

DUVAL COUNTY TARGET MARKET REPORT

EXECUTIVE SUMMARY AUGUST 2006

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Prepared by:

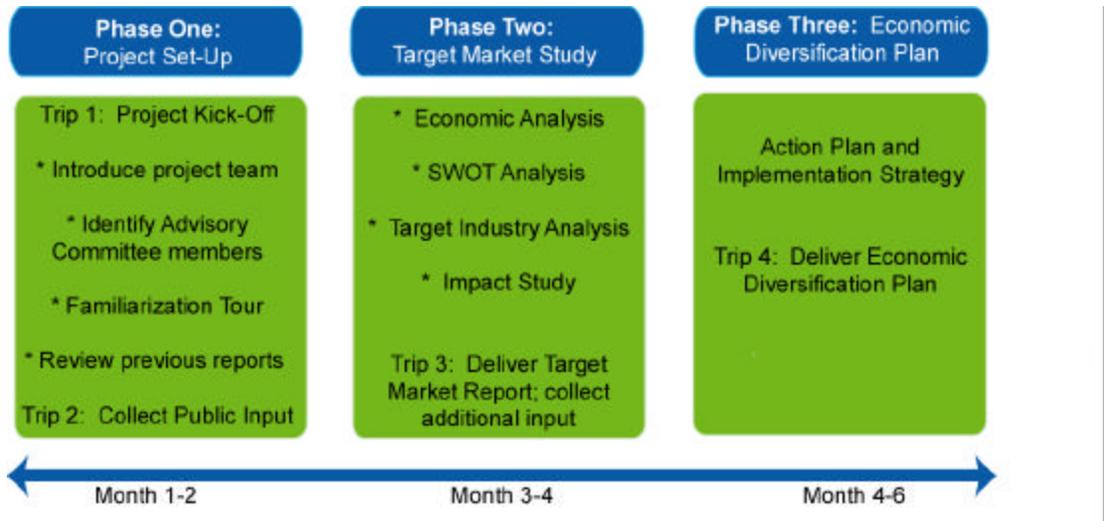


INTRODUCTION

This Target Market Report is the first deliverable in the development of an Economic Diversification Plan for Duval County; it is an effort to expand upon the region's current economic development efforts, support the implementation of Blueprint for Prosperity strategies, and identify appropriate target industries and the key issues that hinder the community's ability to fully diversify its economic base.

This report marks the end-point of Phase Two in the planning process. Using data that was either provided by Duval County or collected independently by AngelouEconomics, this report allows us to take a step back and evaluate trends, data, current target industry performance, and businesses' and residents' perceptions of the community.

The chart below illustrates the planning process:



Part I assesses the region's current economic situation and the historical trends that have shaped it. Specifically, we evaluate the region's handling of past growth and its readiness to attract and direct future economic development. We analyze the community in a range of economic and demographic variables by comparing it against a group of national benchmark communities.

We also analyze the national and county-level performance of the county's current target industries over the past few years, detailing national and regional trends as well as key industry announcements.

Part II then builds upon Part I and utilizes a cluster based analysis to identify the most appropriate target industries for Duval County.

Finally, we pull together the economic, demographic, and industry-level trends to highlight the key, critical issues hindering the county's ability to fully develop a diversified economic base.

ECONOMIC SCAN

As a global competitor on the national scene, Jacksonville cannot be satisfied with meeting or exceeding state or national averages. It must meet or exceed its competitors' profiles.

The counties selected as benchmarks have a similar economic and demographic composition as compared to Duval County and were selected by AE and community representatives. In alphabetical order, they are:

- Denver County, CO (includes city of Denver)
- Hillsborough County, FL (includes city of Tampa)
- Jefferson County, AL (includes city of Birmingham)
- Mecklenburg County, NC (includes city of Charlotte)
- Travis County, TX (includes city of Austin)
- Wake County, NC (includes city of Raleigh)

