

NORTHERN DUTCHESS FIRST

BUSINESS STRATEGIES AND OPPORTUNITIES
FOR A HEALTHY NORTHERN DUTCHESS ECONOMY

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and

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Introduction

The Northern Dutchess region prides itself on natural beauty and cultural richness, and on its farms, parks, historic sites, woodlands, and small towns and villages. Yet it is also a suburban economy that is a 90-minute train ride north of New York City, so close that some residents commute to jobs there daily. Population growth in the region has also created new challenges with rising housing prices and property tax, gentrification, sprawling development, greater congestion, and new demands on existing schools, infrastructure, and services. The towns and villages of Northern Dutchess County are responding with a variety of planning efforts, and working to ensure that they are guided by the principles, practices, and policies of “smart growth.” But the pace of change is overtaking the ability of the region to manage it, threatening the very assets that made it such an attractive location to work and live in the first place.

Mindful of the need to chart a new course, the Northern Dutchess Alliance (NDA) is developing an economic tool kit for its members with this report as a centerpiece. The goal of this analysis is to help the region, and the communities within it, seize promising homegrown business opportunities that are ecologically sustainable and reinforce the region's identity. Such businesses use local assets, prioritize local markets, strengthen the local economic multiplier, build local capacity, and boost regional pride. They also can help address some of the region's critical challenges by promoting smart growth, creating higher-wage jobs, and enlarging the tax base.

The authors and NDA are keenly aware of other initiatives underway at all levels – town, region, county, state – to address particular issues and challenges such as sprawl, tax reform, school quality, and environmental integrity. While this study touches on these issues, care has been taken not to duplicate these efforts and instead to keep the focus on business and economic development.

Section I provides an overview of the Region: What towns and areas are covered by this study? What are the region's assets of land, labor, and capital? Who are the main employers? What kinds of transportation and communication infrastructure exist?

Since a key assumption of this work is that economic development should be steered carefully by residents of the region, and not just left to larger market forces such as the siting of “big box” retail stores and the national housing market, Section II reviews the deeply held – and remarkably consistent – values expressed in town and village master plans. We take these as the starting points for a new direction for business and economic development.

Section III describes the research team's philosophy toward economic development. We favor businesses that are locally owned and import-substituting, or LOIS. Among the reasons are that local businesses generate higher economic multipliers, and that they fit more easily within the region's expressed values.

The economic-development approach of a LOIS strategy is to identify dollar leakages (all those places in the economy where money is leaving the local economy, unnecessarily, to buy outside goods and services), and then to identify business

opportunities and development strategies that simultaneously embrace the values of the region and plug major dollar leakages. This is done in the next two sections: for the region as a whole in Section IV; and for selected economic sectors in Section V.

Section VI reviews key policy opportunities for implementing this agenda, with a special emphasis on “Local First” initiatives.

Finally, Section VII describes the basic steps that can be taken by municipalities, business groups, associations, and – ideally – partnerships among these entities, as they translate the visions outlined here into action.

While this project is grounded in a vision that the region can achieve a new era of prosperity while maintaining the region’s character, beauty, and history, we are also mindful that the future of the region really rests in the hands of literally thousands of local consumers, investors, entrepreneurs, and policymakers. *Their* support and initiative will, more than anything, determine whether the vision laid out here is realistic. Our modest hope is that this strategy will open residents’ imaginations to what is possible from its myriad strengths, so that they have an opportunity to realize the kind of bright future the region deserves.

I. Portrait of the Regional Economy

Between New York City and Albany, bordering the east bank of the Hudson River, is the northern part of Dutchess County. The largest towns in the Northern Dutchess region in terms of population – Hyde Park, Rhinebeck and Red Hook – are commercial and civic hubs connected by New York Route 9. The smallest hamlets, such as Bangall and Annandale, lie at the center of important farmlands and preserved natural areas. Unusually rich in historic sites, the region has long been the beneficiary of land and heritage preservation efforts. But now the region is becoming a victim of its own success, as it faces substantial population growth and development pressures.

Below is an overview of key features of the region’s land, people, work force, financial assets, transportation systems, and civil society institutions.

Table 1.

| Localities and Zip Codes defining the study area |
|---|
| Annandale (H) (12504) |
| Bangall (H) (12506) |
| Barrytown (H) (12507) |
| Red Hook (T,V) (12507, 12571) |
| Clinton Corners (H) (12514) |
| Hyde Park (T) (12538) |
| Pleasant Valley (T) (12569) |
| Milan (T) (12571) |
| Rhinebeck (T, V) (12572) |
| Rhinecliff (H) (12574) |
| Salt Point (H) (12578) |
| Staatsburg (H) (12580) |
| Stanford (T) (12581) |
| Tivoli (V) (12583) |
| T = town; V = village; H = hamlet. |

Land

The first thing that strikes any visitor to the Northern Dutchess Region is the land, which is highly valued, both in terms of its price and its importance in people’s minds. Substantial areas of land are protected through private trusts and public policies, but the result is double-edged. Protected land enhances the quality of life but also limits opportunities for economic development.

Much of northern Dutchess County is covered by forest, lakes and streams, with the northern half being largely rural. On the remaining portion, commercial, industrial and residential development all compete for limited space, as well as for limited water and sewer infrastructure. As the towns and villages engage in higher quality comprehensive planning, they face increasing challenges in reconciling business land uses with environmental preservation.

Farming is widely understood as a win/win land use that keeps residential and commercial development in more appropriate locations and maintains an environmentally beneficial use of open land. Production in the northern Dutchess County farms includes beef cattle, Christmas trees, dairy, eggs, feed and supplies, fruit and vegetables, goats, hay, hogs, horses, organic feed, poultry, sheep, and venison. Several successful wineries are in the area, and special public events and agri-tourism are part of the regional economy. Farm products from Northern Dutchess are sold in on-farm and community-based markets as well as the green markets of New York City. But average farm productivity in northern Dutchess County is significantly below the national average, a result of the number of part-time farmers in the area. While most farms follow conventional business models, some operate as “CSA’s” or community supported agriculture businesses, which are subscriber cooperatives whose members invest up front in a farm’s operations and then share the annual output.

Preserved land is generally appreciated as an economic asset in the region, and especially along the Hudson River. From the extensive riverfront preserves of Tivoli Bays, south along the Hudson through the rural Bard College campus, then through historic estates and parklands from Red Hook through Hyde Park, the areas surrounding the river are world renowned for their beauty.

Commercial and industrial real estate are in limited supply but include several small industrial parks in Red Hook, Rhinebeck, and Pleasant Valley. Some real estate suitable for light industry exists along the commercial Routes 9 and 9G, although water and sewer is often lacking and the locations are still inconveniently far from major transportation routes such as the New York Thruway or I84.

People and Work Force

In 2003 the population of Northern Dutchess was 70,516, nearly one quarter of the population of Dutchess County. While the population of Dutchess County as a whole grew at a rate of 12% since 1990, the northern Dutchess population trends were quite variable. The population of the Town of Milan increased by over 34% from 1990 to 2003, although from a small base, while the population of Hyde Park actually declined slightly. The villages of Rhinebeck and Tivoli grew by more than 10%, while the village of Red Hook declined by more than 10%. There is also considerable variation in age distribution. For example, the Town of Rhinebeck has more than 22.8% of its population over the age of 65, while Milan has only 11.2% in that age range. These variations in age composition have important implications for the future costs of services. As shown in Chart 1 below, the majority of Northern Dutchess workers are employed in private organizations including businesses and nonprofits. (Data for Red Hook and Rhinebeck combine town and village Census figures.²)

² Detailed work force breakdowns were not available separately for Salt Point and Staatsburg.

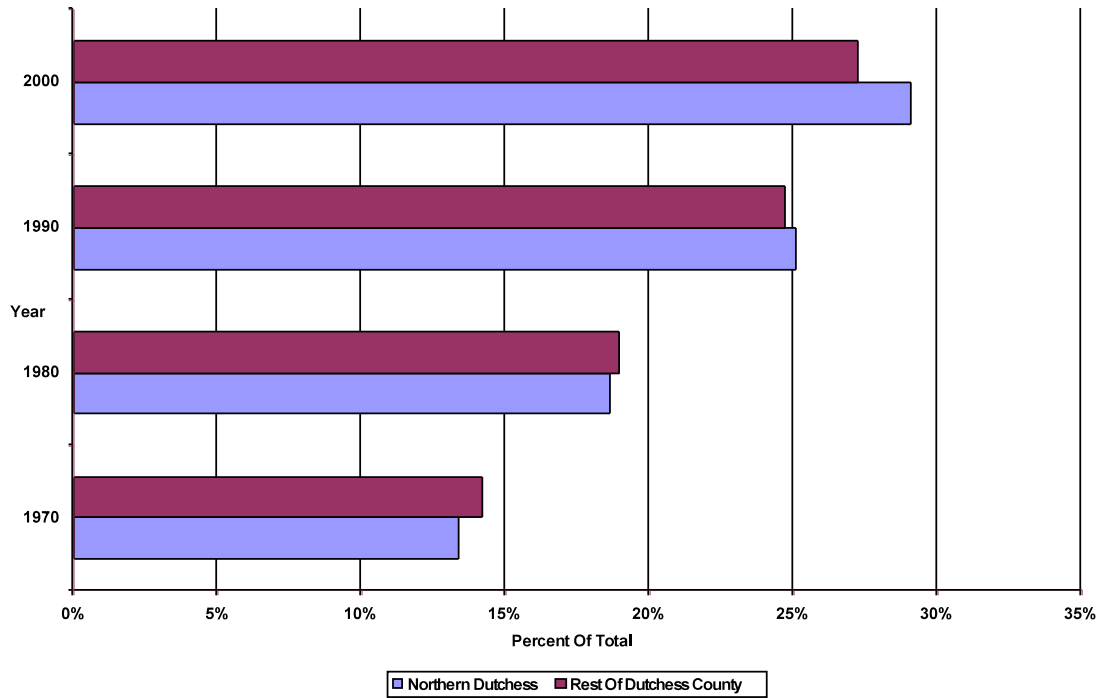
Chart 1: Workers Employed in Private Sector, Government, and Self-Employed

| Town/Village | Private | % Priv. | Gov | % Gov | Self-emp | % Self-emp |
|-----------------|---------|---------|-------|-------|----------|------------|
| Clinton Corners | 1,556 | 69.2% | 459 | 20.3% | 233 | 2.5% |
| Hyde Park | 7,306 | 75.6% | 1,881 | 19.5% | 472 | 4.9% |
| Milan | 749 | 66.0% | 225 | 19.9% | 150 | 13.3% |
| Pine Plains | 920 | 73.7% | 194 | 15.5% | 134 | 10.7% |
| Pleasant Valley | 3,462 | 75.8% | 786 | 17.2% | 305 | 6.7% |
| Red Hook | 4,472 | 73.0% | 985 | 16.0% | 594 | 10.0% |
| Rhinebeck | 3,315 | 68.0% | 916 | 19.0% | 608 | 12.0% |
| Stanford | 1,304 | 69.8% | 377 | 20.2% | 187 | 10.0% |
| Tivoli | 455 | 72.5% | 110 | 17.5% | 57 | 9.1% |

While the communities of northern Dutchess County have visible wealth and assets, the middle class faces the same challenges as elsewhere in the United States, including rising costs of health care and insurance (with many uninsured), stagnant wages, unaffordable housing, and shrinking pensions. Poverty is also real. In Dutchess County poverty rose from 7% in 1990 to 9% in 2000; non-urban poverty increased from under 1% to 4% in that same period. While low compared with many regions, this poverty rate underscores the need for concerted action to expand economic opportunity and to use local resources more effectively.

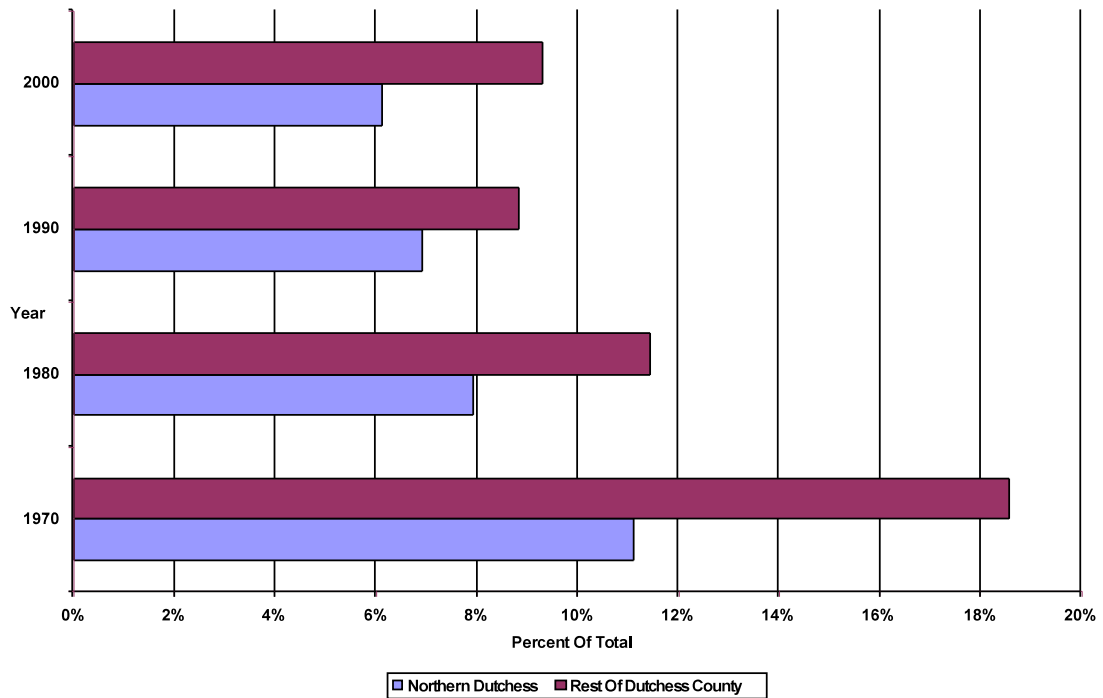
The work force in Northern Dutchess County is well educated and has improved relative to the county as a whole. Between 1970 and 2000 the share of the Northern Dutchess population with graduate degrees has doubled from 14% to 28%. The large number of people with graduate and professional degrees provides a solid basis for expansion of its knowledge economy. At the same time, a modest portion of the population has been missed by local educational opportunities. Among 16 – 21 year olds, 6% have not completed high school and are not enrolled in 2000, although this share has declined from over 10% in 1970.

