

Executive Summary: An Economic Restructuring Plan for Cherokee County

Cherokee County, North Carolina is confronting economic dislocation because several of the major employers in the county have recently closed or are closing their plants. The Office of Economic Development (OED) at the University of North Carolina at Chapel Hill, in partnership with the Research Triangle Institute (RTI), conducted this study in response to a request from Cherokee County for assistance in developing an economic adjustment strategy.

The economic adjustment strategy provides an objective analysis of the county's assets and liabilities for industry expansion and attraction. Based on this analysis, OED and RTI identified industries that have the greatest potential for expansion in or attraction to Cherokee County. In particular, we assessed the potential for technology-related companies, durable goods manufacturing and natural resource-based industries. We also looked at relevant best practices in economic restructuring from other areas, and examined the economies of the metropolitan areas closest to Cherokee County. The report concludes with a set of recommendations and specific strategies for the county to build upon its current assets. These focus on attracting and creating the types of companies that will help the county transition to and compete in the new economy.

Economic profile of Cherokee County

Cherokee County is in the heart of a poor, rural region. The eight-county area including and immediately around it has a population less than 150,000. The density of Cherokee County was 50.5 people per square mile¹, less than one third of the average density in North Carolina (157.1). This poses challenges of critical mass for developing programs, services, and infrastructure.

According to indicators from the U.S. Census Bureau, Cherokee County still has lower income and deeper poverty than the rest of the state:

- ?? Cherokee County ranked 95th among North Carolina counties in per capita personal income in 1997.
- ?? The county's median household income in 1998 was \$32,500 or 71 percent of the North Carolina average.

These relatively low incomes, during a time of unprecedented expansion in the national and state economies, indicate structural problems in Cherokee County. In Section 2 of the full report, we assess in detail the county's labor, existing economy, infrastructure and quality of life as the key factors that influence economic development location decisions.

¹ *County Development Information for Cherokee County*, April 1999, prepared by the Mountain Resource Center of Western Carolina University.

Labor is the number one concern of most companies in any industry considering a relocation or expansion. Ironically, the fact that Cherokee County has higher-than-average unemployment is currently an asset. The available labor resulting from the closure of the Levi and Baker plants is an advantage because labor is in short supply in most of the country. Industrial location consultants often track plant closings to identify places where there may be available labor.

However, 1997 data show that the county is dramatically lower than the state average on high school and college completion rates. Only 61 percent of adults had completed high school (compared with 71% for NC overall) and only 8 percent had completed 4 years of college (compared with 16% for NC). As expected, Cherokee County's age distribution as compared with the state's suggests a brain drain of the working age population. The local Employment Security Commission indicates that many young citizens who are educated move to Atlanta or Chattanooga to find better paying jobs.

The existing economy of the county is shifting to more services jobs, but manufacturing is still the largest sector, followed by trade, service, and government. As a share of employment, Cherokee County still has a strong manufacturing base (33%) relative to the state overall (23%). The highest paying jobs in Cherokee County for 1997 were government jobs (\$24,323) and jobs in finance, insurance, and real estate (\$22,318). Service jobs paid slightly higher average wages (\$20,956) than manufacturing jobs (\$20,571), whereas the trade sector paid by far the lowest wages (\$12,958). The average wages for all industries increased by 29 percent between 1990 and 1997. Services wages grew the most, at 41 percent. In several industries (manufacturing, trade, and finance, insurance, real estate) the wage growth rate for the county is significantly below the average for North Carolina.

Based on the project team's communications with local businesses in October 1999, as well as with several regional economic development officials, and secondary data from numerous sources, we developed the following lists of the top ten assets and liabilities for Cherokee County's economic restructuring efforts.

Assets:

- 1) High quality of life, including beautiful surroundings, ample outdoor recreational opportunities, low crime, and good health care from a local hospital
- 2) Strong local manufacturing base, including an emerging concentration in higher technology sectors such as industrial, electrical, and automotive equipment
- 3) Excellent community college, providing 2-year degree programs, certificate programs, distance learning to university programs, industry training, and small business assistance
- 4) Available work force with good work ethic and willingness to retrain

- 5) Leadership from a diverse but unified county economic development commission in identifying and capitalizing on opportunities for local job creation and investment, including assisting existing industry
- 6) High-performing public school system that is becoming a regional leader in using technology in course delivery and teaching technology-related skills that articulate well with community college programs
- 7) Moderate labor prices and taxes, especially considering available tax credits from the state
- 8) Competitive land costs and electricity rates
- 9) Local airport, with major upgrade to business class in progress
- 10) Proximity to Atlanta and other metropolitan areas on eastern seaboard interstate corridors