AT A GLANCE										
2005	Population	Population Growth '00-'05	Unemployment Rate	Labor Force Growth '00-'05	Median HH Income	Average Wage	% Bachelor's Degree or Higher	% in 25-44 Age Group	Median Home Price	Cost of Living (U.S. = 100)
Duval County, FL	838,841	7.7%	4.2%	4.4%	\$44,546	\$38,543	26.5%	29.2%		
<i>Jacksonville MSA</i>	1,224,093	11.2%	3.9%	6.1%	\$46,985	\$36,673	26.7%	28.1%	\$175,200	95.5
Denver County, CO	558,840	0.8%	6.0%	-0.4%	\$43,124	\$48,863	44.9%	34.6%		
<i>Denver MSA</i>	2,293,999	8.8%	5.2%	5.0%	\$58,355	\$45,279	37.5%	31.6%	\$247,100	100.6
Hillsborough County, FL	1,120,916	12.2%	3.5%	10.3%	\$45,108	\$37,132	24.4%	29.0%		
<i>Tampa MSA</i>	2,608,637	9.3%	3.7%	7.9%	\$41,303	\$34,991	24.4%	26.1%	\$205,300	96.0
Jefferson County, AL	655,776	-0.9%	4.0%	-3.1%	\$40,516	\$40,480	31.9%	27.5%		
<i>Birmingham MSA</i>	952,695	3.4%	3.6%	0.1%	\$43,175	\$38,660	30.5%	28.1%	\$157,000	95.4
Mecklenburg County, NC	787,076	13.2%	4.9%	8.7%	\$56,860	\$49,983	42.1%	33.3%		
<i>Charlotte MSA</i>	1,686,243	12.4%	5.2%	8.4%	\$51,568	\$44,222	30.0%	31.1%	\$180,900	92.4
Travis County, TX	883,483	8.8%	4.4%	4.2%	\$52,462	\$45,980	41.2%	36.1%		
<i>Austin MSA</i>	1,455,035	16.4%	4.3%	9.3%	\$54,696	\$43,779	36.8%	34.3%	\$163,800	96.1
Wake County, NC	736,836	17.4%	4.0%	10.7%	\$61,614	\$39,504	48.9%	33.6%		
<i>Raleigh MSA</i>	1,359,734	14.5%	4.0%	10.7%	\$54,361	\$38,373	42.6%	33.1%	\$194,500	91.6

A brief comparison of Duval County's demographic and economic health against 6 major competitors reveals that, in general, Duval County does not currently have the same economic capacity that the majority of these other communities have. **Challenges** exist particularly in the areas of:

- Educated, adult workforce
- Young professional population
- Research capabilities and venture capital funding
- K-12 educational attainment
- Wage levels

On the other hand, Jacksonville has **tremendous advantages** in its:

- Low cost of living and doing business
- Strong population and employment growth
- Expanding corporate presence
- Strong commercial real estate market
- Multi-modal transportation services

CURRENT TARGET INDUSTRY PERFORMANCE

In 2002, Whittaker Associates, Inc. was hired by the Jacksonville Chamber of Commerce to create a 5-year target marketing strategy in collaboration with the Cornerstone Regional Economic Development Partnership, JEDC, and JEA, for the entire Jacksonville region or "First Coast."

The target industries identified through this 2002 report have been adopted by the local economic development authorities and publicized widely throughout marketing collateral and web sites.

This study identified 8 target industry sectors for the Jacksonville region:

- Aviation and Aerospace
- Distribution and Logistics
- Electronics and Semiconductors
- Financial and Insurance Services
- Headquarters
- Business and Information Technology Services
- Medical Products, Services, and Research
- Advanced Manufacturing

TARGET INDUSTRY SUMMARY GROWTH TRENDS						
Target Industry (Duval County)	Companies		Employment		Average Wage	
	Net Change, '00-'05	% Growth, '00-'05	Net Change, '00-'05	% Growth, '00-'05	Average Wage, 2005	% Growth, '00-'05
Aviation and Aerospace	3	17.6%	NA	NA	\$50,441	27.9%
Distribution and Logistics	125	22.0%	-2,511	-14.2%	\$40,899	24.5%
Electronics and Semiconductors	8	2.2%	-576	-13.1%	\$42,221	10.1%
Finance and Insurance Services	488	42.4%	3,081	7.4%	\$56,783	33.7%
Headquarters	No Data	No Data	No Data	No Data	No Data	No Data
Business and IT Services	316	43.2%	-128	-0.9%	\$47,167	11.5%
Medical Products, Services, and Research	29	11.4%	1,884	7.0%	\$38,732	21.0%
Advanced Manufacturing	-17	-8.4%	-344	-3.7%	\$48,596	2.4%

