
Economic Development



Synopsis

Nashville and the region have experienced considerable change in demographics, growth patterns, business dynamics and technological innovation. These changes and others will continue to reshape the region, providing new challenges and opportunities. Nashville's future economic development success is based, in large part, on recognizing its unique role in the region — to serve as the hub of a knowledge-based, growth economy. This role capitalizes on a number of Nashville's assets such as educated workforce and the strength of numerous colleges and universities; central city services and amenities that can't be replicated elsewhere in the region; and the intellectual and entrepreneurial energy that comes from dense, active cities. This report discusses this role for Nashville and provides a starting point for conversation on how to capitalize on Nashville's strengths to ensure its prosperity in the future.

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Role and purpose of background papers



This background paper was developed to provide input to the NashvilleNext planning process. It was researched and authored by community members interested, involved, and knowledgeable on the topic. The authors present best practices, an evaluation of the state of the topic in the Nashville community today, and recommendations for consideration during the planning process.

This paper provides a *starting point* for broader community discussion and reflection based on the research and recommendations of the authors. Throughout the planning process, NashvilleNext will use this and other background papers, ongoing research, departmental involvement, community input and engagement to discuss, refine and formulate the policies and recommendations for the general plan.

The information and recommendations provided in this background paper are solely those of the authors and contributors and are being provided at the beginning of the NashvilleNext process to start community discussion.

The NashvilleNext Steering Committee thanks and extends its sincere appreciation to the authors of and contributors to this background paper for the time and effort to provide this report for community consideration and discussion. The Steering Committee looks forward to the ongoing dialogue on the issues and recommendations that the authors provide.

Any final policies and recommendations endorsed by the NashvilleNext Steering Committee for the consideration of the Metropolitan Planning Commission will be the result of the entire planning process and upcoming community engagement and discussion.

Introduction

Economic development is key to ensuring a region's sustained prosperity, vitality and resource base. Without successful economic development and the prosperity it ensures, the region's broader aspirations will not be met.

The Nashville region has experienced economic growth and stability in recent years that are the envy of many other parts of the country. The next quarter century offers both opportunity and challenge for cities and regions in their planning and policy decisions. Nashville's past exemplary good fortune and good choices resulted in transformative urban and regional economic growth and has placed the city and region at an advantage compared to other regions in the country.

This report on economic development examines the current state of economic affairs for Nashville and the region – the current economic base, business mix, the resident and worker population, and consumers – as well as trends in these areas that Nashville must respond to.

In addition to the city of Nashville, this background report considers the region, because, in many ways, political boundaries are irrelevant to 21st century economies. The growth of Nashville and the larger regional economy have been decidedly strong in large part due to the city and region's integration and inter-relatedness. This cohesion can be remarkable competitive strength for future economic development. It does, however require specialized roles for Nashville and the larger region. This is discussed in greater detail in the report.



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This background report makes a case for comprehensive and bold economic development combining current strategies and strengths with new alternatives and responding to events that are now uncertain or unknown. Specifically, this background report contends that

- Nashville’s future economic development success is based, in large part, on recognizing its unique role in the region – to serve as the hub of a knowledge-based, growth economy. This role capitalizes on a number of Nashville’s assets such as educated workforce and the strength of numerous colleges and universities; central city services and amenities that can’t be replicated elsewhere in the region; and the intellectual and entrepreneurial energy that comes from dense, active cities.
- With its unique role, Nashville has specific challenges and opportunities in the future, which include:
 - Addressing work force shortages and skills gaps in specific, technical or creative fields by improving Nashville schools;
 - Providing and maintaining infrastructure to serve existing and future businesses;
 - Building upon the many quality of life and quality of place investments the city has made that draw businesses and high skill employees to the area;
 - Ensuring adequate housing at various price points to serve a diverse workforce; and
 - Creating multiple modes of transportation for the benefit of employees and employers.

This paper’s intent is to instill and inspire thought on economic development – to launch the community conversation on successful economic and workforce development. The conversation will allow Nashville to identify priorities in economic needs, facilities, land uses and goals. With economic and social well-being the primary desired city and regional outcome, economic development success is the key part of any long term planning that delivers resources for an area to thrive and support its many goals.

Economic Development Concepts

This background report is premised on the following economic development concepts:

1. Economic development is a foundation for any region to sustain its tax base and well-being to support its needs and aspirations.
2. Economic development’s foremost goals are maintaining job creation and business success.
3. Economic development will increasingly center on talent, education, mobility, creativity and sustainability.
4. Land use and public policy in economic development that embraces innovation and efficiency can produce optimal well-being and quality of place and life.
5. The Nashville area has changed considerably since 2000 in regional dynamics of business, demography, and growth patterns.
6. Local change patterns likely will continue to reshape the region with new roles, functions, commercial and office centers and opportunities.
7. The world likely will be vastly changed by 2040 through change in technology, resources, climate, competition and human behavior.
8. Although 2040 outcomes are unknowable, decisions in the near term will determine the region’s ability to adapt to economic development change and alternatives as they arise.

A Changing Nashville Region

The Role of the City and the Region

Cities and regions are economic entities. Successful economic development helps a city to improve its residents’ well-being and be known as an innovator and successful manager of opportunity and challenges. Economic development assures increased wealth and well-being for the present and future generations. It is the mechanism that allows aspirations and needed investments to become realities. A vital city encourages and supports business to generate employment, maintain a vibrant built environment, and serve as a partner in the community’s future. The economic return in taxes paid, jobs created and structures built by business and industry becomes the foundation that Nashville and the region must rely on over the next quarter century. Innovative research shows that cities function like natural organisms in natural environments (Lehrer, 2010). The thoughtful, strategic city uses this knowledge to design paths that deliver maximum advantage for itself. These paths may take the form of improved education and workforce development, streamlined regulation for starting and expanding new businesses, and continued creation of quality of life amenities to draw visitors, residents and businesses to the city. Cities, in fact, produce the innovation that can become their own solutions and advantages. Metropolitan growth brings change that, managed well, positions the city and region to ever greater possibilities and advantages.

The Creation of Metro Hastens Economic Development

Nashville’s transformation from a small city to a large one began in 1963 when the City of Nashville merged with Davidson County to become a “metro” form of government – Metro Nashville and Davidson County (throughout this paper, “Metro” will refer to Metro Nashville and Davidson County government; “Nashville” will refer to the Nashville/Davidson County geographic area; and the “region” will refer to the Nashville Metropolitan Statistical Area [MSA]). This set the stage for economic development to occur across the city and county. From the 1960s, Nashville has experienced residential and commercial expansion in Bellevue, Madison, Antioch, Priest Lake and all across the county. In recent years, significant redevelopment has also occurred in downtown Nashville and the historic, inner-ring neighborhoods.

Growth and development did not, however, stop at the county line. With a growing population and significant developable land, surrounding counties also saw sizable development. Cities in the U.S. have, historically, grown through annexation, which has been key to the cities’ economic success. Research by David Rusk (1995) compares Nashville’s experience with other cities, noting that those cities which

Figure 1: Regional Growth in County Totals for Nashville MSA

County	1950s	1960s	1970s	1980s	1990s	2000s	2010
Davidson	■	■	■	■	■	■	■
Sumner		■	■	■	■	■	■
Wilson		■	■	■	■	■	■
Cheatham				■	■	■	■
Dickson				■	■	■	■
Robertson				■	■	■	■
Rutherford				■	■	■	■
Williamson				■	■	■	■
Cannon						■	■
Hickman						■	■
Macon						■	■
Smith						■	■
Trousdale						■	■

Nashville’s pattern was somewhat different from the typical evolutionary path of development outward. Instead of more incremental development patterns, consolidated government abruptly equalized development opportunity within Davidson County. Over decades, this diffused growth pattern continued within the county. Simultaneously, several neighboring counties saw new centers of dense commercial development, particularly since the 1990s. By the 2000s, a new arrangement of functions and nodes had emerged in the Nashville region.

are able to expand spatially through annexation fared better than those that were constrained from doing so. Nashville’s one-time major expansion in 1963 put into motion a decades-long path of growth that spilled across county lines and created a vibrant economic region that functions in many ways without regard to political boundaries.

Nashville’s pattern was somewhat different from the typical evolutionary path of outward development. Instead of more incremental development patterns, the creation of consolidated government abruptly equalized development opportunity within Davidson County. Over the following decades, a diffused growth pattern occurred within the county, with numerous areas developed at relatively low densities. Simultaneously, several neighboring counties created new centers of dense commercial development, particularly since the 1990s. By the 2000s, a new arrangement of functions and commercial centers had emerged in the Nashville region. In recent years, development in the region occurred extensively in suburbs and even distant suburbs.

The Advent of Strategic Planning for Economic Development

The impetus for regional economic development strategy and action arose in 1989 with Wall Street Journal reporting on the relative underperformance of the Nashville market. In response, business leaders initiated Partnership 2000 to promote the region to businesses as a functional region featuring many premium assets and attributes. Partnership 2000’s primary goal was to elevate the competitiveness of the entire region on a national and international scale. The success of this program and its evolution to Partnership 2010 and 2020 delivered extraordinary gains in jobs and business relocation and expansion.

Meanwhile, Metro government also took an active role in guiding economic development. In 1998, the city adopted an Economic Development Plan as an amendment to the General Plan (1992) to address

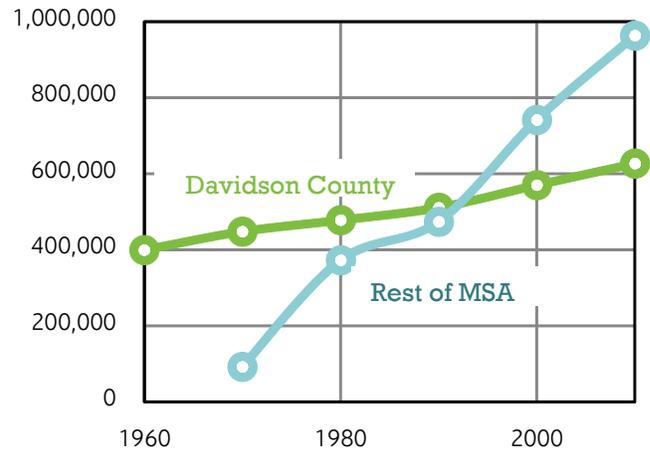


Figure 2: Population of Nashville MSA
Note that in 1960, Davidson County was the entire MSA.
 Source: US Census Bureau