Liabilities:

- 1) Low educational attainment and skill levels of adults in the county
- 2) Lack of technology-oriented skilled workers, and brain drain of trained students to other areas
- 3) Low density of population, which lacks critical mass needed to demonstrate a case for better infrastructure, including natural gas lines, telecommunications points of presence, and 4-lane highways
- 4) Distance of two hours from nearest metropolitan areas, interstate highways, and related services
- 5) Limited available sites and buildings to show prospective industries
- 6) Lack of information about and access to venture and other capital
- 7) Need to continue to improve entrepreneurial culture despite many amenities that appeal to entrepreneurs
- 8) Limited cultural and entertainment options and awareness thereof
- 9) Limited local access to graduate degree programs (such as engineering), and corresponding academic R&D spinoff opportunities
- 10) Need to continue to foster interaction and networking among existing businesses about common needs and opportunities

Our preliminary assessment of county's capacity to support existing and new industry is optimistic, if the county can take steps to address several of the liabilities noted here. In the next two sections, we examine more closely the opportunities for Cherokee County to connect to its nearest engines of economic growth and the ways that other distressed rural counties are addressing similar challenges of restructuring.

Regional context

The study team examined the industry concentrations, growth trends, and strategic directions of Asheville, Atlanta, Chattanooga and Knoxville – as reference points for Cherokee County in planning how to connect better to the economic engines of its nearest urban neighbors. We focused primarily on the durable goods manufacturing sector for this analysis. Findings include the following:

- ?? Transportation equipment, concentrated in both Atlanta and Knoxville, has seen very healthy growth rates in both these metro areas. Automotive components are a stated priority industry for the leadership of Atlanta, Asheville and Knoxville. The BMW plant in Spartanburg, SC is another nearby lure for automotive parts industries.
- ?? Primary metalworking industries are heavily concentrated and growing in Chattanooga. Much of the metalworking in Chattanooga supports the automotive industry, so it can be seen as part of a transportation equipment cluster. A large foundry there provides castings for half the cars made in North America and just announced a \$30 million expansion.
- ?? Fabricated metal products are a competitive advantage in Asheville and Chattanooga, and, while growing in both of these places, are growing even faster in Atlanta. Some of these products, too, support the automotive cluster.
- ?? Electronic and other electric equipment, though not concentrated as much (relative to the total local economy) in any of the nearby cities as in Cherokee County, is growing most in Asheville.
- ?? The computer and data processing industry is on an upsurge nearly everywhere, but is especially concentrated in Atlanta.

One general strategy for Cherokee County is thus to connect to all four of its surrounding cities for secondary and tertiary transportation component or supply opportunities, to Asheville for electronics, and to Atlanta for “all things IT.” Another possible strategy is to start by exploring the opportunities in Atlanta, whose economy is a driver of the entire southeast. The Atlanta metropolitan region has a population of over 3.5 million, over ten times the size of Asheville (210,000), and covers about 5,000 square miles.

Cherokee County has high concentrations, as measured by location quotients, in some of these same sectors: industrial, electric, and transportation equipment (SICs 35-37). These are a grouping to build upon, based in part on the interests of the local plant managers in

the county. Cherokee County's approach should include connections with at least two different metro areas in each targeted sector, as a protective measure in case one regional economy takes a downturn. Similarly, by selecting several diverse industries to target, the county can bolster itself against downturns in a single industry.

Best practices in economic restructuring

The study team collected best practices from other places that are either rural, recuperating from downsizing of traditional industries, or both. The "best practices" in economic development usually involve a combination of recruiting new industries, helping the existing industries to remain and expand, and fostering the creation of new small businesses. Specific types of interventions can be categorized as: workforce development, public investments in infrastructure, management and marketing assistance, and financing programs.

Workforce development is a critical part of economic restructuring in communities nationwide. Manufacturing firms that once employed unskilled workers now need a more educated labor force to operate complex machinery and to make critical decisions regarding various aspects of the production process.

According to his remarks at a December 1999 international symposium on the skill requirements of the new economy (learning.now, hosted by Regional Technology Strategies, Inc.), Ray Marshall of the University of Texas noted that frontline workers must have different skills than in earlier decades; for example:

- ?? Ability to understand and use models, metrics, and other quantitative tools to analyze the flood of data produced by information technology;
- ?? Ability to manage their own work, solve problems, and deal with ambiguity;
- ?? Good communication, interpersonal skills, and teamwork;
- ?? Ability to learn through the manipulation of abstract symbols, simulations, and models;
- ?? Ability to perform a greater array of tasks and adapt more readily to change.