Individuals over 25 years old with completed graduate/professional degree



Similarly, the share of the youth population not enrolled in school has declined more rapidly in Northern Dutchess than in the county as a whole. [Source: Census].

Individuals 16-21 years old neither enrolled nor having completed high school



The top employment sectors in the regional economy are education, health care, and human services. In addition, government itself is a significant employer, with over 2,000 people working in area public K-12 schools. Important industries such as tourism have long-standing government involvement in connection with historic sites such as the Roosevelt and Vanderbilt Estates, run by the National Park Service with approximately 60 employees in the Northern Dutchess region. The New York Office of Parks, Recreation and Historic Preservation has an estimated 28 permanent employees and another 60 seasonal workers in the summertime.

Table 2.

Top private sector employers (summer 2005)

| | |
|--|---------------------------|
| Anderson School | 480 |
| Astor Home for Children | 203 |
| Baptist Home of Brooklyn | 185 |
| Bard College | 656 |
| Culinary Institute of America | 660 |
| Devereaux Foundation | 375 |
| Ferncliff Nursing Home | 420 |
| | 510 |
| Omega Institute for Holistic Studies – | 60 fulltime/ 200 seasonal |

Financial Assets

While households in the region tend to invest more money than the U.S. average outside the region, there remain substantial financial resources for capitalizing new business ventures. Bank deposits totaling \$822,845,000 are held in seventeen financial institutions serving the area – less than half the per capita depository rate statewide. Some, like Rhinebeck Savings Bank, are locally owned and have significant commercial lending programs. Others, like Bank of New York, are among the largest commercial banks in the world. If the savings characteristics of Dutchess County households mirrored those of the United States as a whole, five to six times more financial resources would be held in the form of stocks, bonds, insurance funds, mutual funds, pensions, and trusts.

Transportation system

Transportation services in the region also shape economic opportunities and constraints. The most important mode of transportation, and the only mode for most, is the car. Commuters move in substantial numbers north-south along the scenic Taconic Parkway and commercial Route 9, as well as east-west on state route 199 across the Hudson River on the Kingston-Rhinecliff Bridge to Ulster County and throughout the region. While

every community provides some employment for residents, commutes of twenty to 45 minutes are common. In most of the towns, between a fifth and a seventh of the workforce commutes more than 45 minutes per day. The towns with the highest percent with long commutes include Clinton and Milan, at 22%. Red Hook and Hyde Park are at the lower end, at 14%. The fraction of the population with long commutes depends on the scale of the local employment base, as well as distance to major employment centers.

Mass transit to and from the region provide important alternatives to automobile use. Commuter-oriented bus service links major cities of eastern New York on Short Line and Adirondack Trailways; commuter rail, via Amtrak and Metro North's Hudson and Harlem Lines, link the region to New York City and points north. Dutchess County Airport in New Hackensack also offers limited commercial service and charter services. Within an hour's drive to the west, across the Hudson River, Stewart International Airport in New Windsor has five airlines for general and corporate aviation services. And the Albany International Airport is within commuting range.

Mass transit opportunities within the region are limited. A local bus service serves Dutchess County on the LOOP system. However, ridership is low. The dispersed pattern of land use increases the challenge of accessibility to the system, including parking. The LOOP system likewise misses important linkages such as service across the Rhinecliff Bridge to Kingston. Student-oriented transportation on the Bard College shuttle connects the Annandale campus with Red Hook and Tivoli, and continues on weekends to the Amtrak and Metro North stations.

Public access to the Hudson River is available up and down the Dutchess County waterfront, and is a point of pride and attraction. Boats can be launched from the Rhinebeck Town Landing, Tivoli Bays Recreation Area, and other points in the region. Tivoli, Rhinebeck (Rhinecliff), Saugerties and Kingston have signed a memorandum of understanding (MOU) to study the feasibility of intermunicipal ferry service. However, considering the extensive shoreline and the popularity of river access, more could be done with this asset, especially in the Hyde Park area.

Civil Society Institutions

One very important strength the Northern Dutchess region has is a relatively advanced set of "smart growth" policies, as reflected in town and village comprehensive plans and land protection partnerships such as the Greenway Compact and in increasing efforts to use tools like Transfer of Development Rights. These have been implemented with the active involvement of three Chambers of Commerce, the county economic development agency, town planning boards, several economic development committees, private nonprofits such as Glynwood Center and Cornell Cooperative Extension, and service clubs such as Rotary International. All these players are exploring economic strategies side by side with local governments and NDA. Thanks to this groundwork, the towns, villages, and hamlets are now well positioned to foster home-grow enterprises.

II. Guiding Regional Values

If the Northern Dutchess Region wishes to protect and enhance its assets, it must be as mindful of the quality of economic development as it is of the quantity. Well-paying jobs and robust economic growth are clearly important to the region, but not at any cost. The starting place, therefore, for charting a new course for economic development is to articulate, as clearly as possible, the values the region wishes to embrace.

The NDA has analyzed the Comprehensive Plans of member towns and villages that are in place or are under development, and identified 14 themes that appear repeatedly in most or all of the plans. These themes have been reorganized into four clusters of related values for simplicity in this discussion: regional character and aesthetics; quality of life; smart, sustainable growth; and local control and regional collaboration. Table 3 below lists these values and the corresponding comprehensive plan themes.

Values Embodied in Northern Dutchess Comprehensive Plans

Table 3

| Economic Development Value | Comprehensive Plan Themes |
|-----------------------------------|--|
| Regional Character & Aesthetics | Natural Features |
| | Historic Preservation |
| | Preservation of Town/Village Centers |
| | Tourism |
| | Preservation of Agriculture |
| Quality of Life | Affordable Housing in Existing Neighborhoods |
| | Appropriate Transportation |
| | Community Facilities |
| | Need-Driven Economic Development |
| Smart, Sustainable Growth | Natural Features |
| | Environmental Quality |
| | Careful Land Use |
| | Walkable Communities |
| Local Control & Stewardship | Community Involvement |
| | Community Values |

“Regional Character and Aesthetics” recognizes the value of what is already in place. It is both conserving and conservative. The region is filled with natural beauty, historic landmarks, landscapes, and family farms that make up its character and constitute the essential reason why many people moved to the region and stay here. This is what draws visitors and tourists, who in turn are important contributors to the economy.

“The Quality of Life” of the region is generally high in terms of aesthetics and amenities and a low level of extreme poverty, which is why people are willing to undertake substantial commutes to live here. Unlike many rural areas in the United States, Northern Dutchess has decent schools, hospitals, community centers, and public services. While mass transit in the form of trains and buses is insufficient, getting around is relatively easy over a vast network of roads and bridges. The region also has a number of wonderful, distinctive products including foodstuffs and crafts. Property prices are escalating, but compared to areas closer to New York City, a greater percentage of the housing is affordable.

Essential to maintaining the previous values is **“Smart, Sustainable Growth.”** “Sustainability” requires preservation of natural capital, including land, water, and air. “Smart growth” favors in-fill development, multiple uses of land, walkable communities, and protection of existing green spaces. It’s fair to say that all major political parties in the region, Republican and Democrat alike, embrace these environmental values to some degree.

Local control and stewardship are both evident. There is widespread recognition, and appreciation, that an important part of the region’s character is the presence of many small **towns and villages**, each with lively public participation and civic culture. Residents cherish the strong sense of community and community engagement, even when local politics becomes heated.

While there are few businesses that these values automatically exclude – even large-scale manufacturing, for example, can be done in environmentally sensitive ways – they do imply three broad characteristics of desirable businesses.

First, locally owned businesses seem most likely to preserve regional character. Family farms, shops, crafts, and other traditional businesses simply cannot be owned by outsiders and retain their distinct, homegrown flavor.

Second, smaller scale businesses are more likely to be consistent with the region’s quality of life. Very large-scale enterprises with thousands of employees cannot fit well within the current fabric of small towns and villages. “Small,” however, is a relative term, and it is worth noting that the Small Business Administration defines a small business as one with fewer than 500 employees. Businesses consistent with smart growth also tend to be smaller. In-fill development, for example, works best with smaller and home-based businesses.

Third, the commitment to “smart growth” development strategies limits the possibilities for large-scale manufacturing, wholesaling, utilities, and

transportation. These kinds of businesses are possible, but only if done with care. Both local ownership and smaller scale, as we shall see, are reasonable ways to ensure such care.

The kind of economic development most likely to build on these characteristics is discussed in the next section.

III. Economic Development Framework

There is a growing body of evidence that a successful local economy is grounded in a network of small businesses, owned mostly by people in the community, serving the region's economic needs. The key businesses serving this type of development can be described with the word LOIS – short for locally-owned and import substituting.

LOIS differs from other economic development approaches that rely on courting outside companies, particularly those that employ expensive subsidies and tax breaks. Instead, LOIS seeks to grow the region from the inside out, by matching local needs with local assets. By developing locally owned, import-substituting businesses, LOIS helps a community develop a resilient network of employers that can insulate it from the ups and downs of the global economy.

Why Local Ownership?

When businesses are owned locally, they tend to be more responsive to local needs and concerns, and they provide stronger economic benefits to the region than businesses owned far away. Locally owned businesses are more likely to hire and train local people, rather than to outsource jobs to a distant corporate headquarters or branch office. They purchase more inputs and support services from other local businesses, generating a positive feedback loop of prosperity that economists call the multiplier effect. Studies from around the world suggest that a dollar spent at a locally owned business generates two to four times the ultimate economic impact of a dollar spent by a business owned far away.

Local business owners, rooted in the community, are also much less likely to pack up and leave. When business owners are also community residents, they are more likely to work with the community to shape its laws, regulations, and business incentives to serve the local quality of life. Today, most communities are effectively held hostage to their largest companies, who can demand tax breaks, lax regulations, and low wages, and ultimately may leave anyway. While not immune to pressing their case aggressively with local politicians, locally owned companies usually do not threaten to leave town – their roots in the community are too deep and the cost of departing too high.

Why Import-Substitution?

Import-substituting development means that rather than setting out to try to produce something to be shipped all around the world, a community should look first to the local market. What are the people in town actually buying? Are these goods and services being made locally? Can they be bought from a local shop? If not, there's a business

opportunity that can boost the local multiplier. Every time a community chooses to produce its own apples rather than import them, for example, it boosts the economic well being of its own apple farmers, as well as all the local suppliers to these farmers and all the other local businesses where the farmers spend their money.

Greater self-reliance also reduces the vulnerability of a community to products of dubious quality (like contaminated meat produced in large processing facilities at remote locations) and to sudden cutoffs of key supplies, through political instability, natural disasters, oil embargoes, and the like.

Import substitution does not mean economic isolation. In fact, import-replacing development may be the most effective way of creating a strong export sector. Supporting diverse local enterprises enhances the skill base of the community, allowing it to offer many products for export and reducing the impact of disruptions to any one product market.

The LOIS Planning Process

Economic development grounded in a LOIS philosophy aims to match assets for new and expanded local businesses with potential local market demand for these businesses. One way to measure demand is by looking, as we have done, at dollar leakages. By leakages, we mean places where dollars are leaking out of the community through purchases of non-local goods and services that could be produced locally. *Anything that is being imported, but could be produced cost-effectively at home, suggests a good place to engage in business development or expansion.* By looking at all of its import dependencies, a region can determine where unused or underused assets can best be deployed.

IV. Leaks and Strengths

Following the LOIS approach to economic development, key leakages in the Northern Dutchess region have been identified by comparing the number of jobs in each sector with those in the U.S. as a whole. Because the U.S. economy is relatively self-reliant (currently about 16% of Gross Domestic Product goes to imports), and because the buying patterns of American households are very similar from region to region across the country, a self-reliant regional economy should have a job composition that does not differ much from the national average. A truly self-reliant region would have equivalent representation of all the business types in the United States. In the sectors where the region has proportionally more economic activity than the U.S. average, it probably is exporting. In the sectors where the region has proportionally less, it probably is importing.