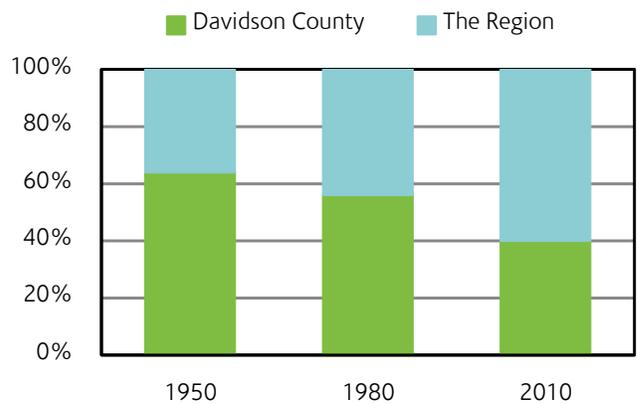


Figure 3: Changing Share of Population 1950-2010
 Source: US Census Bureau

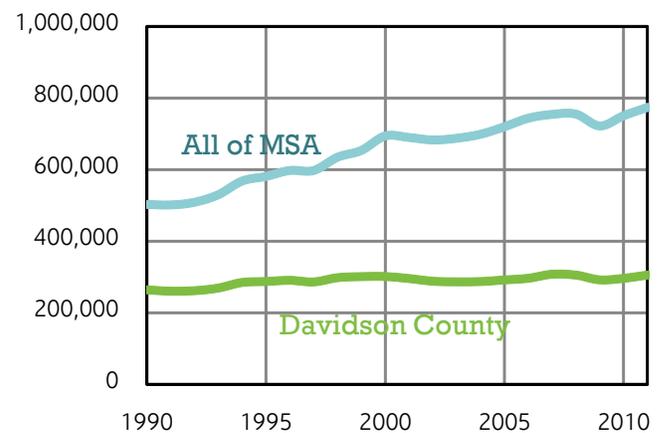


Figure 4: Employment of Resident Population , 1990-2011
 Source: Tennessee Department of Labor and Workforce Development

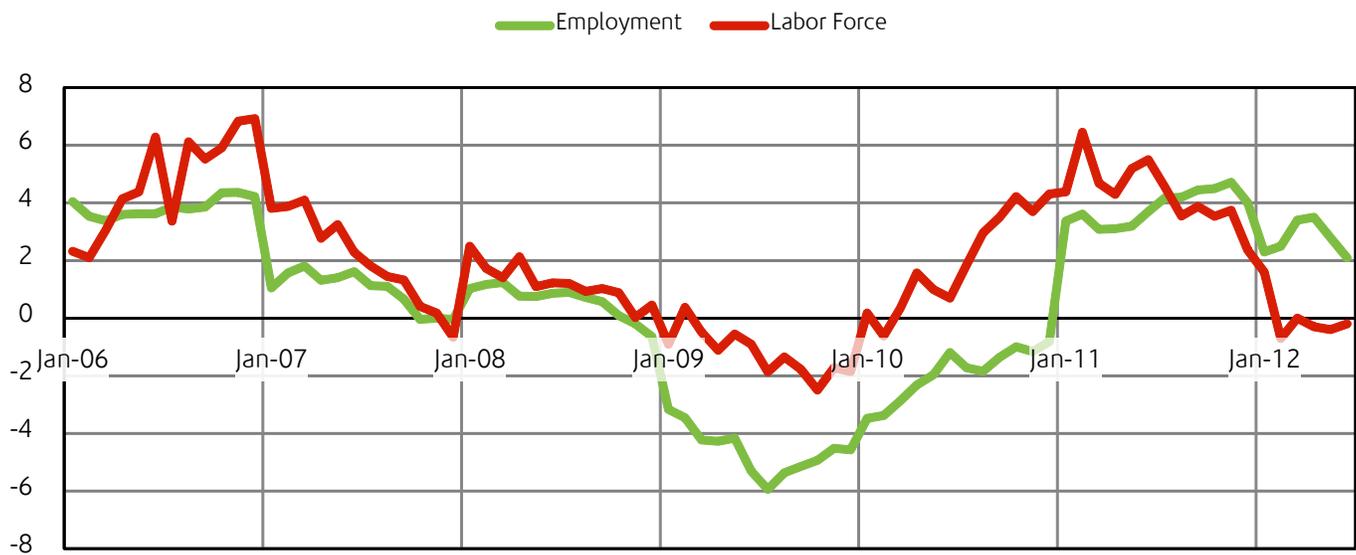


Figure 5: Economic Recovery and the Nashville Region
 Source: Tennessee Department of Labor and Workforce Development

changes and opportunities then present.

The Great Recession and Nashville’s Resiliency

Throughout many years Nashville and the region’s economy have remained stable and thriving. Even so, current economic conditions differ somewhat from those that existed during the preparation of the 1992 General Plan, the 1998 Economic Development Plan and Partnership 2000 or 2010. Consistent national and local growth was shaken in the Great Recession.

The Nashville region is, however, very resilient. After the Great Recession, unemployment levels fell more quickly than they did nationally. In September 2012, the city’s unemployment rate was 6.6%, down from 8.6% just a year prior and among the lowest rates since the start of the Great Recession. The diversity of the Nashville economy is a unique strength that helped the region to weather the Great Recession better than most regions. Many Nashville region counties are identified as having their economic dependency arrayed across a host of non-basic, service producing sectors. Regions that are thus structured typically “are less vulnerable to business cycles” (Nelson and Lang, 48).

Nashville’s economic recovery also benefitted from thoughtful, aggressive economic development initiatives undertaken by Mayor Karl Dean. From business recruitment and efforts to retain existing businesses, to the \$585

million investment in the Music City Center to ensure Nashville's continuing success as a premier convention and tourism destination, Mayor Dean has taken decisive action to strengthen Nashville's economy.

The Changing Role of Nashville in the Region

From the founding of Metro and the expansion of growth and development throughout the region, through the Great Recession – the impact of these historic events and other development trends on Nashville's economy is significant.

Today, Nashville retains highly specialized economic functions such as being the center for sports, entertainment and hospitality. Nashville has also experienced some expansion of other office, manufacturing, warehousing, and retail functions. The relative majority of large commercial development since the 1990s has, however, occurred in ring counties.

Meanwhile, mainstay functions of Nashville's economy such as finance, insurance, publishing and others have eroded through attrition or new development outside the city. The construction of office development in Brentwood and Cool Springs, distribution and manufacturing clusters in LaVergne and Smyrna, retail centers in Murfreesboro, Mt. Juliet, Hendersonville and Cool Springs are all evidence of how the region's economic development landscape has changed over the past two decades.

While these outlying developments have grown, some of Nashville's older established commercial zones, such as malls and corridors, have languished, prompting Metro government to take action to re-imagine and reinvigorate these sites to be assets for their communities in the 21st century. For example, the Bellevue Mall and Hickory Hollow Mall have both fallen into disuse due to changing community demographics, changing consumer preferences and a changing shopping model that is moving away from enclosed malls. When this occurred, Metro took action to re-use these properties as centers within their

communities. In a new model of public-private partnership, Metro offered the owners of the Bellevue Mall tax increment financing to create a mixed use development featuring community services. While the redevelopment of the Bellevue Mall has not yet occurred, the types of incentives offered may play a role in various future redevelopment efforts. Meanwhile, Metro is investing in Hickory Hollow Mall by co-locating a new library and community center and partnering with the Nashville State Community College to create a hub of community services centered around education and health.

The changing nature of retail, the impact on Nashville's older retail centers, and Metro's response to that change are illustrative of how Nashville's future economic development success rests upon innovation, creativity and Nashville's confidence in filling a unique role in the region. **Nashville's challenge is to maintain or establish a unique premium value, character and business mix in its urban commercial and industrial areas.** This challenge occurs as suburban counties develop more clusters of activity that are themselves highly specialized.

The interconnected specialization and clusters across the region generally provide strength and opportunity for the entire region. From their start, cities have been places of economic and trade specialization and linkages. No one place reasonably could or should perform all economic roles. Rather, economy of scale and efficient use of distance, resources and talent means that center and periphery work together for mutual advantage. For one city to try to 'go it alone' or build constraints to useful economic linkages is

counterproductive. As new commercial centers emerge and construct new regional identities, so Nashville, as the center of the region, is adjusting to new circumstances and flourishing.

In the near term, Nashville must make important choices to put the city on a viable economic path to 2040, bearing in mind that the goal should be to maintain or establish the unique premium value, character and business mix that differentiate the city as the urban core of the region with all the intellectual, cultural and entrepreneurial energy that implies. Again, the example of retail development is illustrative. Suburban counties in the Nashville region are experiencing growth in chain stores, formula businesses, and “big box” developments. Meanwhile, the long-term phenomenon of Nashville workers living in suburban counties means that incomes earned in Nashville are largely spent elsewhere. These trends are reshaping Nashville’s historic role as a super-regional retail center; residents from outlying counties are now able to meet many retail needs in their own towns or counties. Nashville can respond, however, with economic development strategies that help grow commercial areas that meet the daily needs of Nashvillians in their neighborhoods while also creating commercial areas that are unique, diverse and have a regional draw.

Successful policies for Nashville’s economic development recognize the city’s role as the unique core of the region. The following are examples of potential strengths of the core that can be capitalized upon with strategic economic development policies and programs:

- Transportation hubs and entertainment districts are two specialties of the core of a region that cannot be replicated elsewhere;
- Business with presence in the region find compelling reasons to be at the center of the region’s economy;
- Industries with high needs for access to professional services, higher education and dense business environments will thrive in a core;
- Clustered work places and shopping developments with convenient access to desirable inner-ring residential communities contribute to the quality of life and employment opportunities for the local workforce;
- Businesses seeking to capitalize on existing infrastructure will find a welcome home in the core, although adequate public services and facilities must continuously adapt to support current and future development in the core.

Forces Impacting Nashville and the Region’s Economic Success

Overall economic changes occur in systemic, cyclical and seasonal ways. Acknowledging this distinction allows economic development to take a long view, responding foremost to systemic changes. Systemic changes result as macro forces impact society. Therefore, projecting to 2040 is highly speculative, though systemic changes underway may provide insights. Certainly, business cycles and seasonal fluctuations will persist and Nashville can confidently pursue policies that minimize their negative consequences and maximize the city’s resiliency. The Great Recession dampened a notion of a ‘great moderation’ with a quarter century of unusual economic stability. Economic development must be adaptable to paradigm changes in how business and society operate as well as the usual fortunes of the business cycle. For example, the Urban Land Institute (2008) predicts that cities in 2050 “will compete around performance metrics like workforce readiness, emissions reductions,

mobility indices, public health, water availability and geopolitical risk.” This section describes some of the forces impacting Nashville and the region’s economic success in the foreseeable future.

Technology

Many sweeping changes underway in the U.S. economy have already begun to alter how populations interact in commerce. Entire industry sectors have experienced transformations as the Internet remakes delivery of retail sales, education, health care, and a host of other activities. E-commerce retail sales in the U.S. grew from \$4 billion in 1990 to over \$150 billion today. Not surprisingly, land use in communities will change as well as outlets for consumption change, some growing and others declining. How cities physically transform by 2040 will be significantly influenced by how society embraces technology as the portal between business and people as consumers, workers and students.

Meanwhile, just as industries themselves change, new occupations will emerge that correspond to new technologies and those industries. The education and training systems for the Nashville region must continue to adapt and expand.

Nashville is uniquely positioned to capitalize on changing technology and society’s reliance upon it. The business sectors that make up much of Nashville’s economic base are deeply associated with transformative technology. Therefore, as business models change, new opportunities arise for Nashville. Changes offer the city a unique role leading industry transformations and becoming a different, more vital hub for the region’s economy. For example, education innovations such as 2012 being named as “The Year of the MOOC” (massive, open, online courses) suggest the types of transformations of industries and consumption patterns that will take place (Pappano). Other examples include the area’s leading corporate role in healthcare embracing electronic medical records, music industry shifts to digital delivery,

manufacturing focus on alternate fuel sources and vehicles, and publishing migrating to new consumption modes. **The ability of Nashville to be the hub of a knowledge-based growth economy provides the essential framework for the region of multiple premium assets.** McGranahan and Wojan (2007) enumerated all U.S. counties with particular strengths as “knowledge counties” and three of Tennessee’s five were identified in the Nashville market.

