

## **Key Points from Draft Leakage Analysis**

Compared to fellow Americans who are now struggling with an unemployment rate stuck stubbornly above 9%, the residents of Berea, Kentucky, are doing relatively well. According to Workforce Kentucky ([www.workforcekentucky.ky.gov](http://www.workforcekentucky.ky.gov)), in August 2011 Madison County, where Berea is located, enjoyed an unemployment rate of 7.1%. Specifically, its labor force of 43,515 has 3,320 workers who are unemployed and seeking work. With about 29% of the total population of Madison County, Berea has an estimated 963 people unemployed right now.

These data suggest two conclusions. One is that the region is doing something right. A second conclusion, however, is that more must be done—much more. For most of the past generation, an unemployment rate of 7.1% would be considered a failure, and certainly for the 963 residents who are unemployed – some for two or three years – the problem represents a personal disaster.

Existing approaches to economic development, which are largely focused on the attraction and retention of outside businesses, should be supplemented by a new approach to nurture and expand the region's local businesses. This is the focal point of the concept of "Local Living Economies." Integral to this approach to economic development is to identify and plug dollar leakages within the economy—that is, opportunities for substituting for imports through new or expanded local businesses that meet local demand.

A simple leakage analysis, performed with the online calculators (designed by the author) of the Business Alliance for Local Living Economies, suggests that through self-reliance Berea could create 5,739 direct jobs—more than enough to put every unemployed resident of Madison County back to work. Achieving just 25% of this goal would generate 1,435 new jobs paying about \$53 million in wages annually – more than enough to put every resident back to work.

A more comprehensive leakage analysis is possible using IMPLAN, the Minnesota Input-Output Model used extensively by economic development agencies nationwide. IMPLAN corrects, unifies, and fills in gaps (like farmers and self-employed individuals) in the Economic Census data. It also can model how changes in one industry can lead to changes in other industries (indirect effects) and changes in personal consumption (induced effects). This analysis finds that realizing 25% of the potential jobs from local demand would generate 2,182 new jobs: 1,398 directly, 211 indirectly, and 572 induced. These new jobs, moreover, would lead to \$92 million more in wages each year, \$152 million in additional value-added production, and \$11 million in indirect business taxes. This comprehensive analysis, like the more simple one, shows that a 25% shift could more than eliminate unemployment in Berea.

How can Berea realize these opportunities through new or expanded local businesses? A helpful starting place is to review strengths, weaknesses, opportunities, and threats (SWOT).

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**Economic Impacts of Self-Reliance  
(IMPLAN Input-Output Model – Details)**

	<b>Current Jobs</b>	<b>25% Shift</b>
<b>Farming, Ranching, and Forestry</b>	294	119
<b>Mining, Oil and Gas</b>	0	10
<b>Energy &amp; Utilities</b>	11	7
<b>Construction</b>	408	51
<b>Manufacturing</b>	0	
* <i>Food Products</i>	0	22
* <i>Textiles &amp; Clothing</i>	0	17
* <i>Wood Products</i>	4	12
* <i>Printing</i>	2	7
* <i>Petroleum-based Products</i>	0	22
* <i>Rubber, Glass, Stone, Concrete Product</i>	129	16
* <i>Metals</i>	170	56
* <i>Metal Products</i>	34	22
* <i>Arms, Machinery &amp; Equipment Productio</i>	540	74
* <i>Computers &amp; Electronics</i>	19	34
* <i>Vehicles, Boats, and Planes</i>	779	25
* <i>Furniture &amp; Woodwork</i>	34	6
* <i>Health Industry Products</i>	3	3
* <i>Other Products</i>	0	9
<b>Wholesale Trade</b>	15	198
<b>Retail</b>	841	117
<b>Transportation</b>	95	73
<b>Warehousing &amp; Storage</b>	0	9
<b>Services</b>	0	
* <i>Information Businesses</i>	30	43
* <i>Banking &amp; Financing</i>	199	105
* <i>Realty, Equipment Leasing &amp; Rentals</i>	64	132
* <i>Professional Services</i>	337	317
* <i>Private Education</i>	910	32
* <i>Health &amp; Social Services</i>	1,206	134
* <i>Entertainment, Restaurants &amp; Tourism</i>	866	168
* <i>Personal Services</i>	765	124
<b>Public Sector</b>	0	
* <i>Government Enterprises</i>	53	33
* <i>Local Schools</i>	1,849	147
* <i>State &amp; Local Government</i>	202	16
* <i>Federal</i>	459	71
<b>TOTAL</b>	<b>10,317</b>	<b>2,229</b>

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**Top 40 Job-Producing Sectors with 25% Shift  
(IMPLAN Input-Output Model)**