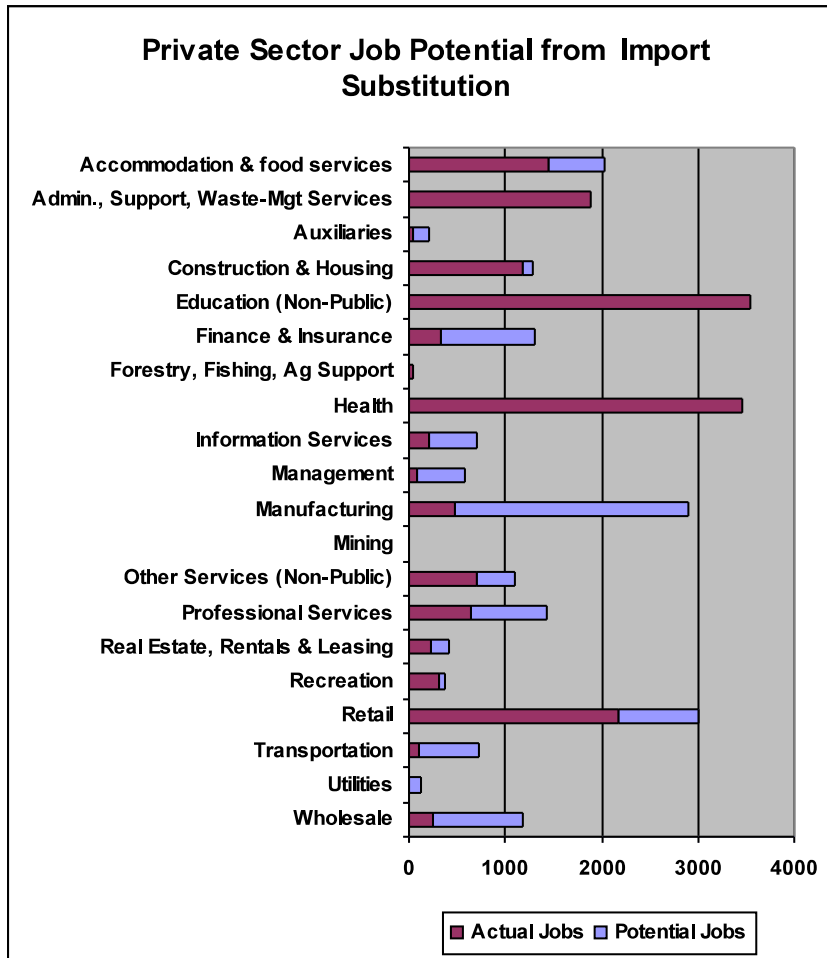
Not every industry, of course, can be undertaken locally. Some sectors, like mining or fishing, require location-specific resources. Others require clusters of support industries. Additionally, import replacement is not always desirable even in situations where it is possible. Few communities, for example, want to bury nuclear waste. This underscores the importance of screening the list of business opportunities implied by leakages so that they are consistent with the region's values and plausible given the available assets.

The two charts below show the results of this analysis for the Northern Dutchess economy, based on data from the U.S. Census Bureau's County Business Patterns, 2002 edition. It should be noted that Census figures are imperfect and that substantial change may have taken place in some industries since then. The number of reported jobs in each sector of the Northern Dutchess region's economy is compared to the number in the U.S. as a whole, adjusted for population. (This data set only includes jobs in the private sector. Public sector jobs, such as local government and public education, are not included because they are not easily influenced without changes in public policy.)

As can be seen in Chart 2 below, more than 9,000 new jobs are potentially available throughout the economy.³ Those sectors where more than 500 jobs are possible are, in ascending order: information services (501 jobs), management (504), accommodation and food services (591), transportation (611), professional services (780), retail (814), wholesale (932), finance and insurance (963), and manufacturing (2,424).

³ In this framework, the U.S. Census "NAICS" coding system, "Auxiliaries" are internal services within a business but separate from its main purpose – for example, drivers of a fleet of delivery trucks owned by a building supply company.

Figure 1



In practical terms, here is what the numbers are saying: Most of the jobs in the region’s economy currently come via the health-care industry, education, construction and housing, retail, support and waste management services, and accommodation and food services. The size and strength of health care and education should not be surprising, since these are often the biggest sectors in rural economies. Accommodation and food services reflect the significance of tourism and hospitality. The large presence of construction and housing, as well as of retail, reflects the rapid residential growth in the region, some of it sprawling.

Chart 2**Actual vs. Potential Jobs in the Northern Dutchess Region by Sector**

| Sector | Potential Jobs If Northern Dutchess Equaled US Average | Northern Dutchess Actual Jobs | Additional Jobs Possible from Import Substitution |
|-------------------------------------|---|--------------------------------------|--|
| Accommodation & food services | 2,031 | 1,441 | 591 |
| Admin., Support, Waste-Mgt Services | 1,677 | 1,891 | 0 |
| Auxiliaries | 204 | 38 | 167 |
| Construction & Housing | 1,275 | 1,176 | 99 |
| Education (Non-Public) | 546 | 3,549 | 0 |
| Finance & Insurance | 1,297 | 334 | 963 |
| Forestry, Fishing, Ag Support | 37 | 50 | 0 |
| Health | 3,012 | 3,466 | 0 |
| Information Services | 715 | 214 | 501 |
| Management | 589 | 85 | 504 |
| Manufacturing | 2,909 | 485 | 2,424 |
| Mining | 94 | 23 | 0 |
| Other Services (personal care) | 1096 | 712 | 384 |
| Professional Services | 1424 | 645 | 780 |
| Real Estate, Rentals & Leasing | 408 | 226 | 182 |
| Recreation | 364 | 303 | 61 |
| Retail | 2,996 | 2,182 | 814 |
| Transportation | 724 | 113 | 611 |
| Utilities | 131 | 7 | 124 |
| Wholesale | 1,185 | 253 | 932 |
| Unclassified | 7 | 13 | 0 |
| Totals | 22,719 | 17,200 | 9,138 |

In terms of the dollar and job leakages, very little manufacturing is done in the region. This is due partly to the downsizing of IBM in the early 1990s and the long-term reduction of the number of local suppliers, as well as to long-standing efforts to protect the rural and aesthetic character. This also helps explain the dearth of management jobs. Any increase in manufacturing, especially small-scale and environmentally sensitive production, could help plug these leaks. Some residents, of course, are managers commuting to jobs in New York City and in other suburban areas. That they are not working in the Northern Dutchess Region means that some of the professional services and information services that they use may be located elsewhere. The limited number of major shopping destinations, another result of protecting open and natural spaces, also means leakages of retail and wholesale jobs to neighboring areas. The typical means of transportation that residents use, outside-produced automobiles using imported oil and the New York City-based transit and rail systems, are also sources of leakages.

V. Sector Analysis

The previous section summarized leakages from the region overall and the potential region-wide job and growth opportunities available through leak-plugging. In this section we go a level deeper and present more detailed portraits of the most important sectors of the Northern Dutchess Region. Based on conversations with NDA and the preliminary leakage analysis, the consultant team assembled working groups to look more closely at five sectors of concentrated business clusters and signs of realistic opportunity within sectors and by fostering collaboration among sectors:

- Natural Resources Industries (with an emphasis on food and agriculture)
- Construction and Infrastructure (with an emphasis on land-use and sprawl reduction strategies)
- Retail and Wholesale
- Tourism
- Services (with an emphasis on professional services)

The region clearly has important business opportunities in *every* sector, but these five were selected as most consistent with the values and trends of the region, and also because these were the sectors in which a significant number of motivated experts could be found. The team had also originally planned to include a sixth sector, manufacturing, but we were unable to find a critical mass of existing industry leaders who had interest in linking with local markets. Leak-plugging potential clearly exists, especially if linked with other priority industries such as construction, alternative energy, or food processing.

While the composition of each working group varied, the goal was to put together 5-15 residents with experience, knowledge, and interest in the sector. We were especially eager to involve businesspeople themselves, along with advocates, educators and other experts representing county and local government agencies. A complete list of participants can be found in Appendix I. Each working group met for two to three hours. The chairs asked participants to review several pages of data on the sector concerning assets, challenges, strengths and leakages suggested by the data, and business opportunities. He or she encouraged corrections, additions, and changes to reflect a more current and detailed picture than the census data could provide. Below, the findings of each group are summarized.

(1) Natural Resources Industries

Assets

Because farmland preservation and farm economic viability are understood regionally as a major underpinning of open space protection and livable communities, agriculture was the focus of our deliberation. Value-added forestry products are a much smaller niche, but one that has been valuable in other parts of eastern New York including the Catskill Watershed.

The region has many important assets in its food and agriculture sector:

Consumer Demand: The Hudson Valley is one of the fastest growing regions in New York State, both in terms of population and employment. It is also increasingly educated and affluent. All these factors mean increasing demand for local, high-quality food.

Buying Local: An emerging trend nationally is that supermarkets and food stores are buying local produce and meats, linking local farms to local consumers. The Hudson Valley Fresh branch could expand beyond dairy. There are also opportunities to expand NDA farm-to-school initiatives.

Local Food Brands: A number of entrepreneurs have successfully developed branded farm products, such as Coach Farm Goat Cheese and Sprout Creek Cheese, as well as the Hudson Valley Fresh dairy branding initiative. The proximity of local food processing – for example, through Hudson Valley Food Works - offers opportunities for more brands.

History: There is a rich history of family farming in the region that residents are committed to protecting.

Agri-Tourism: Family farms are part of the landscape, the scenery, and the cultural traditions of Hudson Valley. They are a critical part of the magnet that draws tourists, and farmers are developing ways to capitalize on this.

Leadership: A number of nationally recognized organizations in the region are supporting agriculture preservation, such as the Glynwood Center, the American Farmland Trust, New York State Farm Bureau, Cornell Cooperative Extension, the Hudson Valley Agricultural Partnership and Scenic Hudson.

New Farmers: A growing number of “Opies” live in the Hudson Valley. “Opies” is the *New York Times* term for the “organic professionals,” the high income farmers who bring their money and equipment to the region. While some of these farmers have alternate sources of income, many have high levels of commitment to their farms. They also help protect open space and provide visibility to the distinctiveness of Northern Dutchess assets.

Culinary Institute: The Culinary Institute of America is an internationally

recognized center for food excellence, including the production, processing, branding, and cooking of local foods. It has an active adult education program for enthusiastic amateurs, or “foodies,” as well as professional training for chefs.

CSA and co-ops: Community Supported Agriculture networks are stable in the region. Food buying cooperatives also link consumers to area farms. (New York State now has 22, up from 10 a few years ago.)

Regional Markets: The proximity of huge markets, especially in New York City, offers myriad potential outlets for local food producers. A potential venue for new regional markets is in Hyde Park as part of a planned regional tourism and transportation center.

Farm Finance: New institutions are coming onto the scene to finance food and farming ventures, including a collaboration among the American Farmland Trust and various local financial institutions.

Biofuels: As the price of oil rises, there are growing opportunities to develop biofuels from restaurant, agriculture, and forestry waste, as well as from selected perennial crops such as switchgrass (Cornell Cooperative Extension has done a significant pilot project with this crop).

Challenges

The region faces a number of constraints that, unless remedied, may hold back progress in the food and agriculture sector in the coming years:

Deteriorating Infrastructure: Many existing family farms are struggling and unable to undertake upkeep of their farms and infrastructure. There are also shortages of veterinarians, slaughtering facilities, and equipment suppliers.

Underutilized Farms: A number of farms, owned by professionals and investors with primary commitments elsewhere, are not being fully utilized.

Policy Weakness: Many regard local policies, such as taxes and subsidies, as not being sufficiently supportive of local agriculture.

Entrepreneurial Weakness: The recent report, *At A Crossroads: Agricultural Economic Development for Hudson Valley*, the American Farmland Trust recommended the establishment of a Hudson Valley Agricultural Development Corporation with “specific authority to develop physical community assets, promote economic development, foster leadership development, assist agricultural businesses with technical and financial services, and build agribusiness capacity.”

Scale: There are not enough small-scale farms to supply large grocery chains, and there are not enough good intermediaries to organize local farms into

reliable supermarket suppliers.

Age: The average age of farmers is in the late 50s, and few younger families seeking this lifestyle. This makes it difficult to help farmers overhaul the way that they do business.

Challenges to Identity: The rapid growth of population, buildings, and cars may be undercutting the area's beauty and natural resources, and adding to pressures for existing family farmers to sell off their land.

Regional Leakages and Strengths

The charts below repeat the analysis of leakages, but illustrate specific types of natural resource businesses. These data cover all non-farm business.

Farm data are not included because the agricultural census is not a reliable source of employment data (there is too much chronic underreporting and seasonal variation), and it presents its data in somewhat different formats than we show for other sectors. Here, is our best picture of the sector and its leakage based on the agricultural census of 2002:

Although less than one third of the farms in Dutchess County reported hiring farm labor, 977 jobs were created and more than \$7 million payroll.

While Dutchess County has .1% of the U.S. population, it has only .03% of the farms and .02% of the value of farm products, suggesting considerable leakage from importation of food.

The average value of farm sales in Dutchess County was roughly \$50,000, compared with \$90,000 in the U.S.

Chart 3 lists other business categories touching on natural resources industries where the Northern Dutchess region has the greatest leaks, relative to the US economy average. These are areas of weakness for the economy but also of opportunity. Topping the list are animal slaughtering, bakeries, and manufacturers of boxes and wooden cabinets.

Chart 4 lists the business categories where the Northern Dutchess region has "extra" jobs relative to the national average. One item standing out is animal production support. This strength could be the starting points for clusters of new business development, including live animal breeding, slaughter, and value-added production. These, of course, would have to be done at a relatively small-scale to be consistent with the region's values.

Chart 3**Top Leaks in the Northern Dutchess Natural Resources Industries**

| Subsector | Potential Jobs If Northern Dutchess Equaled US Average | Northern Dutchess Actual Jobs | Additional Jobs Possible from Import Substitution |
|---|---|--------------------------------------|--|
| Poultry processing (small, large, and mobile) | 48 | 5 | 48 |
| Animal (except poultry) slaughtering | 30 | 3 | 30 |
| Commercial bakeries | 30 | 5 | 25 |
| Corrugated & solid fiber box mfg | 24 | 0 | 24 |
| Wood kitchen cabinet & countertop mfg | 26 | 3 | 23 |
| Meat processed from carcasses | 20 | 0 | 20 |
| Paper (except newsprint) mills | 20 | 0 | 20 |
| Logging | 14 | 10 | 4 |
| Post-harvest crop activities (exc ginning) | 6 | 0 | 6 |
| Forestry support activities | 3 | 1 | 3 |
| Soil preparation, planting, & cultivating | 2 | 0 | 2 |

Chart 4**Top Strengths in the Northern Dutchess Natural Resources Industries**

| Subsector | Potential Jobs If Northern Dutchess Equaled US Average | Northern Dutchess Actual Jobs | "Extra" Jobs in the Northern Dutchess Region |
|---|---|--------------------------------------|---|
| Animal production support activities | 5 | 40 | 35 |
| Choc & confectionery mfg from cacao beans | 2 | 3 | 1 |
| Sewage treatment facilities | 1 | 7 | 6 |

Recommended agriculture and natural resource businesses and-support strategies

Discussions with NDA and the sector working group highlighted the following business and business-support ideas as being particularly promising:

Develop slaughter facilities for processing livestock, including cattle, sheep, goat, poultry, pork, and venison, or perhaps a cooperative based on four existing facilities in Northern Dutchess.