The NashvilleNext planning effort can facilitate the discussion on strategies for capitalizing on changing technology by asking,

- What actions can the city take to ensure that Nashville is well-positioned to benefit from technology change?

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- What actions can Nashville take to support businesses that are leaders in technology, to retain this comparative advantage?

Infrastructure

Estimated Costs, 2010 - 2015 (in thousands)

Project Type	Tennessee	Davidson County	County Rank	Percent of State Total
Transportation	\$18,847,863	\$1,006,342	2nd	5.3%
Business District Development	\$984,423	\$874,200	1st	88.8%
Water and Wastewater	\$4,363,596	\$832,543	1st	19.1%
Law Enforcement	\$1,946,322	\$414,007	2nd	21.3%
Existing School Improvements	\$1,981,658	\$410,458	1st	20.7%
Libraries, Museums, Historic Sites	\$397,182	\$239,651	1st	60.3%
Non K-12 Education	\$4,160,573	\$166,049	6th	4.0%
Recreation	\$1,058,943	\$113,214	1st	10.7%
Public Health Facilities	\$443,995	\$104,545	2nd	23.6%
Community Development	\$417,137	\$43,150	2nd	10.3%
Public Buildings	\$359,311	\$38,039	3rd	10.6%
K-12 New School Construction	\$1,736,322	\$27,853	17th	1.6%
Fire Protection	\$175,805	\$13,112	3rd	7.5%
Other Facilities	\$97,549	\$8,625	4th	8.8%
Storm Water	\$350,741	\$6,830	10th	2.0%
School System-wide Needs	\$111,334	\$6,267	6th	5.6%
Solid Waste	\$38,334	\$4,100	4th	10.7%
Industrial Sites and Parks	\$261,002	--	--	--
Other Utilities	\$246,816	--	--	--
Housing	\$25,100	--	--	--
Telecommunications	\$16,400	--	--	--
Grand Total	\$38,020,406	\$4,308,983	2nd	11.3%

Table 1: Infrastructure Needs - Davidson County

Source: Tennessee Advisory Commission on Intergovernmental Relations

As cities embrace new technology shifts, they also face the challenge of maintaining existing infrastructure and providing adequate infrastructure for new economic development. Public investments made today will shape the region's potential for competitiveness and productivity for years to come. Table 1 highlights anticipated infrastructure needs in Tennessee and Davidson County.

National population growth and increasing maintenance needs have resulted in a demand for additional infrastructure funds. An estimated \$1.6 trillion is needed over the next five years to repair the existing infrastruc-

ture in the U.S. Any delayed investment increases this cost by 12-20 percent annually. It will cost \$250 billion annually over the next 50 years to ensure “good” infrastructure. The U.S. currently spends 40 percent of that each year. The federal share of infrastructure funding has been declining since 1975 and many funds once available through state governments for capital improvements no longer exist. Financial tools such as the federal highway trust fund are being depleted.

Technological infrastructure is also increasingly important for cities to compete in the 21st century. Kansas City recently won out over 1,100 other cities to test “Google Fiber” – Google’s first internet broadband service using fiber optic technology. This technology purports to carry data at one gigabit per second – more than 100 times faster than the speeds most Americans experience. The network became available to residents for a monthly fee in September, 2012. Chattanooga has followed suit and is also creating a fiber optic-based broadband service, offering its 150,000 homes and businesses one-gigabit-per-second internet speeds as well.

Changing circumstances will require new approaches to providing and financing infrastructure. Ongoing analysis of the region’s infrastructure challenge is essential to quantify the problem and explore options. Realistically, there will never be enough resources for all needs and ambitions of any region. Public support for infrastructure will hinge on understanding the need to maintain and grow infrastructure to maintain and grow the tax base through economic development. Regional partnerships may identify state legislative changes needed to finance regional infrastructure needs. Nashville will need to continue to demonstrate the link between economic development gains that come from public investment in infrastructure.

The NashvilleNext planning effort can facilitate the discussion on the need for, and importance of, infrastructure by asking

- What infrastructure investments ought the city make to ensure continued economic development success?
- What infrastructure investments should be made to attract the next generation of businesses, employees and jobs?
- What infrastructure investments should be made to take advantage of coming technologies?

Capital, Infrastructure and the Climate for Development

Nashville’s economic development gains will conform to certain national and international economic growth patterns. The national economy is widely anticipated to maintain slow and steady growth in the 2010s. The ability of the city and region to finance existing infrastructure needs is highly predicated on sustaining the tax base, a very large share of which derives from business and industry taxes paid.

National research demonstrates that public infra-

County	Tax Rate (2012)
Cheatham	2.78
Davidson	General District 4.04 Urban District 4.66
Dickson	2.85
Macon	2.40
Maury	2.60
Montgomery	3.14
Robertson	2.89
Rutherford	2.47
Sumner	2.02
Williamson	2.31
Wilson	2.57

Table 3: Property Tax Rates

Source: Comptroller of Tennessee

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structure in urban settings and compact new development at the edge of existing systems is generally less expensive per unit than in areas with more land-extensive development patterns. Moreover, fragmented development patterns reduce open space and agricultural lands. They also further auto dependence, urban blight and disinvestment, and higher resource consumption.

To accommodate growth over the next 25 years, the Nashville region will require infill utilities and upgrades to existing systems in urban areas and new systems to serve urbanizing areas. Traditional funding sources may not fully cover anticipated needs to accommodate anticipated growth for all economic development needs. Causes of funding gaps include declining state and federal allocations’ maintaining ongoing, reliable funding sources; capital investment funds diverted to operating and/or maintenance; funds diverted to unanticipated and/or emergency repairs; rising construction costs; small scale and fragmented development not allowing economies of scale; assuring funding adjustments that require political action and public support’ and balancing funding across geography.

Nashville’s regional leadership role in economic development is predicated, then, on several imperatives and

	Forecast		Projected Annual Average	
	2011	2012	2013–2016	2017–2021
	Fourth Quarter to Fourth Quarter (Percentage Change)			
Real GDP	2.3	2.7	3.6	2.4
Consumer Price Index	2.8	1.3	1.7	3.5
Employment Cost Index	2.2	2.9	3.4	3.5
	Fourth Quarter Level (Percent)			
Unemployment Rate	8.9	8.5	5.3	5.2

Table 2: Long-Term Economic Projections

Source: Congressional Budget Office

realities, including maintaining a low tax environment and reputation, while simultaneously providing for adequate, affordable, accessible land and campuses served by adequate infrastructure and ensuring that lending for commercial development is abundant. The question for the NashvilleNext planning process is how these goals, which may be at odds, can be accomplished.

Demographic Trends

Nashville’s population has grown dramatically since Metropolitan government was formed in 1963. Nashville experienced consistent growth, even as the outlying suburban counties grew rapidly. While many Sunbelt cities expanded in the postwar period, Nashville’s unique governance structure, the region’s overall favorable topography, and development-oriented public policies furthered the area’s growth.

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As recently as the 1950s many counties of the current Nashville MSA were losing population. Their rural characteristics meant an exodus of population, workers and business. The 1970s saw exceptional growth in all counties as interstate highways were completed and new industry developed. The 1980s saw slower population growth with the Baby Bust onset. The 1990s again rivaled the 1970s' population growth. Finally, the 2000s saw slower volume of growth in the region, particularly in Nashville.

Census data shows the continuing urbanization of the U.S. population; more residents are moving from rural areas and to "urbanized" areas such as the Nashville region. Meanwhile, the onset of retirement for the Baby Boom generation coupled with Gen Y finishing school and heading into the workforce, presents a unique opportunity for Nashville. Both of these demographic cohorts are seeking smaller, low-maintenance housing in walkable communities with amenities. Nashville can meet this need.

Demography determines a great deal about prospects for economic development. On a global scale, industrialized nations will face decades of slow population growth or even decline, reconsideration of use of scarce resources, and dilemmas of maintaining an adequate tax base. Cities like Nashville are a part of this larger fabric. Thus, Nashville's economic development success begins with an understanding of demographic trends.

Aging Population

Nashville's aging population will prompt many transforming and far-reaching consequences. As longevity increases steadily, an ever larger share of the population will be over age 65. Through 2020, the population age 65 and over will increase twice as fast as

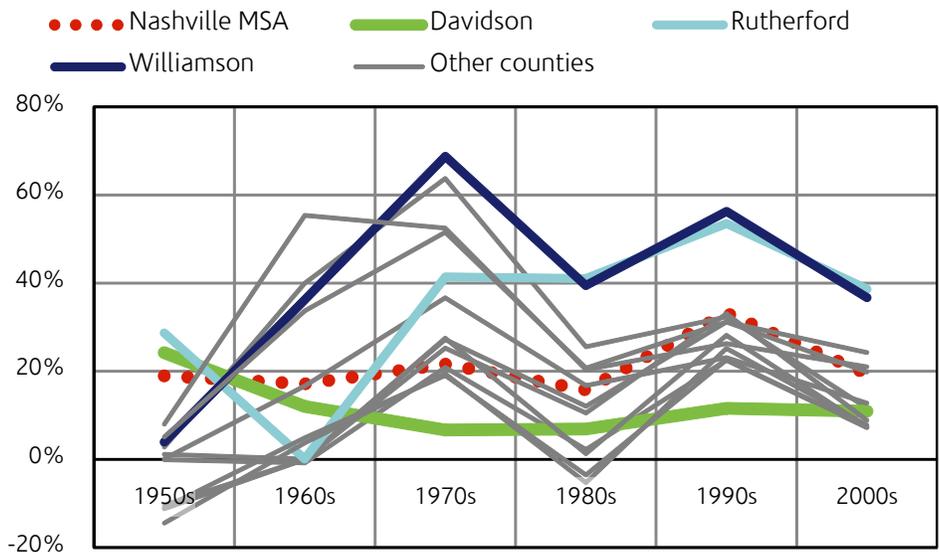


Figure 6: Percentage Population Change 1950-2010
Source: US Census Bureau

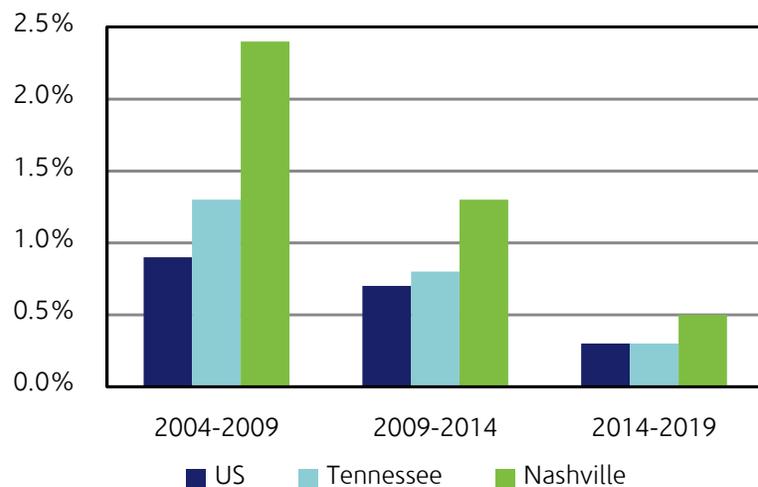


Figure 7: Population Growth 2004-2019
Source: Claritas

the under 18 group, while the working age population (18-64) changes very little. In fact, by about 2020, the prime adult working age population of the Nashville area will contract unless there is an increase in the volume of in-migration. Further, retirement waves of Baby Boomers will occur unevenly as that cohort itself varies in age. It will likely be the 2040s before the nation fully returns to greater demographic equilibrium.