As Richard Mumane and Frank Levy noted in their 1996 book, *Teaching the New Basic Skills*:

During the past 20 years, the skills required to succeed in the economy have changed radically, but the skills taught in most [high] schools have changed very little. As late as 1979, a 30-year old man with a high school diploma earned a yearly average of \$27,700, in 1993 dollars. By 1993, with computers transforming both U.S. manufacturing and U.S. services, a 30-year old man with a high school diploma earned an average of \$20,000.

Thus, they say, in addition to reliability, willingness to work hard, and a positive attitude, firms paying high wages--now look for a new set of skills, even for a good blue collar job:

- ?? The ability to read at the ninth grade level or higher
- ?? The ability to do math at the ninth grade level or higher
- ?? The ability to solve semi-structured problems where hypotheses must be formed and tested
- ?? The ability to work in groups with persons of various backgrounds
- ?? The ability to communicate effectively, both orally and in writing
- ?? The ability to use personal computers to carry out simple tasks like word processing

The Cherokee County Public Schools, Tri-County Community College, and local industry should continue to work together to ensure that these new basic skills are taught before young people leave high school, and to retrain displaced workers who do not have them. This may require work-based learning opportunities as well as continuous revisions in curricula at all levels.

The key point is not that all new jobs will require these skills, but that the best paying ones, even in manufacturing settings, do and are likely to continue to do so. National data from the Bureau of Labor Statistics and the Bureau of the Census show a clear pattern of increased earnings and declining unemployment rates as educational attainment increases. Most of the fastest growing high-wage occupations require at least an associate's degree.

Given the strong manufacturing base of the county, its workforce development strategy must include training (or retraining) of "new" basic skills to the existing work force to make them more productive employees earning higher wages in manufacturing jobs -- as well as training the young people to work for or start up the companies paying high-wage IT and other (rapidly growing and lucrative) business and health services jobs. The workforce development strategy, as part and parcel of the economic development strategy, needs to be diversified.

As a way to reverse the brain drain from Cherokee County, there may also be a need for a workforce *recruitment* strategy. The new economy literature discusses the highly mobile nature of people, and that the best jobs go where the most qualified people are. The county could begin to identify enterprising individuals who may be interested in participating in the economic rebirth of the county. These might include county natives who live elsewhere now, entrepreneurs fed up with Atlanta or New York, individuals who live in the county but are working as commuters or telecommuters for an employer outside the county, and part-time or part-year workers who can help the county from a distance.

Public investments in infrastructure can include highways, airports, electrical and gas facilities, water and wastewater services, and site development. Over the past ten years, several studies have shown a significant relationship between the availability and quality

of public infrastructure and private sector productivity. Two of the best practices in infrastructure development relevant for Cherokee County are development of a business class airport (underway) and development of an industrial or Smart Park.

One of the ways that Cherokee County can ensure that industrial park or other site development will pay off is to identify an appropriate site and then undergo the Certified Industrial Site process through AdvantageWest. This is a rigorous process that includes all the steps normally involved with due diligence in evaluating industrial real estate, and it substantially reduces cost and time for a company picking a certified site. With the rapid pace of change in the new economy, relocating companies often have only a few months of lead time before they want to be on their new site. Having the background work already done on a site may be critical to its marketability.

A specific type of industrial park that is gaining popularity is a telecommunications-intensive park. One example is in a SmartPark Muskegon County, Michigan, which suffered a severe economic downturn during the late 1970s and early 1980s. SmartPark is a GTE-designed industrial park that offers state-of-the-art communications (i.e. satellite uplink, downlinks, and fiber-optic wiring) technology. Not only does GTE provide the design, but it also acts as the primary marketing agent for the park, saving local organizations time and money.

Management and marketing assistance can be critical to the survival of both new enterprises and existing businesses. These can take many forms, but especially important in the new economy are e-commerce assistance, export promotion, technology investment, and business networking. One of the most powerful strategies for assisting existing businesses is to help them develop new markets and link more effectively to other related businesses in networks. Manufacturing extension partnerships (MEPs) through NCSU are one resource to consider.

Financing programs for industry recruitment typically include state tax incentives such as the William S. Lee Act, under which Cherokee County (as a Tier 1, or most distressed, county) can now offer the highest tax credits available. The county also has its own program to reward worker training.