Expand production of local grains such as wheat and barley.

Promote more value-added food industries, like a factory making chocolate-milk (already produced in limited amounts by Hudson Valley Fresh).

Create a biofuel/biochemical plant using local switchgrass and other local biomass as feedstocks.

Develop a comprehensive inventory of local farms by location and category of product that builds on ongoing work of the Cornell Cooperative Extension Service's Dutchess County Office and the Glynwood Center (especially its "Keep Farming" program). Use this inventory to provide product information to consumers and to develop new marketing opportunities.

Develop a comprehensive list of farm organizations. It should include the Agriculture Environmental Management (AEM); Hudson Valley Agriculture Project (HVAP); Dutchess County Farm Bureau; Dutchess County Dairy Committee; the New York State Farm Viability Institute (based in Syracuse); the Dutchess County Sheep and Wool Association; and the Holstein Club, Beef Producers, and Pork Producers. Provide information about business opportunities to this network making use of the website of the Hudson Valley Agricultural Partnership.

Improve forestry management consistent with a more robust wood-products industry, and explore opportunities for value-added forest products enterprises.

Educate more farmers (and would-be farmers) about the potential for value-added businesses.

Support the existing farmers' markets in Rhinebeck, Hyde Park, and Pleasant Valley; explore the possibility of another in Red Hook; and support current plans to develop a farmers' market at the Regional Visitors' Center at the Roosevelt Estate.

Support and expand Hudson Valley Fresh, a brand that brings fresh milk from local farmers to local consumers.

Further promote regional branding, in collaboration with other agencies and businesses, and develop collaborative ties among local food producers to

market their products under the brand to farmers' markets, restaurants, and grocers in New York City. Also use the brand to enhance marketing through local farm stands, pick-your-own farms, and grocers – especially the burgeoning co-op markets of New York State (22), Massachusetts (13), and Vermont (16).

Encourage local food purchasing by local restaurants (including fast food establishments) and by public entities such as schools, colleges, parks and historic sites, and government commissaries.

Develop value-added, sustainably harvested wood products including vintage and reclaimed woods.

(1) Construction and Infrastructure

Assets

The region has many important assets that already support a strong construction and infrastructure sector (including the built environment, power and communications utilities and related industries). This section of the report focuses primarily on construction because the region is experiencing such a boom in homebuilding and some volatility in the real estate market. The Hudson Valley remains one of the fastest growing regions in New York State in terms of population and employment. Among the assets that are fueling this growth are:

Construction Industry: The construction industry itself, focused on housing, is a dense network of contractors and sub-contractors with many specialties, including mobile, fabricated, modest suburban, and multi-family homes; restoration; and high-end estates. In Dutchess County, growth in construction employment in the first quarter of 2005 increased by 3% from one year ago, a continuing rapid rate of growth. Over the period between 2000 and 2004, the construction sector has increased by 16%, more than double the rate of growth of the total employment of the county overall, of 5.9%.

Valuable Real Estate: The demand for housing in Northern Dutchess County is very high, in part because the land is highly desirable. The area has profound scenic beauty with its farms, valleys, mountains, and river views. Downstate buyers and low lending rates are buoying the prices for this limited resource.

Public Infrastructure: The schools are high quality, enjoying support from the communities, with vibrant non-profit organizations in the arts, religion, and culture. Parks are available for recreation in all seasons.

Transportation: The transportation network provides adequate trains and roadways that link the Hudson Valley with Albany, Massachusetts, and Vermont to the north, and with New York City, Connecticut, New Jersey, and Pennsylvania to the south.

Residents: The residential population is increasingly educated, affluent, and mobile. New populations in the region offer a wide variety of skills and a growing base for producing and buying local products.

Businesses: Many firms in the construction industry are small and medium-sized, with strong roots and local ties. Some employers have discussed employer-assisted housing (e.g., financial assistance with down payments, closing costs, and the like) and would have the option of choosing local builders.

Leadership: Organizations such as the Dutchess County Economic Development Corporation, Hudson Valley Smart Growth Alliance, and the Builders Association of the Hudson Valley advocate effectively for these industries and have helped these members navigate complex regulatory barriers

Construction Innovation: Some local firms have developed alternative energy and “green” home building products and services, which integrate the built and natural environments. Other local firms have developed “heritage” and “antique” design and renovation skills. Local leaders in the industry are providing vision for integrating economic development with preservation.

Housing Stock: The housing stock in the region is predominantly from the post war-period, with important nineteenth century historic housing in the riverfront communities providing regional ambience and pedestrian-friendly neighborhoods.

Challenges

The region faces a number of constraints that, unless remedied, may slow or stop growth in the coming years:

Housing Price Escalation: New developments of significant size are now underway throughout the county, with land being purchased increasingly by outside and national developers. Home prices in Dutchess County have increased by more than 25% between 2002 and 2004. This is good news for owners, bad news for renters and those seeking affordable housing, and mixed news for those seeking to preserve the region’s character.

Loss of Affordable Housing: Several recent reports on affordable housing have documented the mounting economic tensions (www.rpa.org), as working families and individuals are forced into surrounding counties to find residences. This migration in turn increases the commute time and reduces the labor force for NDA employers.

Sprawl: More people, buildings, and cars may undercut the area’s beauty and real estate values. Residents, both new and existing, often feel very protective of the natural beauty of the area, and fear loss of quality of life with further development.

Stretched Infrastructure: On the one hand, since school district and municipal land use are separate functions, development often impinges on the local tax base and can raise the cost of schools and other municipal services. On the other hand, the increasing employment and population in the region and escalating home prices lead to economic development and greater tax payments. Overall, however, water systems, sewer infrastructure, and roads are not equipped for the recent growth, and fiscal stress is increasingly a public issue. [See Appendix 2.]

Worker Shortages: In Northern Dutchess, and the mid-Hudson Valley, there is a pronounced skilled labor shortage in the building trades.

Water: The local infrastructure consists predominantly of individual well and septic for residential developments, although increasingly public water systems are being consolidated. In recent years some public systems have failed, due to drought or pollution, with unforeseen costs imposed on residents.

Eco-Building: Few builders have adapted their materials, designs, and projects to lessen the impacts of sprawl, reduce energy use, and minimize water use.

Competition: Local builders lack the scale and financial capacity to compete with national builders on large scale clustered development.

Regional Leakages and Strengths

The following charts provide more detailed information about the leaks in the construction sector. Chart 5 presents the business categories where the Northern Dutchess region has the greatest leaks, relative to the US economy average. The data suggest that the top categories of construction-related activities that use outside business are couriers, air and truck transportation, and certain types of contractors (concrete and drywall).

Chart 6 presents the greatest areas of strength, where the Northern Dutchess region has "extra" jobs relative to the national average. Construction overall is an area of tremendous strength, reflecting the housing boom in the region.

**Chart 5
Top Leaks in Northern Dutchess Construction Sector**

| Subsector | Potential Jobs If Northern Dutchess Equaled US Average | Northern Dutchess Actual Jobs | Additional Jobs Possible from Import Substitution |
|---|---|--------------------------------------|--|
| Couriers | 101 | 0 | 101 |
| Scheduled passenger air transportation | 98 | 0 | 98 |
| General freight trucking, long-distance, TL | 96 | 0 | 96 |
| General freight trucking, long-distance, LTL | 51 | 0 | 51 |
| Concrete contractors | 62 | 13 | 49 |
| Drywall, acoustical & insulation contractors | 59 | 18 | 42 |
| Water, sewer & pipeline construction | 40 | 3 | 38 |
| Highway & street construction | 55 | 21 | 34 |
| Electrical contractors | 156 | 122 | 34 |
| Specialized freight trucking, local | 38 | 8 | 31 |
| Specialized freight trucking, LDist | 30 | 0 | 30 |
| General freight trucking, local | 32 | 3 | 29 |
| Roofing, siding, & sheet metal contractors | 49 | 25 | 25 |
| Used household & office goods moving | 23 | 3 | 21 |
| Power, communication transmission line construction | 20 | 0 | 20 |
| General warehousing & storage | 19 | 0 | 19 |
| Mfg & industrial building construction | 18 | 0 | 18 |
| Land subdivision & land development | 18 | 3 | 16 |
| Structural steel erection contractors | 15 | 0 | 15 |

**Chart 6
Strengths in Northern Dutchess Construction Sector**

| Subsector | Potential Jobs If Northern Dutchess Equaled US Average | Northern Dutchess Actual Jobs | "Extra" Jobs in the Northern Dutchess Region |
|--|---|--------------------------------------|---|
| Single-family housing construction | 141 | 238 | 97 |
| Carpentry contractors | 53 | 91 | 38 |
| Excavation contractors | 29 | 63 | 33 |
| All other heavy construction | 32 | 64 | 32 |
| Commercial & institutional building construction | 129 | 159 | 30 |
| Painting & wall covering contractors | 44 | 59 | 15 |
| All other special trade contractors | 42 | 53 | 11 |
| Special needs transportation | 7 | 15 | 8 |
| Freight transportation arrangement | 33 | 40 | 7 |

Recommended Construction and Infrastructure Support Strategies

Discussions with NDA and the sector working group highlighted the following business and business-support ideas as being particularly promising:

Nurture local architects, builders, and contractors who specialize in green building, smart-growth design, and historic preservation. Encourage their collaboration on cluster and infrastructure development. Improve their training opportunities and provide affordable housing for their support staff.

Encourage residents, businesses, and government agencies to preferentially hire these architects, builders, and contractors.

Undertake a region-wide review of policies and practices that might unnecessarily limit the development of home-based businesses.

Create energy or water service companies that essentially sell conservation by providing integrated services for the conservation and/or supply of energy, so that the company makes money by helping customers conserve. Or set up a waste disposal company that can reduce residential and commercial dependency on outside businesses and land-fills. (New York State provides incentives to help develop alternative energy and alternative drinking water supplies.)

Make more sustainable use of indigenous building materials, including local wood, straw bale, gravel, and rock.

Develop additional production and distribution capacity for high performance, healthy building materials with a low environmental footprint such as siding and countertops made from recycled materials.

Build affordable housing for seniors and for the local work force.

Develop more homegrown freight carrying companies for short and medium-distance hauls.

To encourage more non-auto transit, create more bicycle parking facilities and rental businesses providing bicycles, scooters, and even affordable short-term car rentals along the lines of the hourly “zipcar” in major cities. These could be especially valuable if linked with clusters of tourist sites.

Build modest mass transit systems, including jitneys and trolleys, with seasonal ferry links to these systems.

(1) Retail (and Wholesale)

Assets

While wholesaling is limited and likely to remain that way, the region’s retail sector has many strengths and assets:

Consumer Demand: The Hudson Valley is one of the fastest growing regions in New York State, both in terms of population and employment. The Northern Dutchess population, in particular, tends to be educated and affluent. All these factors mean growing demand for retail purchases.

LOIS Businesses: There are many locally owned retail businesses in the area, with strong roots and local ties. Many have a distinctive flair, because they are specialty retail (e.g. La Mexicana in Red Hook), historic/ heirloom (e.g., the Historic Village Diner and Merritt Books in Red Hook), or eclectic (e.g. Winter Sun/ Summer Moon clothing & personal care items, the corner cigar store in Rhinebeck). Other models within the larger region include Foodworks in Poughkeepsie and La Bella Pasta in Kingston, as well as the organic producer Bread Alone in Boiceville, with cafes in Woodstock, Rhinebeck, and Kingston. Stone Barns in Westchester County is a replicable model of an educational complex focusing on sustainable agriculture, anchored by a high end restaurant and farmers’ market.

Retail Centers: The retail centers of northern Dutchess County are walkable and reasonably well maintained, although water and sewer are often lacking.

Food Expertise: The presence of the Culinary Institute of America supports the potential for a competitive gourmet food industry for the regional market featuring such items as pastries and appetizers that now rely heavily on

imports.

Event Magnets: The Dutchess County Fairgrounds in Rhinebeck hosts many festival type events, including Crafts at Rhinebeck and the Sheep and Wool Festival, which provide another draw to the area and could be better promoted to encourage specialty craft producers to locate here.

Tourism Magnets: Tourism is another major driver for local retail business. Seasonal marketing efforts of the region as a whole, such as winery tours, increase Main Street shopping, dining and strolling. The quality of restaurants, and their reputations, are enhanced by the presence of the Culinary Institute of America. Another draw is the Hudson River waterfront, primarily accessed through historic sites, parks and preserves.

Regional Transportation: The transportation network has excellent trains and roadways that link the Hudson Valley with Albany, Massachusetts, and Vermont to the north, and New York City, Connecticut, New Jersey, and Pennsylvania to the south, all of which can, in theory, facilitate outsiders shopping here.

Advertising Opportunities: The widely read regional newspaper, the *Poughkeepsie Journal*, several town weekly and monthly publications, and a variety of radio stations provide affordable advertising outlets for retailers.

Leadership: Active local Chambers of Commerce exist in Rhinebeck, Red Hook, and Hyde Park, as well as several Lions and Rotary Clubs, all of which are capable of helping retailers better collaborate with one another, and providing assistance to towns which need to develop more local entrepreneurial leadership.