<b>Sector</b>	<b>Description</b>	<b>Direct</b>	<b>Indirect</b>	<b>Induced</b>	<b>Total</b>
319	Wholesale trade businesses	196.4	1.4	0.5	198.3
360	Real estate establishments	118.8	3.7	3.5	126.0
2	Grain farming	45.1	0.7	0.1	45.9
367	Legal services	36.6	1.8	1.3	39.8
381	Management of companies and enterpris	33.9	0.2	0.0	34.1
382	Employment services	31.6	16.7	4.4	52.7
335	Transport by truck	27.2	4.1	1.1	32.4
388	Services to buildings and dwellings	22.7	5.5	1.7	29.9
374	Management, scientific, and technical co	21.3	2.1	0.4	23.8
368	Accounting, tax preparation, bookkeepin	20.3	2.5	0.6	23.4
356	Securities, commodity contracts, investr	19.5	5.2	2.7	27.4
394	Offices of physicians, dentists, and othe	18.5	0.0	30.1	48.6
357	Insurance carriers	17.1	0.1	0.1	17.3
411	Hotels and motels, including casino hote	17.1	4.8	4.4	26.2
376	Scientific research and development serv	16.6	0.1	0.0	16.7
354	Monetary authorities and depository cred	16.5	8.3	6.6	31.4
432	Other state and local government enterpr	16.3	1.6	2.5	20.4
195	Machine shops	15.3	0.3	0.0	15.6
413	Food services and drinking places	15.1	21.2	65.9	102.1
171	Steel product manufacturing from purcha	13.6	1.3	0.0	14.9
283	Motor vehicle parts manufacturing	13.3	3.3	0.8	17.4
389	Other support services	12.9	4.7	0.8	18.4
327	Retail Stores - Clothing and clothing acc	12.3	0.0	0.3	12.6
414	Automotive repair and maintenance, exc	11.2	4.9	4.4	20.5
387	Investigation and security services	11.1	0.2	0.1	11.4
421	Dry-cleaning and laundry services	11.0	0.6	0.8	12.4
179	Ferrous metal foundries	10.9	0.0	0.0	10.9
351	Telecommunications	10.8	0.8	0.4	12.0
180	Nonferrous metal foundries	10.5	0.0	0.0	10.5
425	Civic, social, professional, and similar or	10.2	3.4	6.4	20.0
393	Other private educational services	10.1	0.1	1.2	11.4
324	Retail Stores - Food and beverage	10.1	0.3	4.9	15.3
336	Transit and ground passenger transporta	10.0	2.0	3.6	15.5
419	Personal care services	9.4	0.1	4.3	13.8
20	Extraction of oil and natural gas	9.1	0.2	0.0	9.3
186	Plate work and fabricated structural prod	9.0	0.0	0.0	9.0
36	Construction of other new nonresidential	8.7	0.0	4.4	13.1
340	Warehousing and storage	8.4	0.3	0.0	8.7
372	Computer systems design services	8.3	0.1	0.1	8.5

