the developer to charge less than market rents and still make a reasonable return, then the project will enjoy a distinct competitive advantage.

Tax-increment financing is a powerful tool but it does subject the city to some risks. If the building is never completed, the assessed value is less than expected, or the property tax payments are not made, the city must meet the debt service obligations out of its general fund. Therefore, any tax-increment financing program must be accompanied by a high level of due diligence and city leaders must be comfortable with the degree of risk involved. In addition, a successful tax-increment financing program will require cooperation with the school district, who would be most affected by any diversion of property taxes. Finally, it should be noted that combining Tax Abatement with Tax Increment Financing may not be a possibility in certain circumstances and any discussion of combining them must be approached with an abundance of caution.

6. Establish Revolving Fund for Small Businesses

The City should partner with local banks to establish a revolving fund that can be used to provide low cost loans to small businesses in need of assistance. The revolving fund could be matched by both City and State monies in order to deepen the pool. Monies would be targeted to small businesses, most likely retailers that need assistance in getting their businesses started in Shaker Heights.

7. Secure and provide assistance for commercial building demolition

Some of the City's stock of commercial buildings is outdated. The tactics above should provide impetus to building owners and tenants alike to re-invest in these buildings, especially given that current real estate economics suggest that demolition and new construction may be cost-prohibitive in the near term. One way, however, that the City might accelerate the possibility of replacing older buildings is to secure funds to assist property owners or new developers with demolition of existing buildings. The

JobsReady program at the State level does provide some funds that may be used for these purposes, and it is possible that environmental remediation funds from Cuyahoga County, such as those targeted for asbestos removal, may in fact be leveraged for these purposes, as well.

State and Federal level to make sure that it is deepening the pool of available capital to the greatest extent possible.

It should be noted that the subject of grants versus loans is a topic of ongoing economic debate, with conservative economists arguing that loans are superior to grants and economic development specialists arguing precisely the opposite. There is scant evidence that assistance programs in the form of loans alone have measurable impacts upon overall business activity. This is especially so in environments where challenging economics persist. Direct contributions however to companies and even property owners have proven to be an effective method in tenant attraction and building rehabilitation efforts. Forgivable loans in which prospective tenants, building owners or developers meet certain criteria (e.g. completion of significant building improvements or meeting job thresholds over a certain timeframe), can be a middle ground between loans and grants. Another possible strategy is leveraging the City's grant to secure matching loan funds from local banks for tenant, building owner or developer projects.

Finally, it is mentioned several times above that Shaker Heights needs to maintain flexibility in deploying all of these incentives. Stewards of the plan will need to balance a need to communicate the range of incentives available with the need to maintain discretionary authority to deploy the incentives based upon the level of economic activity anticipated to accrue from the investment. Also, Shaker Heights should seek out partnering opportunities with local lending institutions to back its incentive programs, either through outright administration of the funds or loans or at least providing financial backing to the City for the outlays. Finally, Shaker Heights should seek to match any City contributions with matches at the

PROGRAM AND OPERATIONS INVESTMENTS

1. Execute the traffic and transportation improvements, in particular the roadway improvements as recommended in the 2008 Transit-Oriented Development (TOD) study for the intersection of Warrensville Road and Van Aken Road.

Most of the existing office space in Shaker Heights is concentrated around this intersection and the area has the best potential for new commercial development because Warrensville and Van Aken are major arterials in the regional transportation network, leading to the 271 highway interchange. The current configuration of the intersection, however, often confuses drivers, causes traffic jams, and feels dangerous to pedestrians, mitigating the accessibility advantages, which should make the area attractive. Correcting these problems would eliminate a major complaint about the area and make it more likely to attract new tenants and new development.

The 2008 TOD study provides federal, state, and regional funding sources that could potentially be used to support the improvements. The City has already amassed significant funding from these sources and should continue to apply for these funds. Making tangible improvements will send a powerful signal to the market that Shaker Heights is serious about the area and is capable of making progress.

This will create development parcels for redevelopment and ED opportunities.

2. Consider creating bricks and mortar Shaker Business Center that functions as a professional place for home-based businesses.