Challenges

The region faces a number of constraints that, unless remedied, may continue to undermine the prosperity of retail and wholesale businesses in the coming years:

Business skills: Limited business skill in some Main Street retail businesses, limited repeat customers, and limited success in branding businesses individually and as a group may be factors in stagnant sales,.

Narrowing Markets: While consumer demand in the region is growing overall, certain segments of consumers are being “priced out” by escalating housing costs. These include the entry level workforce and youth, and concerns are often voiced about migration of young people from the area (although this has not been measured).

Critical Mass: Some retailers struggle to find enough demand. The area’s main streets are less populated than the surrounding mall areas in Poughkeepsie and the Town of Ulster. Red Hook merchants, in particular, report a lack of critical mass. At least one retail outlet – the Ford dealership in Rhinebeck -- has moved from a

main street location out to the surrounding highway, although others, such as Ruge's, have remained committed to the village center. There are anecdotal reports of pressures on car dealerships and department stores from corporate suppliers to make these moves,.

Challenges to Identity: The rapid growth of population, buildings, and cars may be undercutting the area's beauty and natural resources, and hurting those retailers dependent on the regional identity.

Energy Costs: Rising energy prices will pose several problems for retailers, including increased costs of doing business, higher prices on goods sold, and fewer purchasers driving long distances. The scale of Main Street operations is not viewed as large enough for aggregation of energy purchases, according to sources at the Southeastern New York Council of Industries, which offers this service for the manufacturing sector.

Water: Water access may be an issue for businesses on the periphery of commercial districts that depend on well water. In recent years, some public water systems have failed, due to drought or pollution.

Transportation: The County's bus system -- between and within towns -- is limited in both schedules and ridership. Transportation between retail areas, and tourist destinations, such as historic sites and fairgrounds, is auto-dependent. Parking is generally adequate for ordinary activity but is stressed when special events, such as fairs and festivals, occur.

Heritage Tourism: Retailers could benefit if heritage tourists could be nudged toward the town centers. The towns of Hyde Park, Rhinebeck and Red Hook are connected by Route 9, where many historic sites are located, but there is little cross-marketing between the sites and the village centers, nor is there local transportation between historic sites and retail districts other than driving.

Those forms of ground transportation that serve target populations but could be better integrated – for example, by coordinating LOOP schedules with those of commuter rail and bus, and also with public transportation across the Rhinecliff Bridge to Ulster County, a major commercial hub.

Regional Leakages and Strengths

The charts below drill down into the retail sector to look at specific types of businesses that could take root.

Chart 7 presents the business categories where the Northern Dutchess region has the greatest leaks, relative to the US economy average. The top opportunities for new retail and wholesale business in the sector are department stores and stores selling home supplies, clothing, computers, industrial equipment, and automotive supplies. These are areas of both weakness for the economy but also of opportunity. Not all leaks can or should be plugged, just because they exist. For example, the region may not wish to have warehouse clubs and superstores, since these tend to be national chains that could

adversely affect local business, as well as threaten other environmental, cultural, or historic preservation values in the region.

Chart 8 presents the greatest areas of strength, where the Northern Dutchess region has "extra" jobs relative to the national average. The region appears to be selling more than its share of building materials and garden supplies (because of the local housing boom), books, pharmaceuticals, and hardware. Potential clusters around these businesses could be wholesale businesses that serve one or more of the retail strength areas such as wholesale distribution of local crafts.

Chart 7
Top Leaks in the Northern Dutchess Retail and Wholesale Sector

| Subsector | Potential Jobs If Northern Dutchess Equaled US Average | Northern Dutchess Actual Jobs | Additional Jobs Possible from Import Substitution |
|--|---|--------------------------------------|--|
| Department stores | 352 | 75 | 277 |
| Warehouse clubs & superstores | 101 | 0 | 101 |
| Home centers | 84 | 7 | 77 |
| Family clothing stores | 96 | 29 | 67 |
| Computer & peripheral equip & software wholesale | 63 | 0 | 63 |
| Industrial machinery & equipment whsle | 66 | 3 | 63 |
| Automotive parts, accessories & tire stores | 67 | 10 | 57 |
| Women's clothing stores | 61 | 5 | 56 |
| All other general merchandise stores | 62 | 15 | 47 |
| Other grocery & related products whsle | 58 | 13 | 46 |
| Electronic shopping & mail-order houses | 51 | 8 | 43 |
| Drugs & druggists' sundries whsle | 44 | 7 | 37 |
| Other electronic parts & equipment whsle | 59 | 23 | 37 |
| Shoe stores | 41 | 5 | 36 |
| General line grocery whsle | 35 | 0 | 35 |
| Gift, novelty & souvenir stores | 42 | 8 | 35 |
| Radio, television & other electronics stores | 49 | 15 | 34 |
| Sporting goods stores | 39 | 5 | 34 |
| Motor vehicle supplies & new parts whsle | 33 | 3 | 31 |

Chart 8

Top Strengths in the Northern Dutchess Retail (and Wholesale) Sector

| Subsector | Potential Jobs If Northern Dutchess Equaled US Average | Northern Dutchess Actual Jobs | "Extra" Jobs in the Northern Dutchess Region |
|---|---|--------------------------------------|---|
| Other building material dealers | 99 | 311 | 212 |
| Book stores | 28 | 72 | 44 |
| Pharmacies & drug stores | 148 | 182 | 34 |
| Nursery & garden centers | 31 | 60 | 29 |
| Outdoor power equipment stores | 6 | 30 | 24 |
| Motor vehicle parts (used) whsle | 8 | 32 | 23 |
| Food (health) supplement stores | 10 | 32 | 21 |
| Convenience stores | 37 | 57 | 20 |
| Other miscellaneous durable goods whsle | 20 | 40 | 20 |
| Heating oil dealers | 10 | 25 | 14 |
| Hardware stores | 28 | 42 | 14 |
| Baked goods stores | 8 | 22 | 14 |
| Tobacco stores | 5 | 17 | 12 |
| Beer, wine & liquor stores | 28 | 40 | 12 |
| Liquified petroleum gas (bottled gas) dealers | 10 | 21 | 11 |

Recommended Retail and Wholesale-Support Strategies

Discussions NDA and the sector working group highlighted the following business and business-support ideas as being particularly promising:

Encourage new or expanded retail capacity with direct relevance to local households, such as children’s shoes, family clothing, and stationery.

Promote new or expanded retail capacity specializing in locally produced foodstuffs including organic and health foods, gourmet foods, and area specialty items such as dairy products.

Set up one or more locally owned gas-station/convenience store outlets, and get them to specialize in selling locally produced ethanol and biodiesel.

Create more local general merchandise department stores and/or support expansion of existing ones, possibly along the lines of the community-owned mercantile stores in Wyoming, Nevada, and Montana.

To compete against mainstream retailers on convenience, develop a business that can deliver local retail items directly and operate continuously.

Improve the “destination” quality of existing retail areas with more events,

entertainment, farmers markets, street sales, and the like.

Create a local card (debit, credit, loyalty, or gift) that gives a financial incentive for shopping at local retail establishments.

Develop a local currency for the Northern Dutchess region, a medium of exchange that can only be used in the region and helps to retain purchasing power and favor local enterprises.

Strengthen the capacity of local merchants, through classes or business-support networks, in small-business management, marketing, and customer service.

Create Business Improvement Districts to finance efforts to foster more collaboration, strengthen town and village identity, and enhance skills of local entrepreneurs.

(1) Tourism

Assets

The region has many important assets already supporting a strong tourism sector. Among them are:

Historic Sites: These include the FDR, Eleanor Roosevelt, and Vanderbilt National Historic Sites, all of which have substantial natural and cultural resources as well as marketing budgets; Wilderstein; the Staatsburg State Historic Site; and many manor homes with gardens that could be marketed to international garden enthusiasts.

Arts: The region has many galleries, with special concentrations in Tivoli and Rhinebeck; performing arts centers including Bard College's Fisher Center (capacity 800), Olin Hall (capacity 375), Rhinebeck Center for Performing Arts (capacity 165), Church of the Messiah (capacity 200), and the Kaatsbaan dance center (capacity 160); a thriving crafts industry; film festivals; and locally owned arts theatres such as Upstate Films in Rhinebeck.

Museums: The FDR Presidential Library and Museum has both permanent and special temporary exhibits. The Old Rhinebeck Aerodrome is actually a small but diversified transportation museum featuring antique cars, aircraft and engines, with air shows, biplane rides and special programs from spring through fall.

Fairs: Activities at the Dutchess County Fairgrounds, besides the county's major weeklong fair in August, draw enthusiasts of antiques, cars, animal husbandry, folk art and crafts, and eccentric hobbies, including the upscale Crafts at Rhinebeck Festival and the popular Sheep and Wool Festival.

Colleges: Besides providing interesting sites for visitors and for conferences, the colleges in the region host parents' weekends and graduations that are big events

for the hospitality industry. University-based arts and cultural activities, especially at Bard College, also are significant.

Food: The area has many good to exceptional restaurants, supported by connections with the Culinary Institute of America in Hyde Park. Most are small to medium in size.

Adult Education: The Culinary Institute of America has an expanding program of adult cooking classes for food aficionados, and the Omega Institute in Rhinebeck is one of the premier holistic education centers in the country.

Wineries: The Clinton and Allison Vineyards are in the region, and the Millbrook Vineyard is just outside it. Each has tasting facility and a retail shop. Area wineries carry out some collaborative programming (e.g., winter holiday tours) and are well positioned to expand these.

Recreation: Resources include extensive hiking and nature preserves (e.g., Tivoli Bays); walking and biking trails supported by the Hudson River Valley Greenway; kayaking; tournament-class golf courses; and equestrian centers.

Shopping: Of particular interest to visitors are the stores selling antiques, books, and specialty retail in places like Rhinebeck, Hyde Park, and increasingly Red Hook;

Agricultural Tourism: A number of agricultural destinations are well known to locals, including the Greig Farm with its “pick your own” facilities and events, the farmers markets in Rhinebeck and Hyde Park, Montgomery Place Orchards, Christmas tree farms, Breezy Hill, and other apple orchards.

Challenges

Tourism in the area cannot reach its full potential unless several major challenges are overcome:

Lodging: There are not enough rooms in the region to accommodate growth in demand, especially connected to special events and performance facilities. “Cookie-cutter” hotel chains would like to fill this need, but B & B owners and other tourism planners are resisting, because they wish to maintain the region’s character. There is also a shortage of destination lodging, such as a high-end spa or resort, although Omega Institute for Holistic Studies does a good job as an “educational spa.”

Transportation: While there is good rail transportation linking the region with New York City, the Capital District, New England and other destinations, the transportation within the region and between specific sites is poor. Trolleys, bus or rail, for example, could link parts of each community with the rail stations in Rhinecliff and Hudson, as well as linking with neighbors across the river and to the attractions and employment opportunities of southern Columbia County. Boat

transportation, bicycle routes, and bike rentals and sales could all be expanded. So could shuttle services linking destinations and town centers with rail, bus, and air transportation. The dependence on automobile transportation increasingly threatens other values of the region.

Marketing: The region has benefited from the marketing efforts of the Dutchess County Tourism Promotion Agency, which is within the county's economic development agency and provides information on specific attractions and accommodations. There is a general perception that this promotion, while valuable, could be better targeted and coordinated with the work of other agencies, such as the Hudson Valley Greenway, the Hudson River National Heritage Area, and Friends of the Hudson Valley. In addition, there is concern that funding for tourism promotion is tied to relatively short-term initiatives of 1 to 3 years, making strategic planning difficult.

Natural Resources: Limited supplies of water and energy constrain the tourism industry. Heating and electricity costs may require more careful management (such as in-room metering) and conservation measures. Businesses that draw their water from wells are already facing supply constraints. For example, B & B owners have told us they regularly take laundry into village center laundromats to avoid stresses to their onsite water supplies. Also, the industry worries about the threat to pristine viewsheds posed by large-scale development proposals downriver and across the Hudson.

Regional Leakages and Strengths

The charts below drill down into the tourism sector to look at specific types of businesses.

Chart 9 presents the business categories where the Northern Dutchess region has the greatest leaks, relative to the US economy average. The data suggest that top areas where the region is using outside business are limited-service restaurants, hotels, bars, and country clubs. However, smaller markets such as catering also should be considered, since they can strengthen other industries in the area such as professional services and education.

Chart 10 presents the greatest areas of strength, where the Northern Dutchess region has "extra" jobs relative to the national average. Among the areas of tourist strength that could be built upon are snack bars, recreational camps and services, independent artists, B&Bs, museums, and sports centers. Note that the major employer at historic sites, the U.S. government, is not included in these figures.

Chart 9
Top Leaks in the Northern Dutchess Tourism Sector

| Subsector | Potential Jobs If Northern Dutchess Equaled US Average | Northern Dutchess Actual Jobs | Additional Jobs Possible from Import Substitution |
|--|--|-------------------------------|---|
| Limited-service restaurants | 615 | 249 | 366 |
| Hotels (exc casino hotels) & motels | 265 | 73 | 193 |
| Casino hotels | 61 | 0 | 61 |
| Drinking places (alcoholic beverages) | 70 | 10 | 61 |
| Golf courses & country clubs* | 59 | 0 | 59 |
| Casinos (except hotel casinos) | 33 | 3 | 31 |
| Food service contractors | 84 | 57 | 27 |
| Travel agencies | 31 | 5 | 26 |
| Amusement & theme parks | 19 | 0 | 19 |
| Full-service restaurants | 809 | 792 | 17 |
| Caterers | 22 | 7 | 15 |
| Cafeterias | 14 | 0 | 14 |
| Skiing facilities | 13 | 0 | 13 |
| All other travel arrange & reservation* services | 12 | 0 | 12 |
| Other gambling industries | 12 | 0 | 12 |
| Promoters of entertainment events with facility | 10 | 0 | 10 |
| Musical groups & artists | 10 | 0 | 10 |
| Racetracks | 9 | 0 | 9 |
| Sports teams and clubs | 8 | 0 | 8 |
| Tour operators | 7 | 0 | 7 |

*In the category of “Travel Agencies,” census reporting is overridden by direct reports of local sources. In the category of Golf Courses and Country Clubs, the Dinsmore Golf Course operates under the auspices of Mills Mansion and its employment is presumably included within the category of historic sites.