- The Financial and Insurance Services industry saw the most significant total employment growth and wage growth over the past 5 years. It is clear that this industry should continue to be a catalyst in the regional economy. Recruitment efforts should continue to focus on higher-wage, higher-value add opportunities that have less risk of offshoring. The recent Fidelity Investments announcement of 1,200 jobs at an average wage of \$50,000 is an excellent example of this.
- The continued development and expansion of Cecil Commerce Park should drive tremendous growth in aviation and aerospace employment over the next 5 years. Capabilities at NADEP, the expansion of the military employment in the area, and Boeing's plans to introduce 5 new aircraft over the next several years must continue to be capitalized upon.
- The Medical Services industry realized consistent employment and wage growth; however, this industry seems primed to expand upon its under-utilized assets in the region. With the national recognition of the Mayo Clinic, the expansion of technology commercialization activities at Mayo, the establishment of the Proton Therapy Institute at Shands Jacksonville, and the discussion of a biotechnology incubator at Mayo, opportunities within

this industry appear limitless. The region must capture these opportunities to set itself apart on the national state.

- Recent distribution and logistics announcements, including Michaels, Bridgestone, and Mitsui OSK Lines have put Jacksonville on the national radar as a destination hub for distribution and logistics facilities. Now, the region must focus on developing higher-wage, higher-impact spin-off opportunities within the industry.
- The relocation of CSX's headquarters from Richmond to Jacksonville indicates the appeal that the region can have for corporate and regional headquarters. Jacksonville should continue to focus on recruiting headquarters within its dominant industries.
- Electronics and Semiconductors and Advanced Manufacturing have seen limited success over the past 5 years. However, there are several key drivers in Advanced Manufacturing, including Vistakon's manufacturing and research facility, which can continue to drive growth in targeted segments of the Manufacturing industry.
- The IT industry has seen robust growth in company growth, but not employee growth. This is in line with national employment trends, and indicates that there may be small, start up software and IT companies that are appearing on the Jacksonville scene in place of some of the larger IT support firms.

TARGET INDUSTRY IDENTIFICATION

Part II outlines the revised set of target industries and niche sectors that are most appropriate for Duval County and the Jacksonville region as a whole. These industries are based on the core strengths and competitive assets of Duval County.

Core Strengths

Sites and Infrastructure – Large deep water ports, Cecil Field, intermodal connections, multiple highways (I-10 and I-95), and rail systems provide Duval County with a competitive logistics and distribution infrastructure. These will be strong selling points for container shipping companies, consumer goods distributors, automobile manufacturers, retail chains, and food processing firms.

Location – One of Duval County's core strengths lies in its east coast location and its proximity to large east coast metro areas. This provides the area with countless benefits, including access to research centers, venture capital, and a growing educated workforce.

Business Climate – Duval County's image as a place to do business is excellent in all respects. The overall business climate is considered ideal with a non-intrusive state government, low property taxes, no state income tax, and a competitive cost structure. The state's location and right-to-work status appeal to financial services and manufacturing executives. Overall, Florida has excellent technology assets, including premier research universities and a cost-competitive technical workforce, and these assets are well known among corporate executives and site selectors

Competitive Assets

Quality of life – Duval County offers a lifestyle conducive to raising a family. Entertainment options are plentiful, the cost of living is low, and plenty of affordable housing is available. Fortunately, the low cost of housing for the region makes recruiting executives and workers relatively easy.