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## Top Leaky Clusters

Description	Direct	Indirect	Induced	Total
<b>Goods Distributions</b>				
Wholesale trade businesses	196.4	1.4	0.5	198.3
Transport by truck	27.2	4.1	1.1	32.4
Warehousing and storage	8.4	0.3	0.0	8.7
	232.0	5.8	1.6	239.4
<b>FIRE</b>				
Real estate establishments	118.8	3.7	3.5	126.0
Securities, commodity contracts, investm	19.5	5.2	2.7	27.4
Insurance carriers	17.1	0.1	0.1	17.3
Nondepository credit intermediation and	8.1	3.6	2.9	14.5
Funds, trusts, and other financial vehicle	3.5	0.0	0.2	3.6
Insurance agencies, brokerages, and rel	2.0	7.9	0.6	10.5
	169.0	20.4	9.9	199.3
<b>Local Food</b>				
Grain farming	45.1	0.7	0.1	45.9
Food services and drinking places	15.1	21.2	65.9	102.1
Retail Stores - Food and beverage	10.1	0.3	4.9	15.3
Oilseed farming	7.9	0.1	0.0	8.1
Animal production, except cattle and pou	3.8	20.4	4.5	28.8
All other crop farming	3.8	2.8	0.3	6.8
Animal (except poultry) slaughtering, ren	3.0	0.1	0.1	3.2
Bread and bakery product manufacturing	2.8	0.0	0.1	2.9
Fruit farming	2.7	0.0	0.0	2.7
Vegetable and melon farming	2.6	0.0	0.1	2.8
Commercial Fishing	2.5	0.0	0.0	2.5
Poultry processing	2.4	0.0	0.1	2.6
Wineries	0.7	0.0	0.0	0.7
	102.5	45.8	76.1	224.4
<b>Professional Services</b>				
Legal services	36.6	1.8	1.3	39.8
Employment services	31.6	16.7	4.4	52.7
Management of companies and enterpris	33.9	0.2	0.0	34.1
Services to buildings and dwellings	22.7	5.5	1.7	29.9
Management, scientific, and technical co	21.3	2.1	0.4	23.8
Accounting, tax preparation, bookkeeping	20.3	2.5	0.6	23.4
Scientific research and development serv	16.6	0.1	0.0	16.7
Machine shops	15.3	0.3	0.0	15.6
Other support services	12.9	4.7	0.8	18.4
Investigation and security services	11.1	0.2	0.1	11.4
Printing	5.9	0.4	0.1	6.4
Architectural, engineering, and related se	5.7	6.1	1.4	13.2
Office administrative services	4.9	0.2	0.1	5.1
Couriers and messengers	4.4	0.5	0.0	4.9
All other miscellaneous professional, sci	4.2	0.3	0.0	4.5
Business support services	2.8	0.3	0.0	3.1
	247.3	41.5	11.1	300.0
<b>Tourism</b>				
Hotels and motels, including casino hote	17.1	4.8	4.4	26.2
Civic, social, professional, and similar or	10.2	3.4	6.4	20.0
Scenic and sightseeing transportation an	7.6	1.8	0.3	9.8
Amusement parks, arcades, and gambli	7.5	0.0	0.6	8.1
Fitness and recreational sports centers	6.9	0.4	0.9	8.2
Other amusement and recreation industr	5.9	0.1	0.3	6.3
Performing arts companies	4.9	0.1	0.1	5.2
Spectator sports companies	3.8	0.1	0.1	4.1
	60.3	10.5	13.0	83.8

## **A SWOT Analysis of Berea**

STRENGTHS are issues or characteristics of a town that local leaders can use to advance economic growth. Among the key strengths Berea has are:

- *Location* – The city is easily accessible on I-75, connected to rail, and located near many US population centers. It's close to the Madison County Airport, and a short drive from Lexington's transportation hubs.
- *Manufacturing* – The city has successfully recruited businesses for its industrial park, creating 3,200 manufacturing jobs. These jobs, though largely non-unionized, pay well.
- *Education* – The public school system is strong. Berea College creates a strong intellectual community, as well as provides a large endowment and outstanding students. Many local educational opportunities are available. Many segments of the workforce universe are available. The city enjoys the presence of the Madison County Public library and public access to Berea College library.
- *Public Sector* – The city has sound finances. It entered the recession with a cushion that provided stability. It has developed a diversified revenue base.
- *Infrastructure* – The city owns, operates, and controls its own water, electric and sewer utilities. The roads are good. Land with water and sewer connections is available for industrial development. High-speed internet is widely available.
- *Civic Culture* – The city has a cosmopolitan culture that has produced many of strong leaders, voices, and thinkers.
- *Tourism* – The city has numerous studio artists and crafts products. The Artisan Center Designation, as well as the city's designation as the Folk Arts and Crafts Capital of Kentucky, has given this community greater visibility. The city has a well-coordinated tourism effort engaging in, among various things, online Kentucky goods promotion;
- *Local Businesses* – The city has several healthy sectors of local business. It is seeing the expansion of the local food movement. It has strong local banks and credit unions. And it has nationally respected nonprofits like MACED.
- *Quality of Life* – The city is scenic and environmentally rich. Taxes are low (9.9 cents per \$100 valuation compared to state average of 22 cents). The crime rate is low. High-quality health care is available. There are many recreational facilities, including pools, athletic fields, golf course, and a handicapped-accessible play ground.

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WEAKNESSES are issues or characteristics that, if not addressed effectively, could limit economic growth. For example, some of the following might be listed as weaknesses:

- *Limits to Manufacturing* – The manufacturing base of the city is not locally owned or controlled. It is overly dependent on the automotive sector. It has many employees who do not live in Berea, which means that their property taxes are paid to other communities.
- *Finance Gaps* – There is limited available investment capital for local businesses, especially for start-ups.
- *Empty Storefronts* – Local retailers have had a particularly difficult time succeeding in Berea. There is a need for more local retail outlets for clothing and groceries. Arts businesses not capable of filling these spaces. Many Berea residents are not shopping “local first.” Some retail areas lack adequate parking.
- *No Fun* – The city has limited entertainment opportunities: no movie theaters, no skating rinks, no bars, early-closing and limited restaurants. This, along with limited hotels, contributes to the city’s underperforming tourism sector.
- *Limited Entrepreneurship* – Financing gaps, coupled with the absence of a single place where entrepreneurs can go for assistance, has stunted the growth of new local business.
- *Youth Out-Migration* – The absence of fun and entrepreneurship opportunities convinces many young people – especially the best and brightest – to leave the community after being graduated from high school.
- *Tourism Deficits* – Despite the city’s efforts to ramp up tourism, there are odd shortcomings. The Artisan Center is disconnected from downtown Berea, and this is not remedied by existing signs or roads. Small meeting spaces, like those in the Artisan Center, are undersubscribed. Large meeting spaces, like a conference center sought by the Chamber of Commerce, do not exist. The artisan population that lies at the center of local tourism efforts is aging.
- *Workforce Shortcomings* – The local workforce that often lacks basic job skills (balance checkbook; arrive on time).

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OPPORTUNITIES are assets, events, or trends that offer Berea the potential for economic growth. For example, some of the following might be listed as opportunities:

- *Physical Assets* – Berea has land in its industrial park and throughout the city to facilitate all kinds of business growth, including more manufacturing. Existing state-funded infra-structure improvement projects are already designed and budgeted. The Bluegrass Army Depot also provides further opportunities for economic development.
- *Regional Growth* -- Significant growth in the I-75 corridor is expected. The Madison County Airport may well expand.
- *Industrial Park* – Existing companies could attract similar or supplier companies to the area. Hitachi's contract to produce an electric engine General Motors starting in 2012 is an important opportunity.
- *Entrepreneurship Innovations* – One proposal that would add to the entrepreneurship resources of the region is proposed a vocational school. Another is a proposed partnership between ECU and Berea College for worker- retraining programs. Others have proposed life-skill programs for unemployed workers and new entrepreneurship programs. Yet another idea is to expand youth entrepreneurship and mentorship programs.
- *Arts & Crafts* – Berea's existing reputation as an arts center could be built upon. The Artisan Center's role could be ramped up, tours of working-artist studios could be created, and arts-in-the-curriculum programs for school children could be expanded. The Chestnut Street connector proposal could fill empty lease space between the Old Town and College Square arts districts with galleries and working-artist studios. The Arts Council could be retained in one of Berea's arts district.
- *Broader Approach to Tourism* – There is interest in the area to focus on much more than folk arts and crafts. Tourism could emphasize local scenery, sports tournaments, recreational activities like biking, music, and dance, local history and culture, and local examples of sustainable living. Many fairs and festivals throughout the year that support this definition, including a proposal to combine workshops with festivals starting later this year.
- *Partners* – Many partners exist in the region to help realize the opportunities above. These include SKEN, Kentucky Ventures Corp., Kentucky Science and Tech Corporation, Eastern Kentucky University, Kentucky Highlands, KEAN, Coaches Institute, UK Appalachian Center, etc.

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THREATS are obstacles, events, or trends that, if not addressed effectively, could diminish Berea's economic potential and its ability to create jobs. For example, some of the following might be listed as threats:

- *Traffic Patterns* – The Berea bypass could divert traffic from downtown areas, threatening local retailers even further.
- *Aging Population* – Like the rest of the country, Berea's population is getting older. The exit of young people is accelerating this trend.
- *Infrastructure* -- Water might become limited, as might energy. Roads need upgrading and repair.
- *Globalization* – Major companies in Berea might continue to offshore some manufacturing jobs. Because the city's revenue streams, while more diversified than they once were, still depend heavily on payroll taxes, offshoring could be particularly devastating to the city's budget.
- *Over-focus on Corporate Attraction* – The city's focus on attracting outside manufacturers, while successful thus far, could, if continued, prevent the deployment of other economic-development strategies.
- *Investment Capital* – Capital gaps facing local businesses could get worse. Outside corporations might lose interest in Berea. Pension funds and other investment institutions might continue to invest nonlocally.
- *Disasters* – Close proximity to storage depots with old nerve gas is fraught with danger.
- *Unplanned Growth* – The city's small-town character could be lost through unplanned growth and development. Contributing to poor planning is the absence of regional cooperation in economic development.
- *Poor Public Policies* – Public policy choices made outside the city could adversely impact the community. The Kentucky tax structure inhibits regional cooperation on economic development. Enlargement of FEMA flood area could limit development. State and federal funding for special projects is likely to decline.
- *Divisions* – Deep divisions within the community on some issues could continue to prevent a more consensual, multi-strategy approach to economic development. These divisions currently include whether to change alcohol laws, whether to embrace gay and lesbian rights, whether to use public money to build a convention center, whether to continue the tourism tax, and how closely to work with Berea College.