Chart 10
Top Strengths in the Northern Dutchess Tourism Sector

| Subsector | Potential Jobs If Northern Dutchess Equaled US Average | Northern Dutchess Actual Jobs | "Extra" Jobs in the Northern Dutchess Region |
|---|--|-------------------------------|--|
| Snack & nonalcoholic beverage bars | 71 | 140 | 68 |
| Recreational, vacation camps (exc campgrounds) | 4 | 70 | 66 |
| All other amusement & recreation industries | 19 | 54 | 35 |
| Independent artists, writers & performers | 8 | 34 | 26 |
| Bed & breakfast inns | 4 | 30 | 26 |
| Museums | 16 | 40 | 24 |
| Fitness & recreational sports centers | 85 | 107 | 22 |
| Rooming & boarding houses | 3 | 12 | 9 |
| Agents, managers for artists & other public figures | 3 | 12 | 9 |
| Bowling centers | 16 | 25 | 8 |
| Promoters of entertainment events without facility | 6 | 12 | 6 |
| Historical sites* | 2 | 3 | 1 |

*Not including public sector facilities

Recommended Tourism-Support Strategies

Discussions with NDA and the sector working group highlighted the following business and business-support ideas as being particularly promising:

Create, with the assistance of NDA, local governments, local Chambers, and the Dutchess County Tourism Promotion Office, a single coordinated clearinghouse of user-friendly information, interpretation, and inspiration about the region, as well a regional marketing effort for attracting tourists.

Coordinate fully with regional websites, such as Dutchess County Tourism and the Hudson River National Heritage Area.

Develop support industries for historic tourism, including more museums, galleries, visitor centers, self-directed tour books, and specialized history tours.

Nurture the local arts community with more coops, theaters, sound stages, video facilities, and performing arts centers.

Create a stronger destination for outdoor activities with more sporting goods

stores, sports teams, baseball batting cages, miniature golf courses, fishing and hunting preserves, and scenic tour companies. Because these activities are seasonal, entrepreneurs should be supported with careful planning to help them secure secondary income sources.

Design and build an appropriately scaled conference center to meet the needs of regional businesses, nonprofits, and agencies that currently use facilities in the southern part of the county or across the Hudson.

Reopen negotiations with Amtrak and MetroNorth on excursion trains from New York City connected with major cultural events (performances, festivals, fairs), and coordinate transportation from railway stations to cultural venues.

Promote the development of a modest number of additional, appropriately scaled and designed small hotels and motels connected with tourist sites.

Encourage residents to make full use – by themselves or through their guests – of local tourist attractions, hotels, restaurants, and other facilities, perhaps through “Local First” discount cards.

Build on and expand the number of regional events that attract outsiders, like crafts fairs and film festivals, with effective coordination by an appropriate agency such as Dutchess County Tourism Promotion.

(5) Business and Professional Services Sector

Assets

Overall, the region’s service sector has many important assets and advantages:

Consumer Demand: The Hudson Valley is one of the fastest growing regions in New York State, both in terms of population and employment. It is also increasingly educated and affluent. All these factors mean growing demand for services.

Quality of Life: The high quality of life in the region – natural beauty, cultural richness, and good public schools – attracts many professionals to settle and work in the region. The proximity of New York City, which is a national center for many service professionals, provides a rich pool from which the region draws.

LOIS Businesses: There are many locally owned service businesses in the area with strong roots and local ties.

Regional Transportation: The transportation network comprises excellent trains and roadways that link the Hudson Valley with Albany, Massachusetts, and Vermont to the north, and New York City, Connecticut, New Jersey, and Pennsylvania to the south, all of which facilitate outsiders using Hudson

Valley services and local service providers traveling to clients elsewhere.

E-Capabilities: High-speed internet, on which most professionals depend, is becoming more widely available in the region, although unevenly so. Cybercafes with wireless Internet capability are beginning to open – in Tivoli for example, supported by the Bard student and faculty population. At the same time, manufacturers and others have expressed frustration with the lead times and costs associated with improving the communications infrastructure.

Leadership and Innovation: Some professional services organizations have taken leadership in improving quality and performance of the member service providers. Health-Quest has implemented bar-coding for patient medications, to reduce error and improve performance, for example, and the Taconic Independent Physicians Association has won federal grants to assist local physicians in making more effective use of information technology, such as electronic medical records.

Advertising Opportunities: The widely read daily newspapers, *The Poughkeepsie Journal* and the *Kingston Freeman*, as well as several town weekly and monthly publications, and a variety of radio stations provide affordable advertising outlets for service providers. Regionally owned WKZE Radio may offer additional opportunities for news and feature coverage of Northern Dutchess assets.

Financial Services: Several local banks in the region remain competitive, such as Rhinebeck Savings and Stissing Bank, as well as several S&Ls and credit unions.

Health Services: Health Quest has consolidated several area hospitals (see www.health-quest.org) and increased their competitiveness with NYC medical centers, helping to keep health dollars in the region. This network of hospitals has three affiliated foundations and an effective fundraising operation. Northern Dutchess Hospital is currently in the midst of a major capital campaign and expansion project. A number of nursing homes are also located in Northern Dutchess.

Educational Services: Bard College and the Culinary Institute of America have national reputations for their educational services. There are important alternative schools and treatment centers, such as the Anderson School. The Omega Institute is a nationally recognized center for holistic education in Rhinebeck and contributes to the population of holistic health practitioners in the area.

Cross Pollination: As in other sectors, there are a number of opportunities for cross-sector alliances that could boost the service sector. The financial services sector could have tighter links to agriculture or construction. Educational services could more tightly target the health care or financial services sectors. Manufacturing could be linked as well to such sectors as construction and health care (e.g., small scale industries producing green

building materials).

Challenges

The region faces a number of constraints that, unless remedied, may slow or stop growth of the services sector in the coming years:

Real-Estate Shortage: As property values escalate, there may be a shortage of affordable commercial real-estate property for new service providers.

High Fees: The high fees some professionals must pay to licensing authorities, both local and state, may discourage some service providers from settling here.

Mergers: Some local financial services have been eliminated through mergers and consolidation in recent years. Similar pressures are now bearing down on health services.

Transportation: The County -operated bus system -- between and within towns -- has limited schedules and ridership. Transportation between retail areas, and tourist destinations, such as historic sites and fairgrounds, is almost entirely auto-dependent. Parking is adequate for ordinary activities but is stressed when special events like fairs and festivals occur.

Regional Leakages and Strengths

This strategy focuses on business and professional services because they can be the sources of the high-income jobs most consistent with the region's values. The chart below drills down into the business and professional services sector to look at specific types of businesses. Chart 11 presents the business categories where the Northern Dutchess region has the greatest leaks, relative to the US economy average. The top opportunities include temporary help, hospital staff, commercial banking, lawyers, and doctors.

Some of the leaks here would not be consistent with the region's values. For example, the region may or may not wish to make a priority of attracting subsidiary offices of large firms, which may provide primarily entry level employment without significant career paths locally.

Chart 11 also highlights the relatively few areas of strength, where the Northern Dutchess region has "extra" jobs relative to the national average. The region appears to have more than its share of schools, nursing homes, recording industry services, and leasing services. These strengths that can be starting points for clusters of new business development in services and manufacturing.

Chart 11
Top Leakages and Strengths in Northern Dutchess
Professional and Business Services

| Subsector | Potential jobs if NDA = US | Northern Dutchess actual Total | Add'l jobs possible from Import Substitution (+) |
|---|----------------------------|--------------------------------|--|
| Publishing Industries | 206 | 24 | 182 |
| Motion Picture and Sound Recording Industries | 56 | 70 | -14 |
| Broadcasting and Telecommunications | 343 | 67 | 276 |
| Information Services and Data Processing Services | 109 | 53 | 56 |
| Monetary Authorities - Central Bank | 5 | 0 | 5 |
| Credit Intermediation and Related Activities | 608 | 177 | 431 |
| Securities, Commodity Contracts, and Other Financial Investments and Related Activities | 204 | 25 | 179 |
| Insurance Carriers and Related Activities | 473 | 131.5 | 342 |
| Funds, Trusts, and Other Financial Vehicles | 7 | 0 | 7 |
| Real Estate | 273 | 145.5 | 128 |
| Rental and Leasing Services | 130 | 78 | 52 |
| Lessors of Nonfinancial Intangible Assets (except Copyrighted Works) | 5 | 2.5 | 2 |
| Professional, Scientific, and Technical Services | 1424 | 644.5 | 780 |
| Management of Companies and Enterprises | 589 | 84.5 | 504 |
| Administrative and Support Services | 1617 | 850.5 | 766 |
| Waste Management and Remediation Services | 61 | 40 | 21 |
| Educational Services | 546 | 2010 | -1464 |
| Ambulatory Health Care Services | 994 | 713 | 281 |
| Hospitals | 1035 | 585 | 450 |
| Nursing and Residential Care Facilities | 560 | 1958 | -1398 |
| Social Assistance | 423 | 260 | 163 |
| Repair and Maintenance | 270 | 224 | 46 |
| Personal and Laundry Services | 266 | 188.5 | 77 |
| Religious, Grantmaking, Civic, Professional, and Similar Organizations | 560 | 299 | 261 |
| Totals | 10763 | 8631 | 2133 |

Recommended Professional and Business Services-Support Strategies

Discussions with NDA and the sector working group highlighted the following business and business-support ideas as being particularly promising:

Help residents and local businesses find and use local service providers, such

as lawyers, financial advisors, health care professionals, accountants, photocopiers, and so forth.

Develop small businesses that provide grant-writing, management consulting, training, and business development services.

Provide more computer services and telecommunications services, in coordination with the Dutchess County Economic Development Corporation Telecommunications Council.

Help with the dissemination of service-related innovations, such as information technology in health care.

Encourage group purchase of local electronics suppliers, internet service providers, cell phone services, and broadband providers to increase critical mass and customer base.

Expand the products and services of local banks, brokerages, and insurers to include affordable housing and green building finance.

Encourage strong local sectors, such as education and health, to support local finance and other cross-sector linkages.

Expand entrepreneurship and leadership development overall.

VI. Policy Recommendations

There are quite a few potential public policies that the communities in the Northern Dutchess region might pursue to promote LOIS businesses.⁴ Some of these are in common use, while others are more innovative approaches that are worth consideration. Here are ten practical steps the communities should consider individually or collectively.

(1) State of the Region Report

This study represents an initial effort to define regional leakages and assets and use them to identify the best LOIS business opportunities. The region would benefit from doing this regularly, and steadily update and improve this analysis. This can be done in partnership with area educational facilities, planning organizations, and other experts. This is an opportunity for the region to give members of the community an opportunity to comment on and improve the results. Grassroots participation in setting the course for economic development is an important part of formulating a public-policy consensus. It deepens consumer awareness and support for local products and services. Strengthening grassroots capacity in the region, through adult education and entrepreneurship development, also can help.

One desirable outcome from these regular public reviews of local assets and local market opportunities is improved cross-sector linkages. For example, the financial services industry is not completely informed of opportunities in improving the quality and productivity of health services locally (including government-supported innovations by the Taconic Independent Physicians Association), or providing green construction and affordable housing businesses with financial support. The manufacturing sector could expand to include alternative energy products, such as solar and wind energy systems. The business services industry could expand to include sustainable waste management. The natural resource industry, such as sand and gravel, could improve its local image by highlighting its sustainable practices. The timber industry could improve its sustainability practices, and thereby provide a distinctive quality to local products, such as lumber produced at Listening Rock farm in Amenia. A biodiesel project, either private or municipal, could provide fuel at lower cost and greater local linkages for all other sectors.

(2) Strengthen Existing LOIS Businesses

The region is blessed with a large, successful, well-established LOIS business community. Public and private efforts should help these businesses become aware of and use the emerging tools many small businesses are using nationwide to become more competitive. For example:

- *Producers Cooperatives* – Local businesses might be encouraged to join

⁴ For a more comprehensive list, see Michael H. Shuman, *The Small-Mart Revolution: How Local Businesses Are Beating the Global Competition* (San Francisco: Berrett-Koehler, June 2006).

existing producers' cooperatives or other kinds of industry-specific affinity groups that buy in bulk, advertise, and lobby for their members.

- *Bazaars* – The region might help set up a local business mini-malls, building on existing farmers' markets or creating dedicated shopping destinations.
- *Direct Delivery* – To help compete with the perceived convenience of chain stores, the region might create or join a direct delivery service affiliated exclusively or primarily with local businesses.
- *Flexible Manufacturing* – The region might form a network of local businesses that is ready, willing, and able to seize manufacturing opportunities as they arise.

Some of this business organizing requires public and private investment, but the total costs are modest. Moreover, these funds may be available if other economic development efforts are overhauled to eliminate most subsidies and incentive programs.

(3) *Entrepreneurship Programs*

If the region is going to prioritize homegrown enterprise, it needs to train a new generation of entrepreneurs. The region is already served by some important entrepreneurship assets, including programs provided by Chambers of Commerce; the regional Gateway to Entrepreneurial Tomorrows program based in Poughkeepsie; Dutchess County Community College; and the Culinary Institute of America. But much more could be done at a relatively modest cost. For example:

- *More Entrepreneurship Education* – Entrepreneurship programs could be launched in the public schools and enhanced in the community colleges, such as the new Summer Business Institute at Marist College. Funds could be made available to help other institutions like churches, civic groups, small business associations, and others set up their own entrepreneurship study groups.
- *Mentorship Programs* – Established businesspeople (especially retirees who have extra time) could be systematically partnered with young and aspiring entrepreneurs.
- *Place-based Scholarships* – To retain the best and brightest, the region might create a scholarship fund that extends no interest loans to college-bound kids. If they return to and settle in the region after graduation, the no-interest provisions kick in. Otherwise, market interest rates are charged.
- *Incubators* – The region could develop one or more dedicated incubators, where early-stage businesses can get space, administrative support, and technical assistance.