There are a substantial number of high-income households in Shaker Heights, many

of whom are nearing retirement age. As they transition from their traditional job, some will likely seek to continue working part time or on an independent basis. In addition, internet commerce has allowed many people, regardless, of age to found their own home-business. At some point, however, when business has expanded enough, professional office space is needed. Providing small amounts of office space with flexible lease terms will ensure that any income tax revenues generated by these businesses will stay within Shaker Heights as they expand.

Recruiting an executive suite company, such as Regus, to develop a new building or renovate some existing space would effectively accomplish this goal. However, to make an effective pitch to such a company, the City would need to gather data on the number of home-businesses in Shaker Heights and the surrounding area to demonstrate demand. In addition, it would likely have to provide some financial support, through tools discussed earlier like a tax-increment financing program or the new development/building rehabilitation tax abatement initiative discussed above.

3. Improve city services to businesses by identifying a business “ombudsman” to act as liaison and a single point of contact between businesses and the city and implementing a “green-taping” (a concept which is explained above) program to ease and accelerate the process of applying for licenses and permits.

It is critically important that new businesses, especially the first pioneering ones that return to Shaker Heights, have a positive experience to report to others. Streamlining the approval process and ensuring that businesses have a single point of contact

who will respond to questions and issues quickly, would help achieve this positive experience. It would also differentiate Shaker Heights from competing municipalities and demonstrate to those who still believe that Shaker is not “business-friendly” that it recognizes the benefits that businesses provide and treats them as valued customers.

While the acceleration of permit approvals and licensing should not require a substantial amount of new resources, the ombudsman will. As the level of business office activity grows, the City should consider hiring a professional with experience in real estate and economic development fields and placing them in a dedicated storefront office. Returns on this effort may be difficult to quantify but it will help to maximize the benefit of the tax incentives, abatements, and other measures suggested in this report.

4. Establish incubator space for pre-seed and “Stage II companies” in underutilized space, especially in the vicinity of the Lee Road and Chagrin Road intersection.

Shaker Heights has already approved a \$300,000 investment to convert an old vacant car dealership into an incubator, to be run by a local private group called Shaker LaunchHouse. The City should look for similar sites to support “Stage II” companies, which are those that have advanced past the idea stage and are already sustaining significant annual revenues, but do not have a fully developed organization. These companies require inexpensive office space under flexible lease terms. According to interviews conducted by RCLCO, these businesses represent a growth sector in the market that Shaker Heights can capitalize upon.

Creating additional space for a “pre-seed” incubator or a “Stage II” incubator will likely require investment by the City. Just as it did with the vacant dealership, the City should attempt to target its investment in a vacant

building or site, so that the funds not only support business attraction, but also restore a vacant property to life. It should be understood that, although such investments are immediately valuable in terms of changing the perception of Shaker Heights and generating positive excitement, they will not yield short term returns. Therefore, investments in this tactic should be carefully considered and weighed against the necessities of the other initiatives, which have a more near-term financial impact.

MARKETING/BRANDING AND OUTREACH

1. Implement an aggressive recruiting effort that targets regional businesses in the key segments and the alumni of the Shaker Heights school system who may now own businesses elsewhere in the country.

In the current environment, Shaker Heights cannot rely on new job growth and business expansion alone to revive its fortunes. Instead, it must actively recruit regional businesses by advertising the strengths of Shaker Heights, the incentive programs being offered, and the new office space, to the extent it becomes available. This recruitment effort should focus on the key segments identified in the report to maximize its chances of success.

Beyond regional businesses, Shaker Heights should attempt to identify business owners among former residents and school graduates. In particular, people who are now in their mid 30s and 40s with young families may be tiring of the big-city and be receptive to the idea of returning to a community with affordable, high-quality housing, and excellent schools. While few of these opportunities will turn into business relocations to Shaker Heights, an example of just one or two business owners bringing their business home might inspire others.

Active recruiting is an essential component of the economic development strategy and will require substantial devotion of time by at least one City staff member.

