# THE BIGGEST LITTLE PIVOT

## An Analysis of the Reno-Tahoe-Sparks Region's Economic Development Strategy

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# I. Introduction

The Reno-Tahoe-Sparks region has grown in national recognition in recent years as tech companies have chosen to locate in the area, most notably the Tesla Giga Factory (Damon and Amer 2019). This has allowed the Reno region to grow its manufacturing employment by 81% between 2014 and 2018 (StatsAmerica 2014). In this paper, I will use the region as a case study, examining the broad strategies the region implemented in the period between 2008 and today. I will start by looking at the literature regarding second-tier cities, and how they can develop. Next, I will provide context by comparing the region to two other comparable regions (Albuquerque, NM and Savannah, GA). I will then describe the strategies the region took, based on interviews and reviewing documents. Finally, I will discuss how the case study can inform economic development in second-tier cities.

# II. Second tier cities and development: a conceptual framework

Literature on second tier cities focuses less on how different they are in regards to primary cities and more with how similar they are. Most scholars are bullish on growth in second tier cities (Meili and Mayer 2017; Evans 2015; Markusen 2006). Evans encapsulates why second-tier cities can remain competitive:

"There is a risk that capitals will reach a point where external diseconomies produced by congestion, land scarcity and sprawl, marginalised human capital, and infrastructure deterioration produce diminishing marginal returns which make them less competitive and not necessarily able to provide the best return on investment"

In short, second-tier cities need to worry less about being different from primary cities and need to think carefully about the strategies they employ to develop their local economy. Despite this, second-tier cities do have relatively less diversity in the clusters they attract. Heike Mayer and Rahel Meili note in their study of small and medium-sized towns in Switzerland that these economies have grown and specialized based on networks and previous policies and events (Meili and Mayer 2017). In this way, economic developers in second tier cities have to have an understanding of past events, as well as the economic structure of their economy if they plan to expand.

Anne Markusen lays out four 'types' of local economic structures which typify economic development in cities. This includes a Marshallian or Italianate New Industrial District, where many smaller firms create and innovate through externalities associated with thick labor markets, a Hub and Spoke structure in which one or a few major firms induce the creation of smaller firms to serve their needs, a Satellite platform, in which branches of larger corporations locate for lower costs or geographic advantage, and a State Anchor District, in which a state institution anchors the economy through employment and local services (Markusen 1996). Markusen explains that these types can become 'sticky', where thick labor markets become the norm and businesses are attracted to the area (Markusen 1996).

Markusen notes that although these economic structures can guide the fortunes of cities, factors such as local and regional policies, profit cycles, politics, and business strategies play a much larger role (Markusen 1996). To this end, Markusen and other have proposed several alternative methods of economic development strategies. One example was occupational targeting, Markusen had previously made the point that one strength of places such as Silicon Valley was that employees in these areas felt a connection to the region rather than the employer, meaning they were more likely to stay longer and open up their own businesses (Markusen 1996). The goal of occupational targeting is to bridge community development and economic development to focus on meeting the needs of specific occupations who are likely to open their own firms, thereby adding employment (Markusen 2004). This approach posits that human capital is more impactful than industrial policy.

Another approach is the 'Slow City' movement, built on the idea of the Slow Food Movement (Mayer and Knox 2006). This approach specifies an approach which focuses on building a structure of small, locally specific industries which build on the history and culture of the region (Mayer and Knox 2006). The idea seeks to build an Italianate NID structure with an emphasis on community development and avoidance of more traditional business attraction activities. This has generally been discussed in a European context, although the aim of developing local entrepreneurs is common in the US as well.

In the following sections I will examine how the Reno-Tahoe-Sparks region leveraged its structure as a satellite platform economy to grow, while also incorporating other economic development strategies to diversify its economy and create a 'sticky' place for companies and employees.

## III. Situating Reno: a comparison to Albuquerque, NM and Savannah, GA

Reno has similarities to two other metropolitan areas, Albuquerque, NM and Savannah, GA. Both of these metropolitan areas are classified as medium-sized metropolitan areas by the Harvard Business School and both are located near highly populated, international regions – Atlanta, Georgia in the case of Savannah and the Dallas and Houston, Texas regions for Albuquerque (Harvard Business School 2020).