(4) Local First

A critical requirement for new and expanded local businesses is that consumers in the region buy from them loyally. Encouraging consumers to buy “Local First” – a campaign now active in two dozen communities nationwide – is an important part of economic development. Appendix 2 summarizes twenty specific steps consumers can take to localize their expenditures, all of which are either revenue neutral (with careful shopping) or actually can save households money. Many tools can promote local purchasing at relatively low cost, such as the following:

Directories of Local Business – These can be in print, on line, in newspaper ads, and on coffee cups.

Directories of Local Products – Product directories can highlight, again in print or on line, local made goods or locally provided services.

Local Labels – An insignia of local ownership helps consumers to buy local first. If it’s on a storefront, you’d know the store was locally owned. If it’s on a product, you’d know it was locally made.

Buy Local Days – Or weeks, months, or seasons, all of which can provide the basis for a buy-local campaign.

Time Dollars – In collaboration with a private organization like NDA, a group of communities could set up a computerized system to track volunteer hours and facilitate exchanges of services.

Buyers’ Cards – The region might create instruments that promote local purchasing, such as local credit cards, debit cards, loyalty cards, and gift cards. A new national effort called Interra promises to provide an affordable national platform for these cards. Collaboration with Our Community Networks, recently launched in Kingston, should be explored.

Hudson Marketplace – The region – either Northern Dutchess alone, or in a wider collaboration -- might develop an agency that links local businesses to one another and takes a commission on each local “input” substitution.

Selective Public Contracting – Local authorities might give a 5-10% bidding advantage to local businesses. Better still, require bidders to estimate their own multiplier contribution to the community through local purchasing, and provide a training program for local companies on how to comply with this requirement.

Business-to-Government Midwife – The region might create a business that aggregates small businesses into competing bids for government contracts and manage the mountain of paperwork, all in exchange for a modest percentage.

(14) *Local Capital*

Another important long-term goal is to help residents invest in LOIS business opportunities, both because local investment plugs a major leak in the economy (the Finance, Insurance and Real Estate sector) and because it facilitates the growth of other leak-plugging businesses necessary for regional prosperity. This will require making it easier to securitize small businesses, to trade these securities locally, and to set up related institutions (LOIS hedge, venture, mutual, and pension funds). All these innovations are difficult without major changes in state securities laws (federal laws pose fewer problems). Securities law in New York State is widely believed to be one of the “toughest” and “least flexible” (depending on your perspective) regulatory regimes in the country. There are, however, a number of more modest but important steps that local public policymakers could take. Among them:

Community Reinvestment Report – The region should study which local depository institutions – and, if any exist, investment institutions – are reinvesting more than 95% of their savings/investments locally. Data that banks are required to file each year under the Community Reinvestment Act are helpful for making this assessment, but only a crude starting point. Additional information should be requested from all financial institutions, and the region should make clear that it will award “best bets” only to those institutions that duly provide the requested information.

Bank Local – Communities in the region should make sure public entities use local financial institutions to conduct business and handle payroll.

Invest Local -- Begin moving – or advocating the move of – municipal investment, including surplus revenues and pension funds, into local business wherever there are reasonable opportunities to do so. Initially, this may be in revolving loan funds and affordable housing funds (the California public employees pension fund – CalPERS - invests in these). Over time, however, other opportunities may arise, and the interest of public authorities in investing in local business will provide a pull for the establishment of private investment innovations.

Bond Finance – Limit the use of industrial revenue bonds to projects involving locally owned business.

Angel Capital Networks – Municipal economic development committees, ideally with County support, could assemble networks of “angel” (flexible, private) investors, and link them up more systematically with pre-screened local entrepreneurs through dinners, presentations, and a web site. Such programs could be focused on priority industries identified by NDA.

Technical Assistance for Small Stock Companies – A modest starting point for the region to enter the universe of securitizing small business might be to create a company that helps small-businesses to issue local stock (i.e., tradable only intrastate) more cost effectively, and then helps these firms with the annual reporting and due diligence. The region certainly has a critical mass of

residents with expertise in securities law, accounting, and trading that might be enthusiastic about setting up such a capacity.

(21) *Dismantle Business Subsidies*

Because not much is known right now about regional business subsidies, it would be helpful if the region prepared an inventory of all subsidies, and an assessment on whether the beneficiary businesses had been locally owned and had fulfilled their promises. The inventory would cover grants, loans, loan guarantees, capital improvements, bond issues, tax abatements, and tax-increment financing (TIFs).

Our longer-term recommendation would be to eliminate all these subsidies altogether and to plow the savings into some of the other suggestions for expanding LOIS business opportunities discussed here. If old-style subsidies are retained, they should, at a minimum, be opened up for competitive bidding by local businesses and awarded only after the beneficiary businesses perform as promised.

(22) *Smart Growth*

The region's communities have already adopted some smart-growth policies, but more could be done to expand and coordinate them.

- *Home-Based Business* – Zoning and licensing regulations should be revamped to allow, even encourage, a wide range of home-based businesses. Local employers should be encouraged to allow their employees to telework from home. To facilitate this, broad bandwidth access in the region needs to be improved and training needs to be provided to potential teleworking employees.
- *Hook-Up Fees* – Following a similar measure in Loudon County (VA), any expansion of roads, sewage, electricity, or other infrastructure necessary for new residential or commercial structures, especially within the growth boundary, should be charged – full-freight – to the developer, to the extent allowed by state law. This includes customer connection and service fees.
- *Automobile Alternatives* -- The region should try to expand transportation options for those who otherwise rely on single-passenger automobiles. It might invest in carpooling systems, bicycle paths, and mass transit. To generate funds for these alternatives, local fees should be added.
- *More Affordable Housing* – Rising property values have forced low-income workers in the region to live outside it, which increases traffic problems. As a remedy, the region needs to create incentives for developers to build more affordable housing, with local communities defining affordability in ways that are meaningful and politically viable.
- *Smart Schools* – Every effort should be made to retain existing schools, even if they involve fewer students and teachers. This will retain

important economic generators spread throughout the region and minimize commuting requirements (if more students can walk or bicycle to school), which in turn improves student health and reduces automobile traffic.

(23) *Living Wage*

The region should consider passage of “living wage,” perhaps through Dutchess County. A living wage raises the minimum wage to a level that pulls the recipient above the poverty line. A number of recent studies have shown that the feared negative consequences of a living wage – that it might harm small business and cause inflation – turn out to be quite small. Against such concerns needs to be weighed the positive consequences, which include deterring the entry of low-wage chain stores, increasing local expenditures and resulting multipliers, reducing government welfare expenditures and potentially allowing for commensurate reductions in taxes. A reasonable starting point might be for the region to commission a study on these impacts.

(24) *Chain Stores Limits*

Many regions have enacted laws that limit the incursion of chain stores or, in some instances, ban them altogether. These take the form of moratoria, comprehensive plan revisions, economic impact statements, size restrictions, and “formula” bans. Part of the periodic grassroots visioning exercise suggested above should be for every community to decide what role, if any, chain stores should have in the local economy. The wider availability of low cost consumer products may impose costs on communities when chain stores do not provide living wages, health benefits, or promotion opportunities, and increase local leakages.

Given the inherently controversial nature of many of these measures, and the crazy-quilt of local jurisdictions (villages, towns, county), there may be work involved in adopting a concerted regional strategy. In the absence of such a strategy, however, there is a risk of chain-store islands in the weaker jurisdictions, which would have a negative impact region wide. In the interest of achieving a county-wide approach rooted in a broad consensus, one very modest strategy might be to limit the overall number of chain stores and locate them only in well defined mixed-use centers and with appropriate design guidelines, but would prevent the kind of concentration and further mall development that necessarily create aesthetic, environmental, traffic, safety, and other kinds of problems.

VII. Next Steps

Our public policy recommendations necessarily place governmental entities at the center of our action agenda, but in fact there is much more that can and should be done to revitalize the economy of the Northern Dutchess region. While the participation of government entities can give development initiatives legitimacy and funding, much can be accomplished through the private or nonprofit actors. Consider some of the ways

other communities have sought to support LOIS businesses:⁵

(1) University Projects

In St. Lawrence County (NY), St. Lawrence University joined with several other universities and community colleges to create a team structure similar to the one started here. Besides continuing to make public recommendations about promising business opportunities, some of the teams have taken significant steps to create these businesses over more than three years. The Education Team published a resource guide on partnerships in the county promoting economic development. The Manufacturing Team helped set up a locally owned wireless internet operation. The Housing Team did ground-breaking work on the economic potential of replacing mobile homes, almost all imported, with homegrown new houses. The Retail Team helped convert an abandoned building into a community marketplace. The Energy Team established an energy service company that performed 92 energy audits, performed preliminary work for a local wind farm, and worked with a bio-diesel company to begin the County's first plant. The Food and Agriculture Team decided to promote farm-to-school programs (including setting up vending machines dispensing local milk), develop a "North County" label for all local foodstuffs like maple syrup, and prepare guides to local farmers and food producers.

(2) Workforce Investment Board Initiatives

In the Katahdin region of Maine, a similar team-based effort was launched by the Training & Development Corporation (TDC) using workforce-training funds from the Department of Labor. The precipitating event was the closure of two paper mills by the Great Northern Paper company – once the largest and most important mills in the world – that put 1,400 people out of work and triggered a regional depression with an unemployment rate above 40%. Again, teams were organized, this time for a year. The study was done showing that, collectively, the residents of Millinocket, East Millinocket, and Medway spend \$78 million per year. If they spent as much money locally as the average American did, there would be 1,400 more jobs in the region – roughly the same number as were laid off at the mills in Christmas 2002.

One challenge came from the strictures of TDC's grant from the Department of Labor, which mandates that worker training grants cannot be used for economic development. TDC decided that the best response to the regulations was to use 95% of the grant for old-style worker support, and 5% on the acquisition of "fugitive jobs," jobs that should be locally available, but are not, because of an inadequate level of local spending. The mission of the Worksphere Initiative of the Katahdin Region, or WIKR, was to organize teams, like those in St. Lawrence County, that could identify, target, and capture fugitive jobs.

For a year the teams met periodically, refined a list of regional indicators, and came up with a list of recommended business opportunities in their sector. The results of their work – some 50 business ideas – were presented in a colorful booklet called *Katahdin First: Resources and Opportunities Guide*. During this same period, TDC also

⁵ This material is drawn from Michael Shuman's forthcoming book, *The Small-Mart Revolution: How Local Businesses Are Beating the Global Competition* (Berrett-Koehler, June 2006).

published a monthly supplement in the *Community Press* called *Local First*. Each issue contained a list of locally owned businesses, profiles of interesting entrepreneurs, and editorials about why residents should buy local.

(3) *Local First Campaigns*

More than a dozen cities in the United States now have Local First campaigns, which are encouraging residents – consumers, investors, businesspeople, and policymakers – to keep their economic transactions (spending, investing, hiring, supporting) local. The first campaign to get off the ground was in Bellingham, Washington, a coastal city north of Seattle. At the time a husband and wife team, Derek and Michelle Long, were directing both the national of BALLE network and organizing their own business community in Whatcom County (which contains Bellingham) under the name Sustainable Connections, and it made sense for them to undertake market research and framing of their own Local First Campaign as a model for what might be seeded nationally.

Fast forward three years, and Sustainable Connections now involves 500 local businesses. The week before Thanksgiving is “Buy Local Week,” when Christmas shoppers are encouraged to do their spending at local stores. The best selling book in Village Books is the organization’s coupon book called *Where The Locals Go*, now in its fourth edition and featuring discounts from 160 member businesses. Throughout the rest of the year Sustainable Connections distributes “Retail Kits” that arms local businesses with a window poster, a “Think Local First” decal, a “Tip Sheet for Making the Campaign A Success,” frequently asked questions and answers, a CD-Rom with monthly marketing materials, “The Top Ten Reasons to Think Local,” as well as a sheet of logos for public display and for print advertisements. It also prints seasonally appropriated promotional materials, like “Be A Local Lover” is for Valentines’ Day and “Make Mom Proud” on Mothers’ Day. One of its July 4th posters shows sepia pictures from another buy-local campaign, 100 years earlier, to “Celebrate Your Independents!” The Longs have synthesized their work into a fabulous handbook called *Think Local First: A How-To Kit*.

The bumper stickers say: “Buy Local or Bye-Bye Local” or “Buy Fresh: There’s No Taste Like Home.” “Think Local, Buy Local, Be Local” has become the slogan of the movement, and the image of nearby Mount Baker its image. Both are emblazoned on the chest of their “Be Local” bee mascot, which has appeared on T-shirts, pins, and window posters, and even has ridden a giant trike around the commercial district. Participants in the “buy fresh” campaign are connecting local farmers with local restaurants and markets and have advertised their work by participating in local races as local produce – two potatoes in a canoe, an eggplant mountain biker, and a running carrot. Sustainable Connections also has deployed a big bingo wheel at community events, occasionally spun by the mayor, who hands out prizes from local stores.

Everyone is starting to notice. The head of the local community foundation calls Sustainable Connections the community’s most important nonprofit. The mayor of Bellingham considers it one of the most important economic development agencies. After the Longs presented their work to the newly elected governor of Washington, Christine Gregoire, she said that she wanted to see the Local First vision replicated across the state. “And,” adds Michelle Long, with justifiable pride, “we’re only three and a half

years old.”