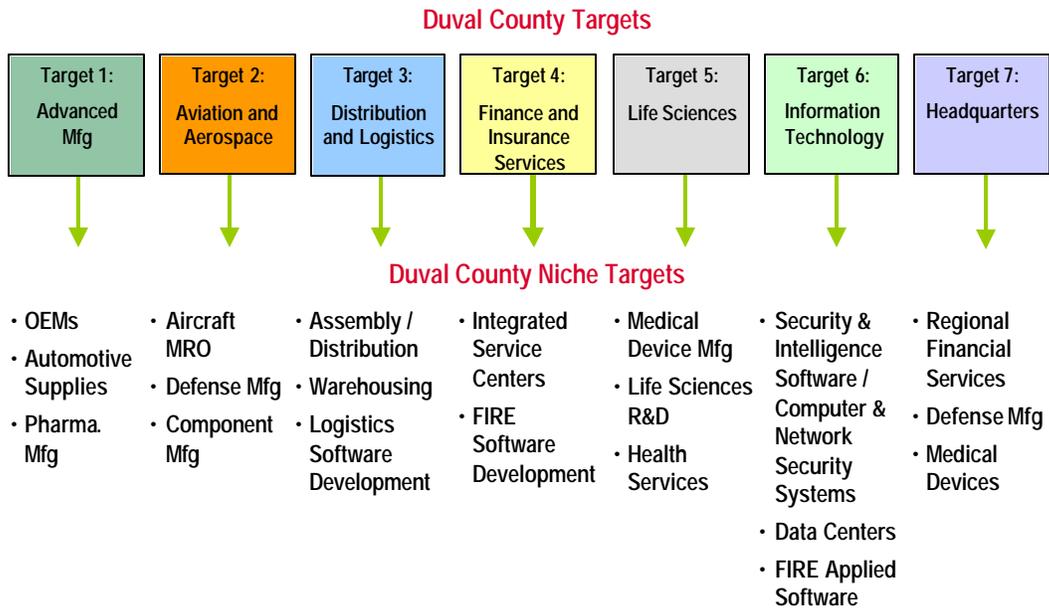
Wage Rates - The average wage in Duval County remains below the national average at \$38,543. Wages in the region are 3% below the nation, but 10% above the state average wage. This will prove beneficial during the corporate recruitment process, as wages play a large part in the overall cost of business.

Overall Tax Structure - Combined state and local property taxes are competitive in Florida. Corporate income tax rates and combined state and local sales taxes are far less than national averages. Other tax advantages for Duval County include: low property taxes, no state income tax, empowerment zone

designation, enterprise zone designation, no business inventory tax, foreign trade zone availability at the Port of Jacksonville, and no development impact fees.

Education – The public school system in Duval County falls short compared to national metrics. However, one of the region’s greatest educational assets is Florida Community College at Jacksonville (FCCJ). FCCJ offers several workforce development programs and industry-specific job training such as the Center for Aviation Excellence at Cecil Field. The University of North Florida has been ranked #5 in the nation for best value. Jacksonville University, Edwards Waters College, the Mayo Clinic, and Shands Medical School are also highly valuable educational facilities for the region.

The final target industries are identified in the chart below:



CRITICAL ISSUES

Finally, in developing these critical issues, we focus on points that will influence location and expansion decisions of businesses and their site selection consultants, such as their ability to attract and retain a qualified workforce, reliable infrastructure, a favorable business climate, and other factors.

The issues are outlined as follows:

- **Business Climate**
 - **Low wage levels**
Duval County’s average wage of \$38,543 is considered low as compared to benchmark communities. Although the argument can be made that the cost of living is also lower than the national average, a comparison of the 2 metrics for the benchmark communities reveals that in Birmingham, Charlotte, Austin, and Raleigh, the gap between cost of living and wages is much more favorable, with lower costs of living and significantly higher wages, making these communities more attractive for employees.
 - **Lack of state sponsored competitive incentives**
Competitive incentives in Florida have been categorized by regional leaders as “fair”, but particularly weak for mega-projects. Although new incentives were recently approved by the state legislature and these are a