The implications for economic development include gaps and shortages in the workforce, loss of older knowledge workers to retirement, and exacerbated “jobs-housing imbalance,” where residents live farther from their jobs, placing increased pressure on transportation systems.

International Population

Population growth occurs through natural increase (births greater than deaths) and migration (in-migration greater than out-migration). From the 1990s onward, Sunbelt cities like Nashville have been successful in attracting immigrants. Regardless of federal immigration policies, Nashville’s diversity of race, ethnicity and national origin will increase substantially over the next 25 years due to in-migration and natural increase. Past job growth in the area encouraged immigration to Nashville, and the same will hold in the future. Historically, immigrants reside in central cities of U.S. regions. This phenomenon helped maintain population growth in Nashville in the 1990s and 2000s; without in-migration, including by immigrants, Nashville would have lost population.

As many U.S. regions expanded, many central cities, like parts of Nashville, experienced a “hollowing out” effect, with residents moving out to surrounding counties. This was first experienced in older larger cities. Increasingly, however, ‘older suburbs’ in central counties may see population dominated by immigrants, the elderly, and lower income residents. Because of Nashville’s diffuse settlement pattern from the 1960s on, there are many such older suburbs in

Davidson County. Older housing stock and older commercial districts may languish as particularly less vibrant areas. In Davidson County, 53.8% of total housing units were built before 1980 and 23.1% were built before 1960, compared with 32% and 23.1% in the rest of the Nashville MSA. The ability to generate high-quality, diverse housing and community life options is, in some ways, easier and in other ways more challenging for Davidson County than in more newly developing areas of the region. The broad demographic and cultural diversity in Davidson County is a distinct economic development asset.

Nashville has a long-standing commitment to diversity and inclusion. Not only is it part of the city’s history, but the commitment to diversity has quantifiable benefits to the city’s economy. Integration of immigrant populations into the civic and economic life of the city helps assure sufficient attention goes to neighborhoods and communities where immigrants live. Meanwhile, the United States is anticipated to have slower rates of natural population increases. Therefore, immigration is essential to meet labor force needs.

Finally, the presence of cultural diversity of is recognized as an important characteristic of cities that succeed in recruiting and retaining new business and

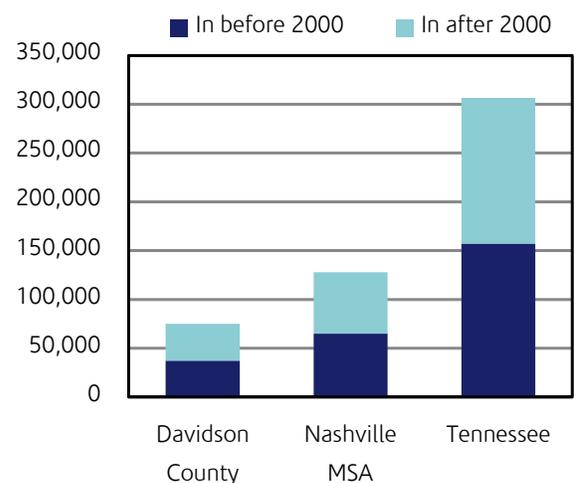


Figure 9: Foreign Born Population, 2011

Source: US Census Bureau

workers, especially in a global economy. Economic development leaders in Nashville and the region have led a concerted effort over the past twenty years to recruit international businesses including Bridgestone North America, Fibreweb and Fine Tool to name a few.

For these reasons, when Mayor Dean and others, including Nashville for All of Us worked to defeat the “English only” bill in 2009, it demonstrated that Nashville was open and welcoming to immigrants and to international business relationships.

Workforce Trends

As noted above, demographic trends will impact Nashville and the region’s workforce in the future. This section describes recent workforce trends, drivers impacting Nashville and the region’s workforce, and key challenges that Nashville faces with regard to securing a desirable workforce in the future.

Trends and Drivers

Between 1990 and 2010, the number of employed persons living in the Nashville MSA grew from approximately 526,000 to 751,000, representing a greater than 42% gain. At the same time, Davidson County contributed 32,000 to this number, or a gain of approximately 12% for the county. Population and job growth in many of the suburban counties accelerated relative to Davidson County’s growth. It is common for suburban growth to outpace central county growth in an expanding region. National data shows that suburbs grew at a 1.4% annual growth rate while central cities grew by only 0.4% a year. Though the differential between these has eased in recent years, the trend of stronger suburban than central city growth has persisted for the past nine decades in the U.S. (<http://www.brookings.edu/research/opinions/2012/06/29-cities-suburbs-frey>).

The total number of jobs in Nashville is growing, though the number of employed residents has re-

mained fairly stable at around 300,000 for many years. This modest upturn in employment of Davidson County residents occurred despite population increasing at a faster pace. This suggests that the primary cause of Nashville’s employment gains is an increase in in-commuting workers. Meanwhile, the labor force participation rate in Davidson County for ages 20 to 64 was 73.4% while it was 79.1% for the entire Nashville MSA in the most recent five year estimate (ACS).

During the Great Recession, Davidson County lost over 27,000 jobs in its business establishments (from 2007 through 2009), or nearly a 6% decline, compared to slightly more than 4% in the MSA. In fact, Davidson County accounted for two thirds of the region’s jobs lost in the recession. As of mid-2012, Davidson County employment still has not recovered to pre-Recession levels. The Nashville MSA overall has recovered momentum, while the trajectory of job growth in Davidson remains slow.

The diversity of Nashville industries is a consistent feature that stabilizes and sustains growth across business cycles. Not only are sectors diverse, but several leading clusters are particularly resilient and relatively immune to major business cycle volatility. For example, the broad services sector consistently grows quickly and comprises a large part of the Nashville economy. Running contrary to the diversity of sectors, however, is the fact that a handful of employers account for a large share of Davidson County’s base of employment: Metropolitan Nashville Public Schools, Vanderbilt University, and federal, state and local government, for instance, together comprise some 16% of Nashville’s job total.

The Nashville and region’s workforce is diverse because its industry mix is very diverse. That business diversity and entrepreneurial activity makes Nashville’s economy quick and nimble in a recovery phase, so the occupational mix of Nashville creates economic resiliency for the city. The period since the Great Recession has seen tremendous recovery in job

growth from a period of losses. Even manufacturing and construction, two severely impacted sectors, show solid gains since 2009.

While the diverse economy helped cities like Nashville historically, a greater factor in future success may be an area's ability to adapt faster to changes in industry realignments and the resulting occupational skills needs. The nature of work itself may be reshaped in very fundamental ways through 2040. Anticipating these transformations of work patterns is complex, but it is a vital element in guiding the city's economic development path to 2040.

Challenge – Worker Shortage

It is anticipated that the 2010s and 2020s will see the slowest growth in U.S. labor force in the hundred years from 1950 to 2040. This factor will dominate national and local economies' ability to grow and adapt quickly. Maintaining a supply of talent – both in terms of quality and quantity – will be a recurring challenge for Nashville as the local and the national labor pool shrinks at a faster rate. Further, there will be fewer unemployed workers in other, weaker regions of the country. This “residual worker supply” had been a source of talent recruitment in the past that Nashville will not be able to rely as heavily upon in the future. The most immediate source of worker supply will be through immigration, though this source of workers has some issues of skill deficits. Increasing adult labor force participation rates offers modest gains for workers, particularly among older individuals, though this will be insufficient to provide major solutions to emerging talent shortages. For these reasons, monitoring and guiding education and training is key to economic development success in the coming years.

Currently, Davidson County represents 57.8% of the region's overall employment. If the city captures even a quarter of the region's projected new jobs, Nashville's employment base will increase by 41,101 jobs by 2021. It is extremely difficult to project growth

trends in job markets beyond a decade due to many uncertainties. Yet, there are significant challenges to growing employment at higher rates than in recent history.

First, as discussed above, aging population means working age population will peak during this decade and begin to decline in absolute numbers by the early 2020s. The national labor force growth rate of the 2010s and 2020s will be the slowest in a hundred years at less than 1% annually versus 1.5 to 2.5% from the 1960s through the 1990s. Hence, ability to draw surplus workers from less robust economic regions to Nashville will be less of an option for Nashville than in the past.

Second, the economic recovery that is underway is reducing Nashville's unemployment. A return to full employment levels – between 4 and 5 percent unemployment – should occur by the middle of this decade. This will leave little residual unemployment to re-enter the employment ranks. Discouraged workers returning to the labor force and older workers remaining on the job longer will be insufficient to counter the losses of working age population in absolute terms. Efforts to retain workers will become increasingly important for firms and regions as the workforce ages. Such efforts may include flexible work arrangements, flexible learning opportunities, flexible compensation and benefits as well as incentives specific to older workers, those re-launching careers, and mid-career workers (Dytchwald).

Third, labor force participation rates have been declining or stable for most age cohorts in the labor force for many years. No foreseeable large shift could alter the reality of an increasingly tight labor market.

Lastly, industry changes that eliminate the need for some jobs will be balanced by new occupations that arise and others that will maintain growth in number. Inevitably, large sets of workers will continue to be needed even in relatively lower skill jobs in services,

trade and other sectors. For a certain large pool of workers, no technological advances will quickly supersede the need for their role such that they could be redirected to other shortage fields, regardless of training needs. Taking all these factors into account, no solution internal to the labor market appears comparable to the volume of emerging worker shortage by number, skill and location.

This analysis suggests that even at much slower growth rates, the Nashville region will experience deficits in workforce supply of growing proportions. This deficit will escalate quickly late in the current decade and increase consistently for much of the 2020s. This challenge to economic development will cross the span of the Baby Boom retirement and will only grow. Nashville's response to the worker shortage should include conversation on the following:

- How can Nashville create education and workforce systems that deliver highly competent and competitive workers?
- How can Nashville strategically focus on quality of place and life issues to attract migration?
- How can Nashville harness land use policies and transit options to address a large and potentially growing imbalance of workers by residence (see below)?

Challenge – Skills Gap

Nashville's population includes several disproportionate shares of population groups compared with the suburban ring: a much larger poverty population, a much larger foreign-born population, an older population, and a large share of population with lower levels of educational attainment. Meanwhile, the higher-paying jobs attractive to Nashville and the region increasingly require additional education. The result is a mismatch of worker supply and worker demand – specifically a mismatch of skills or “skills gap.”

The fastest increasing occupations in the next decade includes a broad array of skills and backgrounds. While the largest block of hiring will be for jobs requiring little skill or training, the total share of these jobs will decline continuously. The fastest declining skill occupations will be heavily skewed to those with lower-skill level needs. In contrast, those occupations with the largest growth and with the highest pay through the coming decade will nearly all require substantial post-secondary education, skills and experience.