“Three years ago,” says John D’Onofrio, owner of Northwest Computer, “being ‘local’ was a non-issue. Now there isn’t a day that goes by that someone doesn’t say they are in supporting our business because we are local and that it is important to them. In the fifteen years that I have owned my business, I have found Sustainable Connections to be the most effect, most rewarding, and most cost-effective organization I have encountered.”

(4) Business Alliances

There is a long history worldwide of businesses offering one another mutual support in guilds, professional associations, even in barn-raising. Three quarters of a century ago, local businesses in Switzerland decided to support one another through barter, reciprocal credit circles, technical assistance, and targeted purchasing. The Economic Circle, or Wir, has grown to involve about 85,000 businesses, a fifth of all Swiss firms, and its own bank circulates about \$1.2 billion each year.

Through the Chamber of Commerce, through chapters of BALLE or the American Independent Business Alliance (AMIBA), and through special-purpose associations, businesses are leading efforts to change their community’s economic landscape. The Sustainable Business Network (SBN) in Philadelphia, for example, actively encourages members to buy from one another. Several of the bigger members participate in the city’s local currency project. SBN nudges its members to place their retirement accounts in the Philadelphia Reinvestment Fund, which is one of the very few financial institutions in the country that actually prioritize LOIS business. Every year, the organization holds a local business fair, in which the best examples of competitive LOIS firms are showcased in every category imaginable, including manufacturing. It also has launched an ambitious Local First Campaign with radio spots, ads on the sides of buses, and door-knob hangers.

In some communities, collaborative networks have been most effective with similar kinds of businesses. As was true in Philadelphia, restaurants appear to be an especially robust starting point. Tucson Originals is a group of more than 40 restaurants encouraging Arizonans to eat local. It helped create the Arizona Independent Restaurant Alliance, which purchases for its 120 members food and other supplies in bulk and at a discount. Member restaurants in Kansas City Originals have prepared joint advertisements and tabletop signs encouraging patrons to eat at one another’s establishments. With a dozen other such groups now operating, a national network has formed, the Council of Independent Restaurants of America.

Northern Italy has generated enormous new wealth since World War II once its small businesses joined together to manufacture whatever the market demanded. These flexible manufacturing networks have come to regions in the United States in the form of clusters of like-minded, collaborating small businesses. North Carolina has been building a network of 277 hosiery manufacturers, with the Hosiery Technology Center based at two community colleges providing research, training, and coordination services for the industry. The Appalachian Center for Economic Networks (ACENet) has been building a cluster of more than 150 food enterprises in southeastern Ohio through a Food

Ventures Center, where entrepreneurs can rent kitchen equipment to test ideas.

(5) LOIS Support Enterprises

Smart LOIS entrepreneurs are beginning to see opportunities for developing businesses that support all LOIS businesses. Derrell Ness, for example, is now trying to develop a local gift-card technology for his BALLE network in Portland, Oregon. Others groups are developing local loyalty, debit, and credit cards, each of which provides discounts or other benefits whenever the card is used with a local vendor. A new national company called Interra is offering to provide an affordable electronic platform for these cards.

Another buy-local innovation waiting to be grabbed by a LOIS entrepreneur is the Oregon Marketplace, which was founded in the early 1980s to pump up the state's economy by convincing in-state businesses to buy from other in-state businesses. Focusing on the location of the businesses, rather than the ownership, the scheme is only a rough draft for what should be done. It also was an imperfect business model, relying on annual infusions of money from the state lottery. When public funding dried up, the Marketplace had not quite reached the point of self-sufficiency and had to be shut down. But at the peak of its operation, in the early 1990s, the Marketplace was transacting \$34 million of input-replacing contracts per year. By charging finders' fees on the new in-state contract recipients, the Marketplace was able to pay some of its way.

Business-to-government (B2G) procurement also offers some intriguing LOIS business opportunities. Few LOIS businesses today bother with government contracts. As is true for most government programs, the paperwork around these contracts – for bidding, tracking, and accounting – is intimidating, and certainly beyond the capacity of many small businesses. Around the country, however, entities have arisen to provide local foodstuffs to public schools. These so-called “farm-to-school” programs develop expertise in the contracting niche, recruit individual farmers who would never consider bidding on their own, handle the paperwork, and aggregate their fruits and vegetables into bigger, more compelling bids. Some of these programs are voluntary or grant funded, but others use existing food cooperatives, farmers markets, wholesalers, or food service companies. There is no good reason why entities could not be created to mobilize small businesses to bid on all kinds of government contracts.

Another area ripe for a LOIS business model is entrepreneurship training. The Training & Development Corporation is developing an entity called VenturePower, which will work with existing business incubators in the state and attempt to supercharge them to promote LOIS entrepreneurship. The basic idea is to use existing incubators to develop new, small-scale industries that provide goods and services that meet the kinds of demands found in every community. An example is hydroponics – the use of small greenhouses to grow food intensively in greenhouses. With small, well-designed hydroponics industries, almost every community in Maine could have fresh, affordable, locally grown produce. VenturePower might work with half a dozen incubators to start hydroponics firms in each. It would then organize a “Learning Community” with six entrepreneurs who will meet two or three times a year, speak on conference calls weekly, and communicate regularly through e-mail. They would be supported by the expertise of established hydroponics operators. This network would share business plans and form a

purchasing group that could get discounts on key inputs. The current design also calls for VenturePower to finance itself like a venture capital firm.

There's no reason to choose among these possibilities. Each appeals to different players in the region. Academics will be drawn to the studies. Activists will favor public education. Entrepreneurs will join the business alliances. And some businesspeople, with the assistance of local investors, will launch promising enterprises. NDA can encourage a number of them by working with these players, separately and together, and by playing the roles of supporter, cheerleader, and publicist as the efforts go forward.

But how might these options be prioritized? In terms of strategy, we think Aladdin was right when he made his first wish to have a thousand more wishes. For the Northern Dutchess region, a successful enterprise to advance LOIS, like the Oregon Marketplace, might be the best place to start. Besides educating the public and drawing in local business people, it can generate a cash flow that can help to underwrite other activities, whether studies or public education. The region should look at the list of possible LOIS-support enterprises that can generate revenue, choose one or two that are most consistent with the values and attitudes of Northern Dutchess communities, and undertake careful blueprinting and implementation.

Appendix I: Best Places to Localize Spending: Guidelines for Consumers (Including Municipalities and Businesses)

- (1) *Localize Your Home** – Rent from a local landlord, take a mortgage from a local bank, or own your home.
- (2) *Live in Local Style* – Use local building materials for your home, with local designs. Furnish with local tables, chairs, and couches made (or re-sold) in the area.
- (3) *Minimize Automobiles** – Use your car less by walking, biking, carpooling, live in “walkable communities,” or use mass transit.
- (4) *Fuel Up Locally* – Make your next car very fuel efficient. Use local biodiesel and ethanol, as they become available.
- (5) *Local Car Services* – Find a good local mechanic you trust who charges reasonably. Use the local car wash.
- (6) *Eat Out Locally* – Avoid chain restaurants, especially children-addicting fast food places.
- (7) *Buy Fresh* – Link up with local farmers for fruits, vegetables, and meats through farmers markets, co-ops, direct delivery services, or community-supported agriculture (CSA) programs. Rediscover local bakeries.
- (8) *Support Local Retailers* —Reduce dependency on Stop and Shop, Wal-Mart, and the like for local grocers. Be loyal to competitive local pharmacies, bookstores, hardware stores, coffee roasters, photocopiers, and so forth.
- (9) *Play Local* – Minimize your addiction to high-end electronics and television. Emphasize instead local sports, health clubs, playgrounds, pools, parks, games, plays, puppet shows, dancing, music, and debate leagues,
- (10) *Heal Local* – Use local doctors, dentists, therapists, acupuncturists, and nursing homes.
- (11) *Live Healthy** – Emphasize local nutrition, exercise, emotional balance, and spiritual nurturing that can minimize the need for nonlocal pharmaceuticals.
- (12) *Sign A Living Will** –Consider having the hard conversation with your family about when you want to say good-bye to save them from expensive, non-local, life-support systems.
- (13) *Minimize Household Energy Use** – Increase insulation, double pane the windows, buy compact florescent lights, replace the inefficient appliances and furnace, and tighten up your home to cut purchases of nonlocal electricity, oil, and natural gas. Better still, put photovoltaics or a wind-electric generator on your roof, and sell electricity back to the utility.

- (14) *Give Local* – Target your charitable giving with local causes and nonprofits.
- (15) *Axe Bad Habits** – Minimize consumption of alcohol, cigarettes, and questionable internet sites, all of which are hard to localize.
- (16) *Educate Locally* – Support local public schools with volunteer contributions, and also consider collaboration with local private schools.
- (17) *Read Locally* – Buy books from local authors or local publishers, sold at local bookstores. Advertise in the local papers. Become a regular at the library.
- (18) *Honor Junk** – Get down on the “stuff” food chain by repairing, reusing, and refurbishing old stuff. Honor hand-me-down clothing, especially for young kids who don’t care about Nordstrom’s. Give more gifts from the heart, and fewer gift certificates to Best Buy.
- (19) *Rent More** – Rent or lease more big ticket items, like farm and garden equipment. Create neighborhood tool sheds with fewer lawnmowers or snow blowers.
- (20) *Recycle More* – Yes, it’s good for the environment, but it’s also gives local industries affordable supplies of metal, paper, glass, and plastic. Expand access to the Hudson Valley Materials Exchange by organizing bus tours to its facility in Orange County.

* All items can be at least cost neutral with careful shopping, but items with an asterisk actually can yield significant household savings.

APPENDIX II:
Comptroller's Report on Local Government and Fiscal Stress

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***Comptroller's Report on Local Governments Shows Growing Fiscal Stress
Rising Costs, Slow Revenue Growth and More Reliance on Debt***

Although many local governments are in stable financial condition, overall costs continue to rise at nearly twice the rate of inflation, while local revenue growth has been slow and reliance on state aid has grown substantially, according to a [report](#) issued today by State Comptroller Alan G. Hevesi.

The report, *Report on Local Government* analyzes data collected from local governments through the year ending in 2003 as well as other more recent fiscal and demographic data.

Major report findings:

Continued Rising Costs. Local government expenditures totaled \$118.4 billion in 2003, a 12.6 percent increase over 2002 and a 30 percent increase from 1998 to 2003 — twice the rate of inflation over the five year period. The upward pressure on spending was primarily caused by Medicaid costs, wages and salaries, and employee benefits. However, it should be noted that despite the recent rise in pension costs, pension contributions declined and have now stabilized.

Property Taxes Fastest Growing Revenue Source. In 2003, revenue for all local governments totaled \$108 billion reflecting a 26 percent increase from 1998 to 2003. Real property taxes accounted for 30 percent of all revenue, and was the fastest growing source of revenue, increasing by 9.7 percent to \$32.2 billion. Downstate areas saw a substantial growth in property values, permitting lower tax rates even while tax levies grew, while stagnant property values in upstate communities have led to increased tax rates to support levy increases, pushing many to their tax limits. Average property tax levy increases ranged from 6 to 9 percent in 2003, much higher than the growth rates generally seen in the years from 1995 to 2002.

Increased Reliance on Debt. New debt substantially grew in 2003 compared to 2002, increasing by 12.6 percent in a single year. Debt increased from \$20.3 billion in 1998 to \$29.7 billion in 2003, an increase of 46 percent. The bulk of this debt can be attributed to school districts.

"New York's local governments continue to face difficult fiscal challenges. While the underlying conditions facing local governments vary drastically based on geography and by type of government, the majority of local governments are struggling to contain costs and grow their revenue base. As a result, many are increasing their reliance on debt," Hevesi said.

Other trends described in the report:

Increasing Dependency on Sales Tax Revenues: 49 of 57 counties now have sales taxes that exceed 3 percent, with eight counties exceeding 4 percent. In fact, Oneida County has the highest combined sales tax rate of 9.5 percent, the highest in the State.

Medicaid Burden. Medicaid continued to consume greater portions of county budgets. In a separate research report earlier this year, the Comptroller's Office estimated that counties

taxes would have to increase by an average of almost one-third by 2010 to keep pa costs continued to rise at the current rate. In response to these pressures, the Sta legislation that will cap Medicaid costs in 2006 at 3.5 percent above 2005 expenditu State takeover of the Medicaid program will begin in January 2008.

Divergent Property Value Trends. Downstate cities increased tax levy by 28 percent 2004, yet even with this increase, a 23 percent reduction in the tax rate occurred bec values increased by 63 percent. In contrast, upstate cities increased their tax levy by 16 percent, but because property values increased by only 4 percent, the levy resu percent tax rate increase.

Substantial Increases in Spending and Borrowing for Schools. School district spe \$41.4 billion in 2003, reflecting an increase of 38.7 percent since 1998 — a rate o exceeding both inflation and that in any other class of government. Total outstand districts increased by 125 percent (18 percent annually) from 1998 to 2003 — the r favorable building aid formulas and growing enrollment needs.

Close Proximity to Tax Limits. As of fiscal years ending in 2005, eight cities, 13 villa counties have exceeded more than 80 percent of their available tax limits — a sign fiscal situation.

Declining Population in Cities. The population of cities (excluding New York City) has percent since 1970, while the overall population of New York State grew during t Residents are moving away from cities into outer-ring suburban towns, weakening the tax base of cities and their dependent school districts.

“My Office will continue to bring attention to critical issues facing local governments. For exa we issued special reports on Medicaid and revenue sharing that helped stimulate action on Still, more needs to be done to reform all levels of government, reduce the costs of providin and improve financial planning,” Hevesi said.

This year, the report contains individual data on all counties and cities in New York State, largest towns and villages. It also contains summary data on all classes of government ov years.

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