2. Market the tax benefits of living and working in Shaker Heights.

The income tax laws of municipalities in Ohio are complicated and existing residents of Shaker Heights may not realize that they pay more in income tax when they work outside

of the City. This happens because income taxes are due in the city of employment and residence. While Shaker Heights provides a credit of .5% to residents who pay a tax elsewhere, this credit does not compensate for the tax paid to the workplace municipality under most circumstances. For example, a Shaker Heights resident that worked in Beachwood would pay a 1.25% income tax to Shaker Heights (1.75% less the .5% credit) plus a 1.5% tax to Beachwood, resulting in a total income tax rate of 2.75%. If the Shaker Heights resident worked in Shaker Heights, however, the total income tax burden would only be 1.75% - a significant savings. Under this scenario, the City of Shaker Heights would actually collect more tax revenue because it does not need to deduct the .5% credit.

The implications of the tax structure should be communicated to Shaker Heights residents who own businesses or are in a leadership position within regional businesses. By itself, this is unlikely to motivate relocation to Shaker Heights, particularly given the current lack of high-quality office space, but in conjunction with other tactics, it could prove to be a valuable enticement.

3. Initiate a re-branding campaign for Shaker Heights.

For many years, Shaker Heights has been known as a premiere residential community but it has not been associated with businesses. The City should aim to change this perception in the Cleveland area and, to the extent possible, across the United States by extending its residential branding to include a business component. A media strategy that emphasizes the strengths of

Shaker Heights as a business location and highlights the efforts the City is taking under this plan to be “business-friendly,” should be the thrust of the campaign.

The branding campaign should be viewed as a way to support all of the other investments being made in this plan. While it will ease recruiting efforts and likely cause some business owners that otherwise would not have, to consider Shaker Heights, returns on this investment will be difficult to quantify even if they are easy to recognize.

4. Set up a “Launch Party” to introduce the components of the economic development plan to the business community and the local media.

The success of the City’s economic development efforts depends to a large extent on the degree to which they are communicated to the business community. By organizing a single event, where as many of these initiatives as possible can be rolled out and explained to the media, Shaker Heights will generate excitement and send a strong signal to the market that it is serious about business attraction.

To be most effective, the City needs to have the other initiatives approved and in an advanced stage of readiness to be implemented. The City should be able to explain how the tax abatement will work, what the criteria are to receive matching tenant improvement grants and relocation assistance, and who the business ombudsman will be, etc. Moreover, the City will need to devote resources to the preparation of professional brochures, a presentation, and potentially a website to disseminate all of the necessary information.

MEASURING SUCCESS

The success of the economic development plan will be based on whether it furthers the City's goal of diversifying and building its income tax base by enhancing commercial investment and attracting jobs.

While the financial measurements outlined below are important benchmarks, it will also be important to track the progress of the overall plan's implementation. Objectives for the first 18 months of the plan should include:

- Conducting an internal review of processes to establish and/or expand a business in Shaker Heights
- Benchmarking Shaker Heights City services for commercial areas against municipalities that are known to be "business friendly."
- Outlining the conditions for the building redevelopment and new development tax abatement program and working with the State and the Shaker Schools to implement the program.
- Establishing general guidelines for tenant improvement and relocation assistance and starting to promote these offerings.
- Partnering with local banks and non-profits to offer a revolving loan fund for small business creation and expansion.
- Extending the "Shaker people" campaign to business development.
- Holding a "Launch Party" to introduce the economic development plan to the business community and the media.

There are at least two distinct methods for monitoring and measuring the strategy as it is being implemented, both of which are direct measurements of net fiscal impact vs. a "do

nothing" scenario. In other words, the metrics which follow are based upon the net difference to the City's annual budget, less expenses and incentives, and in comparison to a scenario in which the measures recommended in this report are not followed and instead current practices and policies are continued as-is.

Method 1 – Site-Based Measurements

The recommended strategies are designed to catalyze investment in commercial properties, both from the perspective of property owners as well as the perspective of tenants. The result of the strategies should be increased office occupancy in key industry segments in addition to the income tax that would accrue from these occupants. The metrics should account for these improvements as well as the cost of the incentives necessary to foster this growth.