Achieving balance between these workforce supply needs at a time of simultaneous industry realignments, economic recovery, rapid technological change and major demographic changes will require high degree of coordination of systems for Nashville's economic development to be successful. In order to fulfill the economic development priority goal of creating jobs for Nashville residents, the following strategies are offered for consideration and discussion during the NashvilleNext planning process:

- emphasis must remain on worker training for occupational demand;
- training for a broad and versatile workforce must include a full range of skills from broad life and work skills to job readiness along with specific needs for Nashville's key target industries;
- integrating labor market information connecting demographic and industry sector data with educational institutions and training agencies will provide an increasing advantage for Nashville;
- public schools through Career Academies will provide the kinds of pathways that provide relevant industry-specific education and job skills appropriate to key sectors in the area;
- the ability of the region to retain a larger share of its graduates from higher education, especially in

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the STEM (science, technology, engineering and math) fields, remains a critical issue;

- an important element of workforce quality is ensuring proximity to institutions of higher learning, appropriate and adequate training, and providing that workers are kept up to date on latest technologies; and
- finally, retaining older knowledge workers will be important, especially where few new entrants are emerging and where critical skills are at stake.

Overall as the city develops and expands its role as creative and knowledge center for the region, new public-private collaborations will enhance access to economic and artistic opportunities and development services for residents through education, technical assistance, and economic incentives. The presence of 18 colleges and universities in Middle Tennessee with over 110,000 students is a particular asset.

Challenge – Spatial Mismatch – The Jobs/Housing Imbalance

In recent years, the Nashville region’s unemployment rate remained lower than in many benchmark metro areas. Nashville’s underlying strength allows the region to emerge time and again from economic downturns more quickly and strongly than the state or nation. Nashville Area Chamber of Commerce research suggests, however, that creation of jobs suitable for workers based on their skills and experience frequently is occurring in areas that are distant from those workers’ place of residence. Therefore, not only is there a skills mismatch and an issue of declining number of workers due to an aging population. There is also a considerable and growing spatial mismatch between job creation and worker residence in the Nashville region. This is known as “jobs/housing imbalance,” where employment centers are located a great distance from employees’ residences, requiring significant commute and the lost productivity and diminished quality of life associated with longer commutes.

The NashvilleNext process should consider innovative tools in land use and transportation/transit planning and creativity in telecommuting and other strategies to address the jobs/housing imbalance.

Challenge – Nashville Compared to Surrounding Counties

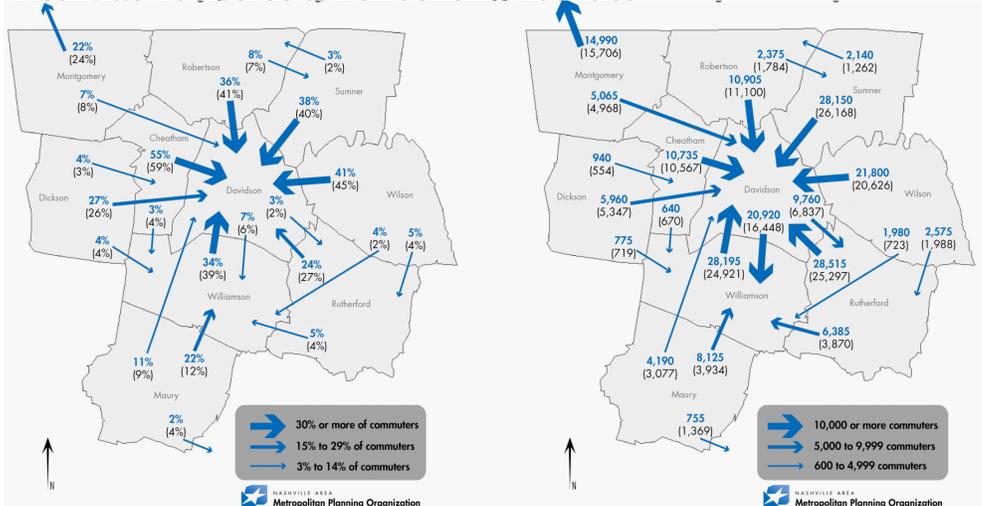


Figure 10: Commuting Patterns - Nashville Area
Source: Nashville Area MPO

The history of unemployment in the Nashville region highlights an area of steady and strong prosperity relative to many other parts of the country. Across all business cycles since the 1970s, the Nashville market consistently out-performed the state and the nation in recovery. Very infrequently in 40 years has the unemployment rate of the local area exceeded that of the U.S. In fact, job growth in the Nashville MSA accounted for well over 100% of the state’s employment growth since 2000, meaning that the Nashville region added sufficient jobs to make up the difference for state job losses in rural and less vibrant economic areas.

But a widening gap between the performance of several counties in the region may be emerging. Davidson County has shown less ability to maintain unemployment rates lower than its suburban ring. More vibrant job growth across many industries in the suburban counties proceeds alongside slower Davidson County growth in population and jobs. Nashville’s role as a unique premium center of the region for quality of place and life, for regional assets, for talent, and for sites and campuses for high order business facilities can be compromised if some performance trends continue. Research indicates the importance for cities to ensure that “policies are oriented toward retaining and attracting the people at the top of the skill distribution” (Glaeser).

Nashville’s role as the regional retail

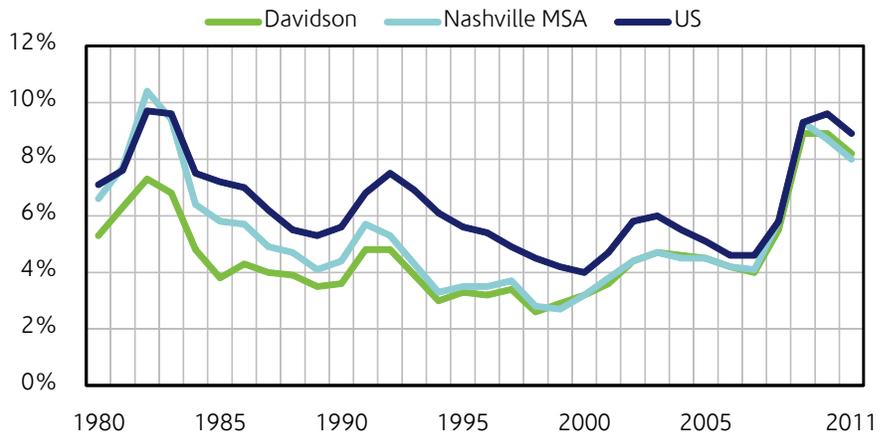


Figure 11: Unemployment Rate Davidson, Nashville MSA and US 1980-2011
 Source: Tennessee Department of Labor and Workforce Development

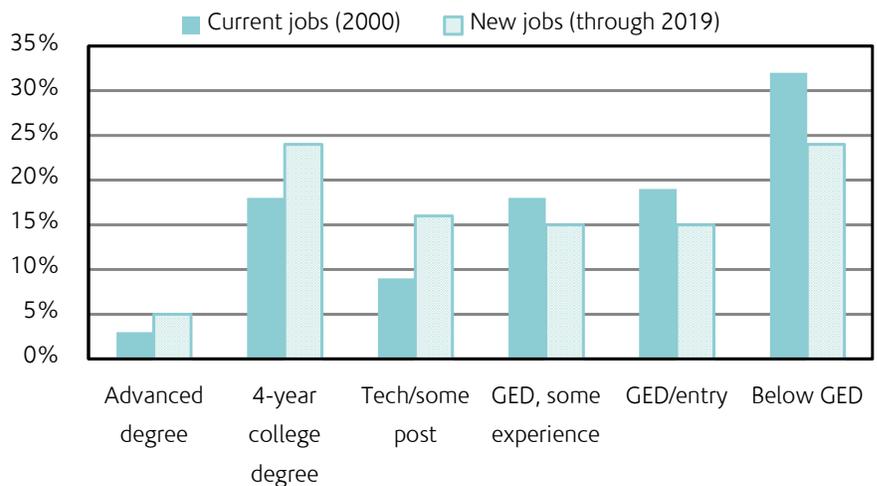


Figure 12: Changing Skills Needs for Workforce-Nashville Region, 2000-2019
 Source: Claritas

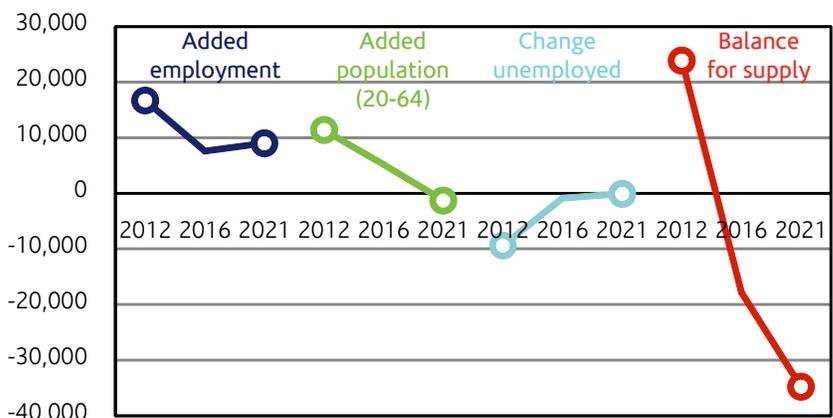


Figure 13: Supply and Demand of Workforce-Nashville MSA, 2012-2021

Consumer Trends

center has existed from the city’s start. As the region grows and changes and shopping preferences and behaviors evolve, the role of Nashville and the form of retail in Nashville evolve as well.

Nashville consumers are exceptional for several reasons. Area residents enjoy an unusually high relative level of average disposable income. With tax burdens on households below that of many other U.S. cities, cost-of-living levels lower than the U.S. city average (See Cost of living index below), and increasing average earnings compared to the rest of the nation, Nashville households experience continuing increases in spending power. Further, the area’s stable housing market remains a key factor as housing expenditures comprise the single largest component of household spending.

Nashville’s role as a retail center is important to economic development for many reasons. The vitality of a major retail center with interesting and unique stores and settings is appealing to current and potential residents, consumers and workers. Business finds it easier to attract and retain talent when the overall market and its neighborhoods provide a diversity of inviting retail centers that are accessible, interesting, and competitive in price and style of goods and services. The stability and growth of neighborhoods as centers of community life is aided by commercial zones, property parcels and businesses that blend with the needs and desires of residents. Lastly, retail is a crucial contributor to Nashville’s tax base.