A common financing tool for assisting existing or new businesses is a revolving loan fund. The Southwestern Planning and Economic Development Commission (Region A) administers one in which Cherokee County businesses can participate. In addition, the Smoky Mountain Development Corporation administers the SBA 504 program for small business lending in Cherokee County.

Microloans (\$25,000 or less) can be among the most difficult to obtain through conventional financing. The Self-Help Credit Union is one of the most experienced "very small" lenders in the United States. Most of these loans are made through the Small Business Administration (SBA) Microloan Program; by matching that loan capital, Self-Help doubles the impact of SBA funding. Self-Help opened a satellite office in Murphy in 1998.

Some ideas that these best practices suggest for Cherokee County include:

- ?? Combine recruitment with retention/expansion and entrepreneurial development strategies
- ?? Develop the county as part of an economic region that cuts across county and state lines
- ?? Develop creative partnerships among business, education and government to develop the skills required in the new economy
- ?? Build upon existing workforce niches, including retirees and disabled persons
- ?? Increase the odds of success for a site or industrial park by taking it through the steps of the Certified Industrial Site program
- ?? Develop and continually adapt programs to help existing industry improve productivity and competitiveness, through both technology investment and export promotion
- ?? Facilitate active networks among related businesses in the broader region
- ?? Develop a revolving loan fund to support technology investment
- ?? Support TCCC' s Small Business Center and the extension office in providing e-commerce training, marketing, and other assistance to micro and small businesses
- ?? Participate fully in Western Carolina University' s plans to develop a high-tech entrepreneurial research park
- ?? Leverage the presence of the Self-Help Credit Union and the Smoky Mountain Development corporation as catalysts for small business and microenterprise development in the county

Trends and requirements of selected industries

Cherokee County selected three broad areas of interest for this study: technology-oriented companies, durable goods manufacturers, and natural resource-based industries. These were chosen with the intention of avoiding both industries that are downsizing and industries such as retail that pay low wages.

The ***information technology*** and other related businesses services sector is burgeoning nationwide. The number of systems analyst jobs, for example, is expected to grow by almost 200 percent by 2005². The average annual salary is over \$40,000 in most of these industries. Even the lower salaries, in data processing services (\$29,503) and information retrieval services (\$34,440), would still be attractive in Cherokee County, where the median *household* income is \$32,500 (1998).

The requirements of call centers, which are among the least stringent of company types within the IT group, include:

- ?? available and affordable labor, with a high school education, computer literacy, and good verbal skills
- ?? reliable and affordable telecommunications infrastructure, preferably with digital switching

² *Manufacturing USA*, 1998

- ?? available suitable building
- ?? supportive business climate and tax rates
- ?? quality of life, especially low crime, good public schools, moderate climate, natural appeal, and outdoor amenities

If the county can identify a suitable building such as the former Wal-Mart for a call center, and GTE can provide cost-effective telecommunications lines, a small call center may be feasible. It could be a productive entry point into telecom-related job development.

Meanwhile, the county should continue to assist small businesses and existing industry in applying e-commerce to their work to identify new markets and suppliers. The Small Business Center at TCCC currently provides business management assistance and through a recent grant will be working with an e-commerce expert (Concurrent Technologies Corporation, a contractor for the Electronic Commerce Resource Center) to expand these services.

Software companies, which are some of the highest-paying, look for population centers that have a pool of programmers, clusters of related companies, a customer base of other businesses, research universities, venture capitalists, and an entrepreneurial culture. Although Cherokee County has few of these factors, at least two companies involved in software development have located there during recent years: UniPay and SoftNET Communications. Both of these companies said they moved to Cherokee County because their owners loved the mountains. So far they have both been successful in recruiting senior programmers from south Florida or Atlanta by placing ads emphasizing the simpler, more beautiful surroundings of the mountains, away from the hassles of urban life.

A regional industrial development representative reiterated that recruiting high-tech companies may be difficult for rural counties unless it is a one-owner situation in which an individual rather than a board makes the location decision. For example, a computer game company (that sold Scattergories to Milton Bradley) moved to Clay County because the owner liked the area.

Cherokee County should capitalize on its proximity to Atlanta, which is a major IT cluster region but has all the disadvantages of a metropolitan area – congestion, pollution, and high costs of living and office space. Atlanta has the longest traffic commute of any city in the U.S., and the EPA has restricted road construction there because of air pollution. Cherokee County needs to market its quality of life to attract small IT companies with owners who are no longer willing to deal with the negative aspects of big city life.