- first step in providing competitive incentives, the state still lags the funding abilities of major competitors, particularly in the size of its closing fund.
- **Limited “New Economy” capabilities**
The Progressive Policy Institute ranked the 50 largest metropolitan areas through a series of indicators that capture the region’s ability to succeed in the “New Economy.” Metrics include number and percent of knowledge jobs, manufacturing globalization, R&D capabilities, venture capital, and patents issued. Out of the 50 largest metro areas, Jacksonville ranked very poorly. Overall, the area ranked 48th out of 50, while specific areas fared even more poorly.
 - **Relatively high off-shoring risk**
The Jacksonville region has relied heavily on the call center industry since heavily recruiting call centers in the 1980s. However, these jobs are increasingly mobile and at risk to be off-shored. Reflecting this risk, the service sector off-shoring risk in Jacksonville stands at 9.3; the national average risk is 7.1%.
- **Entrepreneurship**
 - **Limited access to funding for entrepreneurs and start-ups**
MoneyTree has reported that Florida startups rank among the worst at attracting venture capital. Florida companies collected just 0.5 percent of \$5.8-billion distributed nationally. Conversations with small business owners and venture capitalists pointed out that although there is significant wealth in the Jacksonville area, particularly in outlying counties, there is not a well-organized, region-wide process for entrepreneurs to gain access to angel and venture capital funds.
 - **Need to continue greater focus on second stage companies**
Second-stage companies are those that have passed the startup stage and are primed for rapid growth. Typically, such companies have annual revenues between \$1 million and \$50 million, and employ between 10 and 100 workers. These companies face issues of growth rather than survival. These firms need increased attention, recognition, and networking opportunities in order to fully thrive and realize their potential. The strategies developed through the partnership between the Lowe Foundation and the Small Business Center should be given full attention and funding means found for these initiatives.
 - **Limited networking opportunities for local entrepreneurs**
Although a variety of local entrepreneurial networks exist, including local incubator facilities at the Technology Enterprise Center and the Jacksonville Urban Entrepreneur Partnership, there is not evidence of a strong, formalized entrepreneurial network in the region. Jacksonville leadership must work to encourage local entrepreneurship and should consider policies and programs that help create and nurture support networks for entrepreneurs.
 - **Workforce Development and Education**
 - **Lagging K-12 educational system**
Today, although it contains two of the top high schools in the country, Duval County’s public school system does not compare favorably to other districts within the state. In fact, four-year graduation rates are last within the state, at 65%. Additionally, only 32% of 10th graders in Duval County can read at grade level. Increasing dropout rates and low SAT scores are additional symptoms of the educational crisis.
 - **Lagging pool of highly skilled, educated adult workers**
17% of Duval County adults do not have a high school diploma, and only 27% have a bachelors degree or higher. With low unemployment rates, employers are forced to hire workers that lack necessary skills, depressing productivity and wage levels. Economic development officials within the community have heard that a lack of quality, skilled workers is the number one issue facing companies.
 - **Lack of premiere research university**
The region lacks a premiere, national research university. UNF has made it a goal to become a premiere teaching university, and is developing 10 “flagship” programs including nursing, coastal biology, logistics, and international business. The lack of a premiere research university hinders the region’s ability to retain its young professional population. Many leave for college and fail to return.

- **Loss of young professional workforce**
Duval County has a relatively low percentage of residents in the 25 to 44 age category, at 29%. However, more worrisome than that % is the fact that the overall number of 25 to 44 year old residents has declined in Duval County since 2000 by 3%. If this trend continues, and unemployment rates remain low, labor force availability will become a significant challenge for area businesses. In fact, this age group is the greatest indication of a region's economic potential, and the community must find ways to reverse this decline.
- **Underutilization of senior-level military retiree population**
Touted as one of the workforce's primary strengths, the skill sets of the military population, particularly senior-level officers, are under-utilized. Although WorkSource, TAPP, and other workforce development groups assist military personnel in their transition between the military and the private sector, the networking groups that exist in management circles are not widened to include the military. The private sector and military leadership should find more formal opportunities to work together. Additionally, relationships built between the higher education system and military leadership should continue to be deepened.
- **Sites and Infrastructure**
 - **Limited availability of international air service**
Economic development officials have noted that one of the most common concerns voiced by interested prospects is the lack of convenient air service in and out of Jacksonville International Airport. Although the commercial airport is called Jacksonville International Airport, no international flights are offered. Beyond the need for international flights, national jet service is also lacking; in fact, there is no jet service between Miami and Jacksonville.
 - **Inadequate public transportation system**
In the face of lengthy and increasing commute times and the largest landmass of any city in the U.S., it is critical that Duval County/Jacksonville focus on providing better public transportation. Currently, public transportation options have limited connectivity and are not intermodal in nature. Less than 2% of commuters use public transportation. The lack of public transportation threatens to disenfranchise poorer residents who cannot afford a car and limits their economic mobility.
 - **Limited Internet coverage within Jacksonville neighborhoods**
Internet coverage is limited in the disenfranchised areas of northwest Jacksonville. There is no high speed Internet access available in this area, so in order to assure economic mobility, it is necessary that funds continue to be focused on improving the wireless infrastructure in this area. This limits not only residents' progress, but also the ability of businesses to locate in the area.
 - **Continued enhancement of JAXPORT's capabilities**
Although Carnival Cruise Lines operates out of JAXPORT, the cruise ship industry has significant economic potential for Jacksonville that is not being captured because larger ships cannot clear the Dames Point Bridge. JAXPORT should explore various ways to either partner with nearby ports for cruise opportunities or evaluate options for re-building the Dames Point Bridge. Additionally, state funding for ports is not based on the economic production of the ports, and this limits the overall potential of high-performing ports, like JAXPORT, to perform at an even higher level. The state is currently conducting a study to evaluate each port's economic performance and return on investment of state funds. This study should be used to re-allocate state funds.
- **Downtown Jacksonville**
 - **Lack of "critical mass" resident population**
Mayor Peyton has expressed a goal of 10,000 housing units constructed downtown by 2013, but since 2000, residential growth downtown has not been robust, although 808 new units are under construction and will make a large impact on downtown life. Going forward, future residential units should be clustered together to create a "critical mass" that will be attractive to residential service providers like retailers, grocery stores, and restaurants and will create a more walkable environment.