City	Composite Index
U.S.	100
Atlanta	95
Austin	94.4
Indianapolis	93.8
Charlotte	93.7
Raleigh	90.9
NASHVILLE	87.7

Table 3: Cost of Living Index
Living Index measures relative price levels for consumer goods and services in participating areas. The average for all participating places in each quarter equals 100, and each participant’s index is read as a percentage of the average for all participating places.
 Source: ACCRA

City	Annual Household Income		
	\$50,000	\$75,000	\$100,000
Louisville	\$6,308	\$9,054	\$11,941
Los Angeles	\$5,409	\$7,704	\$9,740
Kansas City	\$5,067	\$7,906	\$10,037
Atlanta	\$4,962	\$7,607	\$10,077
Birmingham	\$4,777	\$6,903	\$8,959
Charlotte	\$4,767	\$7,455	\$10,031
Indianapolis	\$4,749	\$6,833	\$8,913
NASHVILLE	\$3,064	\$3,710	\$4,507

Table 4: Tax Burden Comparisons
 (2010-family of 3)
 Source: District of Columbia, Department of Finance

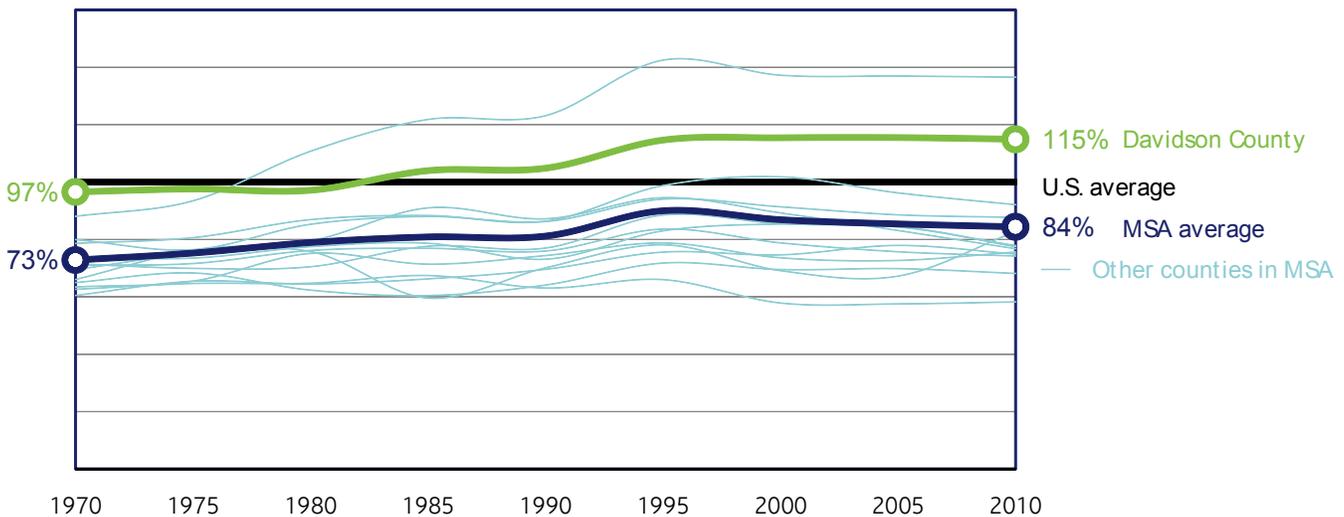


Figure 14: Davidson County and Nashville MSA Per Capita Income as a Percentage of the US, 1970-2010
 Source: US Bureau of Economic Analysis

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Retail success ties directly to strong ability to maintain city tax base. During the Great Recession, median household income dropped by over \$1,900. Income trends are now improving and Nashville's commercial districts present a varied picture of vitality compared to earlier periods. Retail market vacancy rates in Davidson County were 8.2% for the fourth quarter of 2012. The "power of amenities" as force in regional growth will be grow as a city becomes richer (Graves). At the same time, older larger cities have established amenity facilities and districts long ago while cities like Nashville are compelled to expand costly amenities to match growth at a time of real or perceived fiscal constraints (Glaeser).

As regions grow and new centers of commercial activity arise, longtime commercial centers often must innovate to compete. For Nashville to remain a major retail center for residents and a shopping destination for others in the region over the next quarter century, the city must renew its commitment to redevelopment and the unique role that retail can play in the region's core.

The earning power of Nashville area residents and growth of the region in overall retail trade offerings have vastly expanded consumption activity in Middle Tennessee since 1990. The opening of new retail zones in Williamson, Rutherford, Sumner and Wilson counties has forever changed the dynamics of consumer activity in the Nashville region. For Nashville's long history, the focal point of retail shopping was at the center, first in the downtown for a century and half, then for several decades in suburban shopping centers and malls.

Today, consumers find many of the same stores, goods and services available throughout the Nashville region, often quite close to their residences and workplaces. Nashville will have to undertake new strategies to resume a prominent role as a regional shopping center. New opportunities to shop conveniently and remotely (Internet shopping) will alter the retail landscape. The aging population, decline in middle age shoppers and loss of some purchases to outlying areas present challenge and opportunity to Nashville.

Future transit and mobility decisions will impact retail activity and thus the city's and region's tax base. Shopping is a sensory experience, which encourages shoppers do seek out premium and unique retail offerings. Shoppers are unlikely to leave distant hometowns for Nashville when the same stores, products

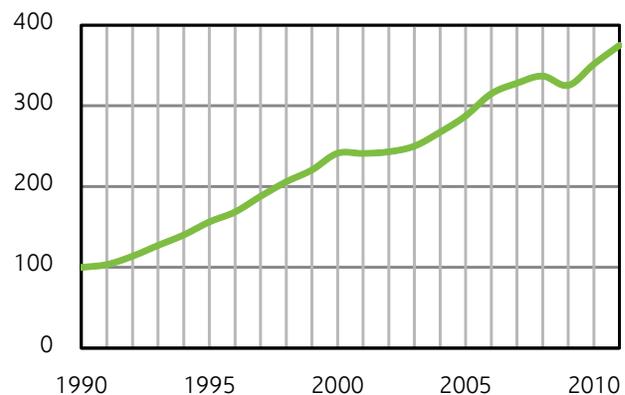


Figure 15: Outflow of Earnings from Davidson County, 1990-2010 (1990=100)

Source: US Bureau of Economic Analysis

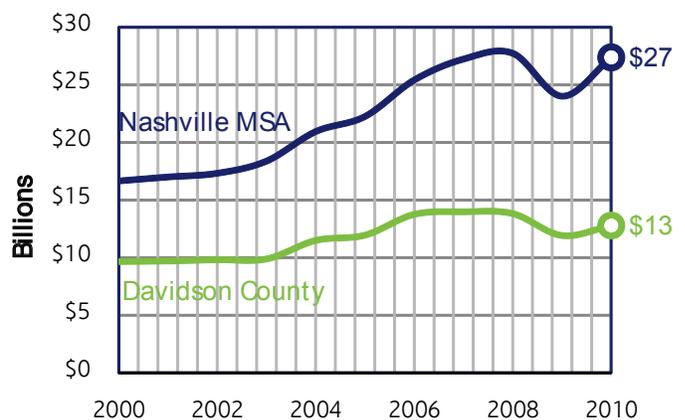


Figure 16: Retail Sales-Davidson County and Nashville MSA, 2000-2010

Source: US Bureau of Economic Analysis

and experiences are available to them nearby. Meanwhile, shoppers willing to pay small or large premiums for product/ service cost, added travel costs, or other costs may not be numerous in any given smaller area, but there is a critical mass of such shoppers within the entire Nashville region. Examples of businesses that attract customers from beyond the immediate neighborhood include movie theaters, popular restaurants, specialty furniture stores, unique bookstores, music stores, and specialty food stores including ethnic food offerings – none of which may be available in regional malls or neighboring communities. Along with the relative shift in the region in population and spending power, the demographic changes also will provide opportunity for Nashville. Increasing diversity of the population as well as aging population will prompt new business formation and expansion to match needs and interests (Hurd).

Nashville’s retail environment must work to increasingly balance serving needs of those with lesser and greater levels of spending power, mobility, and need as part of the overall economic development strategy. Strategies for consideration and discussion during the NashvilleNext process include the creation of, convenient, in-neighborhood commercial centers to serve daily needs of consumers and the creation of unique places and stores that draw shoppers from around the region and beyond the region.

Quality of Life and Quality of Place

Quality of life is increasingly a significant factor in the competition among cities and regions for entrepreneurs, employees and businesses. Quality of life is a composite of many factors. Well-being encompasses a broad range of human social, economic, cultural, and physical features. Quality of place involves providing settings for optimal human achievement and happiness. Addressing quality of life and quality of place are daunting, yet important, role for policy-makers. Balancing these goals with financial considerations complicates the task further.

Amenities are the assets a region possesses that can promote quality of place and life. These include, but are not limited to – parks, natural spaces and greenways; a diversity of neighborhoods at various price points, with convenient retail and services; and transportation options including transit. Successful schools also dramatically impact quality of life. Attention to these assets is critical to retain and attract population and pools of workforce talent. Research suggests that “the greater the amenities, the greater the supply and the lower the price of highly educated and highly skilled labor” and that people often are willing to accept lower wages and pay higher housing costs for proximity to a high-amenity city (Thrall, 157).



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Quality of life has tangible and intangible aspects, each important elements in ensuring economic life of a city is strong. Research demonstrates that “places become more attractive when the income and amenities rise, and when the cost of housing services decline” (Glaeser). Supporting amenity development for diverse needs and interests for the larger region is a function that is led by Nashville as the core, even though the benefits will flow to the entire region. As the Nashville region grows, it will become increasingly important balancing quality of life investments with resources.

Nashville has taken important strides in maintaining and improving the quality of life and quality of place for its residents. Among many others, the list of investments in quality of life improvements include, new community centers in Sylvan Park, in Joelton and at Hickory Hollow Mall in Antioch; new libraries in Bellevue and Goodlettsville; new greenways, additions to parks and public art in parks; streetscaping investments in Hillsboro Village and the Gulch; the construction of the 31st Avenue/28th Avenue connector linking North Nashville and Midtown; and additional miles of sidewalks and bikeways.

Increasingly, Nashville’s quality of life is also impacted by housing costs and Nashville will also face the challenge of offering diverse, affordable housing options. In 2011, 28.3% of Nashville households were considered “housing cost burdened” because these households were spending over 30% of their income on housing. Meanwhile, 25.7% of Nashville MSA households were considered housing cost burdened.

Nashville has one final unique tool for enhancing quality of life and promoting quality of place – the city can capitalize on its creative and artistic culture. Economic development can be tied to quality of life by promoting the city’s creative and artistic presence. The importance of Nashville’s cultural life to economic development is unassailable. Nashville’s works to support and develop local arts, culture, and entertainment is a vital strategy for economic devel-



opment. From Metro’s One Percent for Art program, creating public art throughout the community, to the Metro Arts Commission’s support of local arts organizations, to MNPS’ Fine Arts High School, to recent investments in 5th Avenue of the Arts – Metro has made significant commitments to support arts and culture in Nashville. Now city leaders are beginning to explore and build upon the links between Nashville’s artistic culture and the city’s creative and knowledge sectors in various fields. Furthering a lively creative and cultural climate assists in recruiting and retaining workers, engaging business in life of the city, focusing the city’s regard for education and many other positive outcomes. The creative knowledge city encourages and supports community and business participation in development of arts, culture and research. Nashville is uniquely a deeply cultural city and a vital business city. The blending of these two is highly valuable for economic development; these linkages should be discussed and explored more fully in the NashvilleNext process.

The Central Business District

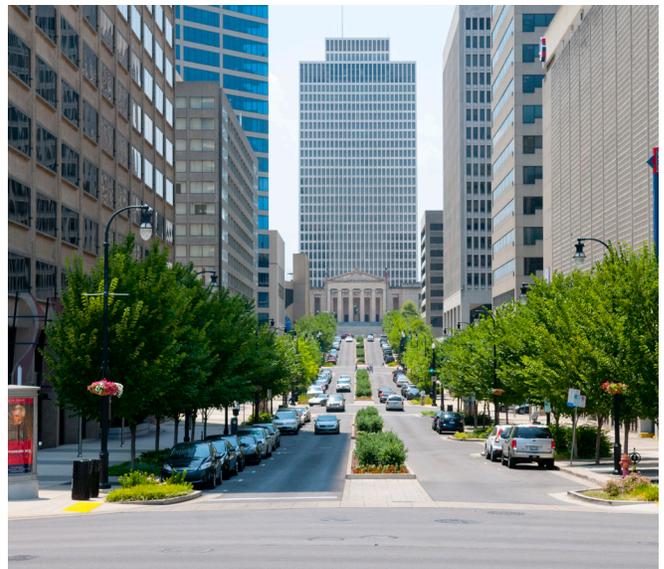
The Central Business District (CBD) is the center of business sector activities for a region. While downtown Nashville has long been the civic and commercial heart of the Middle Tennessee region, its emergence as a lively cultural, entertainment and residential success is relatively recent. This transformation was not accidental. Rather, downtown Nashville's transition to a "24-7" hub of activity is based on a long line of thoughtful, strategic growth and planning decisions.