In *durable goods manufacturing*, Cherokee County already has several major employers, such as in SIC sectors 35-37, which represent a solid base on which to build more local employment. These are industrial, electrical and transportation equipment,

and they include major local employers Outboard Marine Corporation, Clifton Precision, and MGM Brakes. Sioux Tools and Emerson Electric will soon join this group.

We know from our analysis of the surrounding metro areas that they have targeted and are having success in these sectors, including electronics (Asheville), metalworking (Chattanooga), and automotive (Knoxville and Atlanta). The southeastern states are realizing some of the only job growth in these sectors. None of these sectors is staying as it was even a few years ago, however. The automotive industry is transitioning to the use of completed assemblies (such as dashboards) rather than piecemeal parts³. Metalworking and electrical equipment companies will be hiring machine operators who can run computer-driven equipment used by advanced production technologies. All of them will want workers who have literacy, numeracy, and problem-solving skills, if not vocational or college training.

Because of the concentrations and growth of selected industries within durable goods manufacturing in the immediate region, Cherokee County should explore opportunities to grow its existing base in this sector. In the meantime, the EDC and TCCC should assist the existing companies in all sectors of manufacturing to upgrade their production technologies and workforce skills.

In *natural-resource based industries*, Cherokee County was once a logging center for the Southeast. Now it has a cadre of loggers who work mostly as individual entrepreneurs in selling timber to various markets. Rather than targeting a wood products company, since the sector is in decline, it seems more prudent to focus public energy on facilitating whatever technical assistance may be appropriate to the current forest product entrepreneurs. As a start, this assistance should include the identification of profitable domestic and international markets, as well as e-commerce training. The county extension agent, as well as forest economics experts at North Carolina State University, can be instrumental in this effort. Similar types of assistance can be offered to farmers in identifying and marketing niche crops.

The county should draw upon its natural resource heritage to develop companies that offer products or services that fit with the surroundings. This could be either a manufacturing company that makes outdoor recreation equipment – such as Coleman, which would fit in the electrical equipment cluster – or any number of services related to heritage or ecotourism.

According to Dr. Gene Brothers, a tourism expert from North Carolina State University, ecotourism when done well is a package that includes education, concern for the cultural heritage of the area, resource preservation and economic benefit to local residents⁴. The key ingredients are not just the accommodations, such as bed and breakfasts, but the

³ Based on interview with Mr. Dale Carroll, director of AdvantageWest, the regional economic development marketing organization for western North Carolina.

⁴ Most of the insights in this section are attributable to Dr. Gene Brothers, a North Carolina State University professor with extensive experience in tourism development, from telephone interview 2/00.

activity services for their guests--particularly in mountain biking, individual raft trips and hiking.

Cherokee County's location two hours from four metropolitan areas can be an asset if marketed appropriately. Small ecotourism enterprises in Cherokee County should target market the people who do not want to go to the Smokies and are looking for something different as a weekend getaway. Cherokee County's main assets for ecotourism development are:

- ?? The Trail of Tears and potential development of Fort Butler – for culture
- ?? proximity to whitewater both on the Nantahala and Ocoee Rivers – for rafting
- ?? Hiwassee, Apalachia and Cherokee Lakes – for fishing
- ?? National Forest land – for hiking and backpacking
- ?? Diversity of wildlife and bird viewing opportunities
- ?? Proximity to Brasstown as a crafts center

Recommendations

The study team's main recommendations to Cherokee County are included within each section of this executive summary as they relate to each aspect of the study. The recommendations section of the full report outlines a preliminary economic restructuring vision and strategy for the county and provides more detailed suggestions.

The data on educational attainment and on the primacy of better basic skills in the new economy puts workforce development at the top of the priority list for restructuring. Our recommended approaches to workforce development are borrowed in large part from a recent draft report from the Workforce Development Think Tank, commissioned by the N.C. Rural Center. We also suggest strategies for entrepreneurial development, building business networks around existing strengths, and infrastructure development, especially of the airport and a certified industrial site. These are all ways of developing the local economic development product of the county for the new economy.

Then, after the product is better developed, we suggest several complementary strategies for the county to market its current and expected assets both internally and to the outside world. These are based on principles of partnership among government, industry, and education, as well as on the integration of economic development approaches – recruitment, expansion, and entrepreneurship.

A final important principle, given the county's rich natural assets, is to develop the types of growth that will complement rather than compromise the environment. Cherokee County has an opportunity to capitalize on the quality of life factors that residents of congested urban areas seek, but it should plan growth rather than reacting to it.

This preliminary plan should serve as a springboard for ongoing goalsetting and discussion among Cherokee County leaders about how to continually adapt the county's workforce, institutions and businesses to the changing economy.