- **Lack of entertainment and retail options**
There are only 0.29 retail and entertainment establishments in Duval County per 1,000 residents, the 2nd lowest among all benchmark communities. Input from Downtown Visions and ImpactJax revealed that additional entertainment options are the primary need for downtown Jacksonville.
 - **Need to develop cohesive, pedestrian friendly downtown**
Although downtown Jacksonville is relatively clean and new, it does not have palpable energy and is extremely spread out. Part of this problem is due to the fact that it is not a well connected, cohesive downtown. Restaurants are spread out, the few retail stores that are located downtown are spread out, and the convention center and sports stadium are not surrounded by convenient amenities and are not pedestrian friendly.
 - **Underutilization of riverfront development**
Downtown Jacksonville is ideally situated along the St. John's River but has done little to embrace this unique asset. Although a riverwalk extends 1.2 miles along the St. John's River along the south side of the river and 2 miles along the north bank, there are few restaurants, entertainment options, and parklands along the walk. There are also few recreational opportunities for runners, bikers, and walkers.
 - **Perception of downtown as "unsafe"**
The perception of downtown as unsafe exists in Jacksonville. In fact, it was perpetuated to AE while visiting a local restaurant establishment. However, data shows that, in 2005, crime in downtown Jacksonville dropped by almost 8%, while crime in the rest of Duval County climbed by almost 1%.
- **Economic Development and Marketing**
 - **Lack of regional, industry-specific partnerships**
Industry-specific partnerships and target industry working groups are lacking within the region. These would provide business and education leaders within Jacksonville to come together to market, to collaborate, and to enhance the depth of the high-impact industries within the region. Economic developers must reach out to key leaders to engage them throughout this process.
 - **Limited focus on recruiting talent**
More effort should be made to focus efforts outside the Florida and Georgia region to attract highly talented college graduates to come to Jacksonville, and initiatives should be put into place to keep Jacksonville's best and brightest high school students in the region after graduation.
 - **Lack of "identity" for Duval County and Jacksonville**
Many people still don't know "what Jacksonville is all about." Although visibility has been raised among site selectors, these are still common perceptions about the region: high risk of hurricanes, large retiree population like the rest of Florida, not much to do, big and sprawling.
 - **Need to be more proactive in reaching out to small business owners and entrepreneurs**
Economic development efforts must be focused equally on business creation and retention as they are on business recruitment. Economic development officials and community leaders must fund efforts to proactively identify potential entrepreneurs in the region. It was noted that, "we know they exist - we just don't know how to find them."

NEXT STEPS

The issues that were identified in Part I, along with the target industries identified in Part II, will provide the foundation for the development of the Economic Diversification Plan.

The Economic Diversification Plan will be an action-oriented implementation plan based on practical, prioritized recommendations for addressing the critical issues highlighted in Part I. This report will also include a detailed marketing and promotion strategy for each of the target industries identified in Part II, including internal recommendations for communication with local businesses, external recommendations for communication with business prospects, and examples of best practices in cities that have undertaken these challenges.