During his tenure in the 1990s, Mayor Phil Bredesen oversaw the construction of signature entertainment and cultural developments such as LP Field, Bridgestone Arena and the Main Library. Concentrating these iconic developments downtown brought more residents and more tourists to downtown – aiding businesses and changing the perception of downtown.

In the early 2000s, then Mayor Bill Purcell led several quality of life initiatives that made downtown more welcoming to Nashville residents including the early planning and redevelopment of the riverfront, the opening of the Schermerhorn Symphony Center and the introduction of new residential development in downtown.

Nashville's current Mayor, Karl Dean, has continued an emphasis on strategic planning and investment in downtown. Mayor Dean led the effort to construct the Music City Center convention center, which injected significant capital investment into the economy and created hundreds of construction jobs. It also helped to ensure Nashville's continued status as a desirable location for conventions and tourism.

Each of these development decisions has strengthened downtown Nashville with positive impact through income from tourism, investment by downtown businesses and residents, and earning and spending by workers, creating a positive ripple effect throughout Nashville.



Efforts must continue to diversify, revitalize and promote the unique role of the Nashville CBD as the center of commerce, governance and entertainment for the region. This role requires policy that recognizes and supports the unique role that downtown Nashville plays and the unique challenges and opportunities it faces. In a region-serving CBD, parking options and improvements are important, transit and shuttle service are critical, and infrastructure – from streetscapes to signage to parks and utilities – must reflect a world-class city center to attract businesses. The success of downtown Nashville also requires a balance of historic elements, including Lower Broadway and numerous iconic historic structures, with new office, retail and residential options.

Nashville continues to plan for the success of downtown, through efforts like the recently completed SoBro (South of Broadway) Master Plan. The city is already moving on some of the proposals in the Master Plan including planning for the former thermal site on the banks of the Cumberland to be transformed into a park for Downtown and planning for the construction of a bicycle and pedestrian bridge connecting the Gulch with SoBro. Nashville's CBD will thrive and expand if policies, projects and capital support the downtown as the civic, cultural, commercial, and entertainment center of the region.

Urban and Suburban Commercial Districts

Just as vibrant regions interact with a vital core city, so the neighborhoods of a city interact with a thriving core. Both the neighborhoods and downtown are, ideally, filled with special qualities and settings that deliver high levels of unique quality of place. Kolb (2008) refers to these special places “where social norms spread out possibilities for action across a spatial landscape.” The place is special, specialized, and inviting. Nashville's competitiveness in economic development depends on its embrace and thoughtful conservation of its diverse settings from downtown

to suburban neighborhoods to rural areas.

Sustaining and enhancing commercial districts in neighborhoods and along prominent corridors is an important economic development goal in Nashville. As discussed above, with the growth of the region, residents frequently have access to goods and services near their homes. This not only impacts Nashville in that the city is no longer the sole shopping destination, but it also means that Nashville must provide similar daily shopping locations to its residents to be competitive. This demands a renewed emphasis on bolstering commercial areas in urban and commercial neighborhoods and corridors.

While many of Nashville's urban, inner ring neighborhoods have seen a resurgence of restaurants and retail, there are concerns that boutiques, restaurants and specialty stores are crowding out the work-a-day retail needs. Meanwhile, research suggests that older suburban areas are at highest risk of socioeconomic decay in the years ahead (Hexter), making the support of commercial areas in suburban settings even more critical.

Efforts in small areas can assist retention and development of existing business and attract new business that serves local neighborhood needs. Adequate levels of parking, transportation choices including walking and cycling, a sense of safety, and aesthetics are important in all commercial districts and these assets can be tailored to reflect the unique characteristics of each neighborhood or community within Nashville. The Nashville Area Chamber of Commerce along with partner organizations works to determine the basic goods and services needs and interests for neighborhood business success. To sustain a vibrant residential city, communities need basic goods and services that are affordable, accessible and attractive to local inhabitants. For many residents, a continuity of locally owned businesses is important to maintaining viability and integrity of business districts and quality of neighborhood life in throughout the city.

In addition to the Nashville Chamber's efforts, Metro has also taken steps to support the growth and development of neighborhood and corridor commercial centers. Metro has used regulatory tools such as adaptive residential zoning, which allows residential development by right on prominent corridors where transit can be successful and area businesses welcome new customers. Metro has also streamlined development approval with "one stop" measures to reduce red tape in getting developments approved.

Commercial centers in neighborhoods, communities and along corridors work continuously work to provide and improve customer access and convenience to Nashville businesses. Supporting streetscape and facade design is one important aspect of identifying businesses and enhancing human interactions. Metro has invested in streetscape improvements in Hillsboro Village, the Gulch, 12th Avenue South, along Nolensville near Woodbine and, most recently, on Jefferson Street with the new Jefferson Street Gateway project. Pedestrian, vehicle and commuter and shuttle systems are also critical for Nashville's future as a premium center of the region and world-class environment offering easy circulation through the city's commercial districts. Economic development in Nashville – for business large and small, new, expanding or relocating – is hinged on growing multiple unique and appealing commercial districts. The NashvilleNext process can further the discussion of how the city can continue to support commercial centers in neighborhoods, communities and along prominent corridors. In the future, that conversation will become particularly relevant for suburban communities within Nashville as they experience significant change in the coming years.

Transforming Industries

The way that business conducts business continues to change as never before. Supply chain management, business analytics, and shared management services are just a few examples of business operations that are being transformed through technology and more efficient business models. Whole industries, from music and publishing to healthcare, education and manufacturing, are undergoing reinvention and re-configuration due to consumer behaviors, public policy, delivery of products and services and technological innovation. Nashville is at the very center of many of these changes and serves a leadership role for many national industries. In many ways, the region is a microcosm for global industry change. The future will see more, not less, of these transformations and, given Nashville's unique leadership role in several of these industries, there will be special opportunities for economic development in Nashville.

Business Dynamics – Global Competitiveness

Nashville aspirations to be globally competitive are tied to its industries, its infrastructure and its unique qualities as a city and region. In the years ahead, successful cities must be aware of their global competitiveness and take steps to promote and enhance their competitive advantages. Though not a major gateway city, Nashville business interacts with the world in important ways.

- Over 10% of Japanese investment in the United States is in Tennessee and Nashville is central to that investment.
- Over 250 foreign-owned businesses operate in Middle Tennessee – a number that is continuously increasing.

- Survey data shows a large share of Nashville businesses working internationally that wish to expand their activity; approximately 68% of respondents said that their company plans to change or expand their current international business activities in the next 5 years.
- Export of raw materials and finished goods from Tennessee continues to perform well at a \$29.97 billion in value in 2010.
- The need for infrastructure for long-distance trade will remain central to Nashville's ability to compete alongside peers such as Charlotte, Atlanta, Raleigh and other gateway markets.

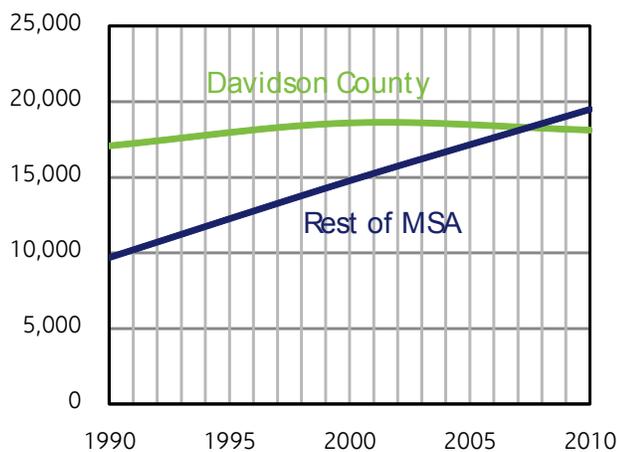


Figure 17: Business Establishments Dynamics - Nashville MSA, 1990-2012

Source: *County Business Patterns*

Business Dynamics – Local Growth

As businesses in the Nashville region expand and consider international markets, overall business establishment totals in Nashville are declining. Notably, in the first decade of the 21st century, there was a decrease in total number of business establishments. Twenty years ago, Nashville had twice the number of establishments as the other dozen MSA counties combined. By 2010, however, Nashville's totals trailed those of the rest of the MSA. In an era of industry transformation and realignment, recovery

from the Great Recession, and spatial changes in the Nashville region, it is critical for Nashville to retain momentum in business and job creation. To achieve this, Nashville must forge a compelling definition of itself as a central hub of industry sectors in the region, as a core of premium, unique assets linked to the region, and in a heightened role as a Knowledge City on a global scale.

Entrepreneurship and self-employment are two of Nashville's most valuable economic assets. The Nashville Entrepreneur Center, launched in 2007 as a vision out of the Partnership 2010 initiatives of the Nashville Chamber of Commerce, connects entrepreneurs with investors, mentors and the critical resources they need to accelerate the launch of start-up businesses. Metro supports Nashville Entrepreneur Center with ongoing operational support and, more recently, by providing the Metro owned "Trolley Barns" location as the new home of the Center. Several industries that are now experiencing rapid transformation – including healthcare, music and entertainment and education, and retailing – were themselves the result of Nashville innovation and ingenuity. Innovation in healthcare management and music and retailing are the norm for major Nashville businesses. The Nashville region continues showing great energy as an entrepreneurial center with 23% of the Nashville workforce self-employed compared with 18% nationally.

Industry Clusters

Implementing economic development strategies requires thoughtful identification and support for programs that match a region's distinctive industry clusters and all that makes them succeed. Since 1990, the Nashville Area Chamber of Commerce and Partnership 2000, 2010 and 2020 have focused on key industry sectors that were optimal candidates for expansion and growth. The efforts have produced major successes in clusters of advanced manufacturing, logistics and distribution, healthcare management,

music and entertainment and office headquarters and back office operations. Each has generated substantial numbers of business relocations and expansions, major investments in the region and the city, and creation of large volume of new jobs providing strong earning power for workers and households. With the groundwork of over two decades in place, the Nashville market is projected to continue as a strong competitor among U.S. cities and a strong producer of new jobs through 2020.

Business location decisions are rational processes based on evaluation of opportunities for success with businesses generally choosing a site because of its optimal advantages in cost (facilities), access to talent, and special needs as determined by technology or regulation for their sector. Different types of business use different criteria for their decisions. The retail sector is driven to local and regional consumer markets that match a retailer's customer base profile. The service sector is very diverse with some businesses serving primarily local population needs and others meeting local business and industry needs. In some ways, the seven primary reasons for site decision in manufacturing reflect the considerations used by other sectors. Reasons for site decisions include: agglomeration economies (being near like industry), cost advantages (quality land and labor), access to resources, transportation options, favorable government role, technology and innovation in the area (Thrall 160).