This strategy created measurements of success based on the goal of breathing new life into commercial buildings that are underutilized today. The analysis used Shaker Heights' existing stock of commercial buildings as a starting point to ensure that measurements of success were grounded in reality. Measurements of success built from the site level modeled the financial returns from a variety of factors, including the following:

- Current usage, leasing patterns, occupancy, and market value
- Current real property tax
- Potential build-out of site based on zoning
- Cost of incentives given to property owners
- Impact of these incentives against ten years of tax revenue
- Likely lease rates achievable from candidate

tenants, and the likely size of their offices

- Prevailing wage rates in new tenants (conservative estimates)
- Income tax gained from new tenants were they to locate in Shaker
- Availability of funding from Economic Development for incentives
- Impact of the above on both the City and the School District

The following chart shows a summary of the above analyses as applied to three hypothetical City investments in Shaker Heights. The modeling suggests the type of return the City could expect if each site received a ten year tax abatement bringing the building's effective tax rate to two percent.

Potential Fiscal Impact of New Commercial Development by Site

Site	Year 5 Impact	Site Description
A	\$80,590	STC; mid density.
B	\$294,240	WVA; high density
C	\$1,230,273	WVA; high density
D	\$39,398	WVA; mid density.
Total	\$2,233,093	

Method 2 – Industry-Based Measurements

The elements of the strategy are ultimately geared towards adding more tenants within key industry groups. It may be conceivable to measure the progress of the strategy against the revenue generated, less incentives and costs, from key industry group tenants.

This strategy also created measurements of success based on the success of recruiting new businesses to Shaker Heights. The analysis used the candidate growth segments as a starting point, and refined these tenant types to arrive at specific impacts that a variety of these

tenants could have on the City's budget. Factors that were included in the analysis included

- Prevailing wage rates as per regional data from the Bureau of Labor Statistics
- Approximations of company labor distribution by wage rate, as indicated by reviews of industry data
- Likely square footage of commercial space that tenant classes are likely to occupy, as indicated by review of industry data
- Likely lease rate appropriate for the variety of tenant classes
- Level of incentive required for each tenant type, as benchmarked against the value of the incentive vis-à-vis the overall cost of the lease (e.g. combination of tenant improvement grants and relocation assistance)
- Impact of these incentives against ten years of tax revenue
- Income tax gained from new tenants were they to locate in Shaker
- Availability of funding from Economic Development for incentives
- Cost and benefit of tenant location both from a per tenant perspective and per square foot perspective

When evaluating company-side metrics, it is important to remember that recruiting companies will require direct cash outlays, as opposed to simply foregone tax revenue. Therefore, these investments are measured in Net Present Value (NPV), which is the value of the stream of revenues (income tax, largely) from the new companies over a five year period measured against the cost of the incentive today, and applying a discount rate of 6% to the future stream of revenues.

The chart above shows the projected results

from a variety of tenant types and a range of success in recruitment. The typical square footage occupied by each company type is given, as well as the NPV of their recruitment to Shaker Heights over a five year period. Then, scenarios are given for a range of recruitment success – from recruiting as few as two new companies (per company type) to ten new companies.

What the analysis shows is that recruiting two new companies in each category would provide, in today's dollars, a return on investment of \$1.7M, more than justifying the initial incentive to attract the companies to Shaker Heights. On a going forward basis – that is, beyond five years – these companies would continue to provide revenues to the City. This Strategy, then establishes as a base goal the recruitment of four new companies in each company category during the next five years. Alternatively, it can establish as a goal recruitment of a combination of tenants that provide the monetary equivalent

of this “basket” of companies – a dollar value of approximately \$3.4 M in today's dollars.

Metric 2: Growing at least four tenants in each category over a five-year period OR targeting \$3.4 M in jobs-related immediate economic impact from a variety of company types (5-Year NPV in \$2010)

Potential Fiscal Impact by Type and Number of Tenants

Tenant Type	Tenant Size (SF)	5-Year Impact (one tenant)	NUMBER OF TENANTS				
			2	4	6	8	10
Health Care	4,750	\$215,241	\$430,482	\$860,965	\$1,291,447	\$1,721,929	\$2,152,412
Design and Engineering	6,850	\$224,195	\$448,391	\$896,782	\$1,345,173	\$1,793,564	\$2,241,955
Legal and Flexecutive	3,200	\$97,042	\$194,084	\$388,169	\$582,253	\$776,337	\$970,422
Regulatory	11,300	\$319,087	\$638,174	\$1,276,349	\$1,914,523	\$2,552,697	\$3,190,872
Total		Total	\$1,711,132	\$3,422,264	\$5,133,396	\$6,844,528	\$8,555,660