Key Industry Sectors

As discussed above, Partnership 2020 is the economic strategy created by the Nashville Area Chamber of Commerce in partnership with the city of Nashville and Nashville Mayor Karl Dean. Partnership 2020 is the region's primary economic development strategy, focusing on creating jobs in five industry sectors where Nashville displays a competitive advantage: advanced manufacturing, supply chain management, health care, music, entertainment and creative fields

and corporate operations.

While the Nashville Area Chamber of Commerce and its partners in Metro and the private sector use Partnership 2020 to guide strategic recruitment decisions for the coming five years, this background report will discuss key industry sectors more broadly. This is appropriate for a planning effort like NashvilleNext, which calls on Nashville and regional residents to expand their thinking about economic development and prosperity for a twenty-five year timeframe.

Manufacturing

Nashville has a 150 year history of manufacturing that continues today. Nashville has experienced the decline in manufacturing seen throughout the U.S. though. Between 2000 and 2011, Nashville saw a 47% reduction in manufacturing jobs, with 38,330 manufacturing jobs in 2000 to 20,324 in 2011. Yet, the contribution of manufacturing to the base of an economy remains highly important. Recent research suggests that modest reversals of offshoring of factories may be occurring (McCutcheon). In fact, slight recovery in manufacturing occurred in the Nashville region after the Great Recession. Projections for manufacturing employment in Nashville through 2021 show a decline of 3,652 jobs or 17% from the current total employment. Nashville faces some challenges in creating the large scale modern plants and infrastructure needed for manufacturing due to the fact that the city is more densely developed. It may be the case that Nashville's role in manufacturing in the future is as a key logistics hub, as a research and development center for innovation, as a professional services center for manufacturing, and as a center for administrative and headquarters activities.

To be successful as a hub for manufacturing, the Nashville region must have highly skilled talent, land use policies that maximize development opportunities, and funding for transportation and other infrastructure that supports this sector. Manufacturers throughout the region benefit from high levels of

quality, innovation and service in the core. Nashville's Knowledge City role is precisely what manufacturing requires and desires in regions for expansion.

Logistics, Distribution and Transportation

Nashville and the larger region have the unique locational advantage of being at the crossroads of three major interstates, a fully navigable river and being a hub of interstate rail activity. These advantages give the region one of the most enviable settings in the U.S. With continuing shift of population to the Sunbelt, Nashville assets as a distribution point becomes ever greater. Facilities serving each mode of transportation are of a quality and quantity to suggest significant growth in logistics, distribution and transportation sectors. Public policy related to infrastructure should be encouraged to support the unique roles that the regional core plays for all logistics and transit of the region.

Healthcare Operations

Healthcare management is Nashville's leading business sector with over 250 firms. This sector's stability across business cycles lends enormous resilience to Nashville's economy and has garnished a reputation as a leader in innovation, talent and business acumen. Continuing growth of the U.S. healthcare sector positions Nashville to become an ever stronger leader in the country for this industry.

The average payroll for the healthcare and social assistance super sector is the highest of any in Davidson County at \$73,903. The healthcare super sector has added nearly 19,000 jobs in Davidson County since 2000, the largest increase of any industry. The sector is projected to add another 19,283 employees through 2021 – a 26% increase. This supersector is comprised of workers serving the local market as well as some that are part of the larger scope of healthcare enterprises that call Nashville home. A large share of the most rapidly increasing occupations for the next decade are in health services. Nashville area healthcare management firms will grow undoubtedly expand as

the demand for healthcare services grows locally and around the country.

Creative Music and Arts

Creative industries have long been central to Nashville's economic development and their role has not diminished with time. Nashville benefits from the creative output of area colleges and universities, which graduate over 10,000 students in creative sectors every year. This positions Nashville to be a Knowledge City of the 21st century.

Creative jobs are widely dispersed through traditional firms and self-employment. Nashville firms have shown growth of nearly 1,400 jobs in arts, entertainment and recreation from 2000 to 2010. Perhaps three times that number have added through self-employment. Projections for this portion of creative industries show over 3,000 additional jobs in Nashville through 2021. When considering creative sector even more broadly to include engineering, architecture, scientific, technical and other fields, Nashville will add significantly more creative sector jobs over the coming decade. This cluster lies at the heart of Nashville's ability to establish a unique, premium role as a region thriving around a Knowledge City.

Visitors and Conventions

The tourism sector is integral to Nashville's economy. Far and away the largest share of Tennessee tourism occurs in Nashville, with 11.5 million annual visitors spending nearly \$4 billion. The opening of Music City Center heralds a major step forward for Nashville as a leading U.S. convention city. The economic development of Nashville branded as "Music City" is deeply embedded in national business and consumer consciousness. To ensure continuing success in this industry, Nashville must focus on maintaining worker supply, relying on immigration and local secondary and post-secondary training. With over 40,000 workers in hospitality services in Nashville, this sector adds some \$931 million in annual payroll (2011).

Finance and Insurance

Nashville's heritage as a financial and insurance center for southern U.S. began in the early 20th century. By the close of the twentieth century, new entrants had replaced those earlier firms and the city had again seen major business relocations and expansions that included Ford Motor Credit, Jackson National Life, Caterpillar Financial, Asurion, Bank of New York and others. The banking crisis of the Great Recession impacted Nashville less severely than many markets due to an overall stable local economy and housing sector, moderate levels of financial services as a portion of total employment and a diversity of institutions in the market. Since 2000, finance sector jobs declined by 17.8% in Nashville as compared to a decline of 11.2% in the Nashville MSA. The earnings level of workers in finance is higher (20.4%) in Nashville than in Tennessee overall. Nashville is projected to see a modest growth of 5% in the finance sector through 2021. For this reason, Nashville's core of premium assets can provide location for highly specialized financial functions to remain in the city, but providing labor with the appropriate skills and experience for this sector must remain a priority.

Information and Publishing

The information sector is a vital and growing part of the Nashville economy. The information cluster is found in the technology and computer industry, but is also spread through many other sectors and it is rapidly expanding in Nashville. Nashville and the larger region face a shortfall of 1,000 or more information workers. To address the shortfall, the Nashville Area Chamber of Commerce has recently launched an aggressive "WorkIT" campaign to draw information technology workers to Nashville and the region. Nashville accounts for over a third of the information hiring in the state (33.7% in 2011) at average salaries 16.6% higher than that sector in Tennessee overall. Growth in information sector jobs is projected to climb by 14% through 2021 in the Nashville region.

Green Jobs

Nashville is also seeing gains in becoming the regional center for environmentally responsible business. Economic development can target environmental businesses for technical assistance, business retention, expansion, and attraction. Public policy can promote awareness regarding the "green" economy and its possibilities for



Conclusions



business and residents.

Nashville and the region will experience dramatic growth over the next 25 years. To harness this growth for the prosperity and well-being of all residents, Nashville must create and implement economic development strategies that maintain a broad-based economy that is growing, adaptive, innovative, profitable and engaged with its region and its people.

This background report suggests that Nashville's economic development success rests on addressing the following challenges and opportunities:

Recognizing that Nashville, as the core of the region, has a unique role. Public policy decisions and public and private investment should enhance Nashville's role as the vibrant, urban center of commerce, government, entertainment and culture for the region.

Recognizing that one of Nashville's most important competitive advantages is its knowledge-based, creative economy. This strength is seen in the many sectors and businesses in Nashville that are leaders in their fields. This strength is also seen in the creative and entrepreneurial spirit of Nashville, which creates a space for ingenuity and innovation.

Preserving and strengthening Nashville's diverse economy is critical. The diversity of Nashville's economy has sustained it during difficult economic times, including the recent Great Recession. This diversity is

a huge asset that should be nurtured.

Continuing to meet broad infrastructure needs. Nashville's ability to recruit and retain businesses and high skill workers requires an ongoing commitment to funding and developing infrastructure (transportation, utilities and communications) and providing infrastructure and amenities – from transportation networks to evolving transit options to strong neighborhoods, retail, parks and schools. These investments reflect a commitment to quality of place and quality of life.

Continuing to provide amenities for quality of place and life. The attraction and retention of residents and workers will increasingly depend upon vibrant and diverse options in housing, education, entertainment and recreation.

Fulfilling the evolving workforce needs of area business. Demographic and other trends indicate that the country, and Nashville and the surrounding region, will face workforce shortages and skills gaps in the future. Nashville is well-positioned to address these shortages, by capitalizing on its numerous colleges and universities, a city-wide commitment to improving Nashville public schools, and an openness to new residents from around the country and around the world.

Maintaining affordability and accessibility in housing options for area workforce. Land use policies and market forces impact where people live and work. Maintaining a job-housing balance supports economic development in the region's core.

In addressing these issues, the public sector role is vitally important for promoting policies, programs, and services that support this diverse local economy. Public and private spheres together foster a climate where business creates a broad and deep mix market for goods and services. This mix in turn sustains existing business and encourages new business ventures.

To develop an agenda for economic development that responds to trends, challenges and opportunities facing Nashville and the region that are discussed throughout this report, the NashvilleNext planning process can foster conversation around the following questions (Heideman, 2012):

1. How do we provide a variety of jobs with varied skill levels for residents of Nashville and the region?
2. How does the economic development strategy reflect and promote community and neighborhood values?
3. How does the economic development strategy support businesses that are independent, locally-owned, and neighborhood-serving?
4. How do we encourage environmentally sustainable businesses?
5. How can we promote revitalization in neighborhoods and communities that have historically higher-than-average rates of unemployment?
6. What steps must be taken to promote a strong industrial base as a vital foundation of a stable economy?
7. What steps can be taken to support culture and the arts in Nashville?
8. How do we promote general retail businesses and a variety of cultural, recreational, entertainment, and public sector activities in downtown Nashville to ensure that the central business district remains a vital, attractive, and unifying center for the city and the region?
9. What actions can be taken to enhance the cosmopolitan profile of the region?
10. What actions can be taken to broaden the post-

secondary assets of the region?

11. How do we raise the visibility of the Nashville's status as a knowledge-based economy?
12. How can we attract even more international businesses, visitors, and conventions to the city?
13. How can Nashville broaden its reputation as a welcoming and friendly city?
14. How can the city and region be marketed as a place for advanced studies and research?
15. What steps can be taken to bring research and innovation to market opportunities?

Economic development underlies the very success of Nashville over the next quarter century. Done well, the city and region will thrive. Neglected, unsupported or unguided, and the city and region will suffer. Fundamentally, economic development promotes Nashville as a world class location for business, investment and visitors. It does this by marketing that showcases Nashville as a positive business location within the region, nation and world. The Nashville Area Chamber of Commerce and its regional partners continue to refine a vision of economic development that is proactive, innovative, and risk-taking to gain strategic local, national and international advantage. Economic development utilizes the Research Center of the Nashville Area Chamber to guide and inform regional development strategies and programs. The result in a changing environment with many choices available is creating constant oppor-

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tunity for advancing Nashville. The success of this work ensures the well-being of the local population in business as workers, as consumers and residents. This effort, then, will guide the quality of life that makes Nashville attractive to newcomers and investors. Economic development delivers a balance between existing business with the new, a balance of business small and large, and a balance furthering city and regional interests with current and created economic resources.

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