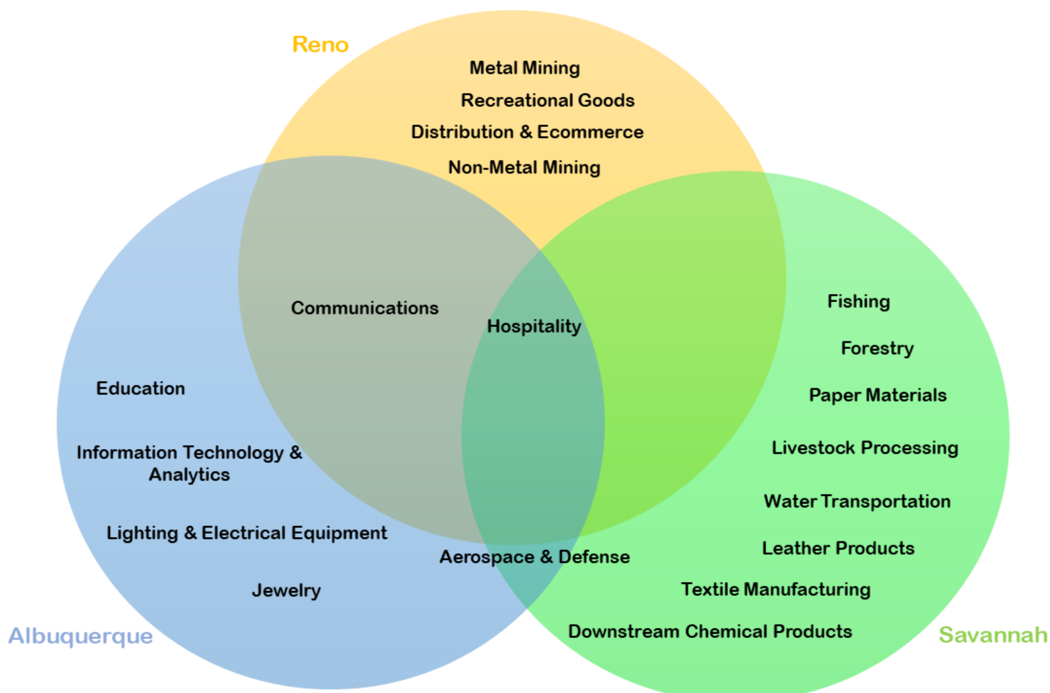
Figure 1.1 shows a comparison of the regions. The Albuquerque area is significantly larger than the other two areas, but all of them share similarities in the clusters located in these regions. What makes these two regions interesting is their contexts illuminate the unique situation Reno found itself in.

*Figure 1.1: Comparison of the Reno, Albuquerque, and Savannah Metropolitan Areas (2018)*

| | **Total Population** | **% of Population with a Bachelor's Degree** | **% of Population with a Graduate or Professional Degree** | **# of Firms** | **Average Wage** |
|---|---|---|---|---|---|
| Reno, NV | 454,427 | 19% | 11% | 15,064 | $51,043 |
| Albuquerque, NM | 910,012 | 18% | 14% | 23,102 | $46,267 |
| Savannah, GA | 381,623 | 19% | 12% | 9,470 | $47,000 |

*Source: Anywhere USA Profile: 5-year ACS Estimates, StatsAmerica; Assembled by the Author*

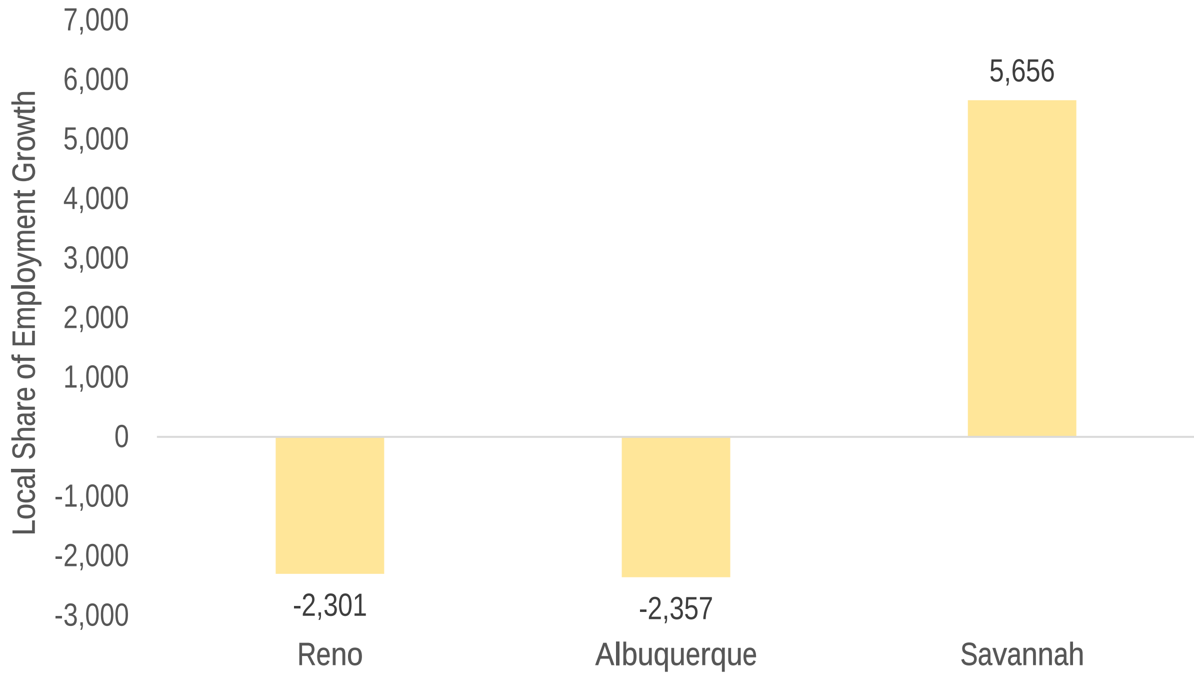
*Figure 1.2: Traded Clusters by Metro Area: 2011*




*Source: US Cluster Mapping Project, Harvard University Business School*

Savannah has become a growing second-tier city. The city has pursued a strong business attraction strategy, which promotes a range of financial incentives from tax incentives to cash payouts for job creation(Savannah Economic Development Authority 2020). Additionally, the town has pursued historic preservation as an economic development tool, which has made it a significant destination in recent years(Schneider 2019). As you can see in Figure 1.3, while both Albuquerque and Reno have struggled. Savannah has been able to grow its hospitality sector, which brings in roughly $3 billion annually (Schneider 2019).

*Figure 1.3: Local Share of Employment Growth: Hospitality*




*Source: QCEW Annual Overview 2011& 2018, StatsAmerica; Calculated by the Author*

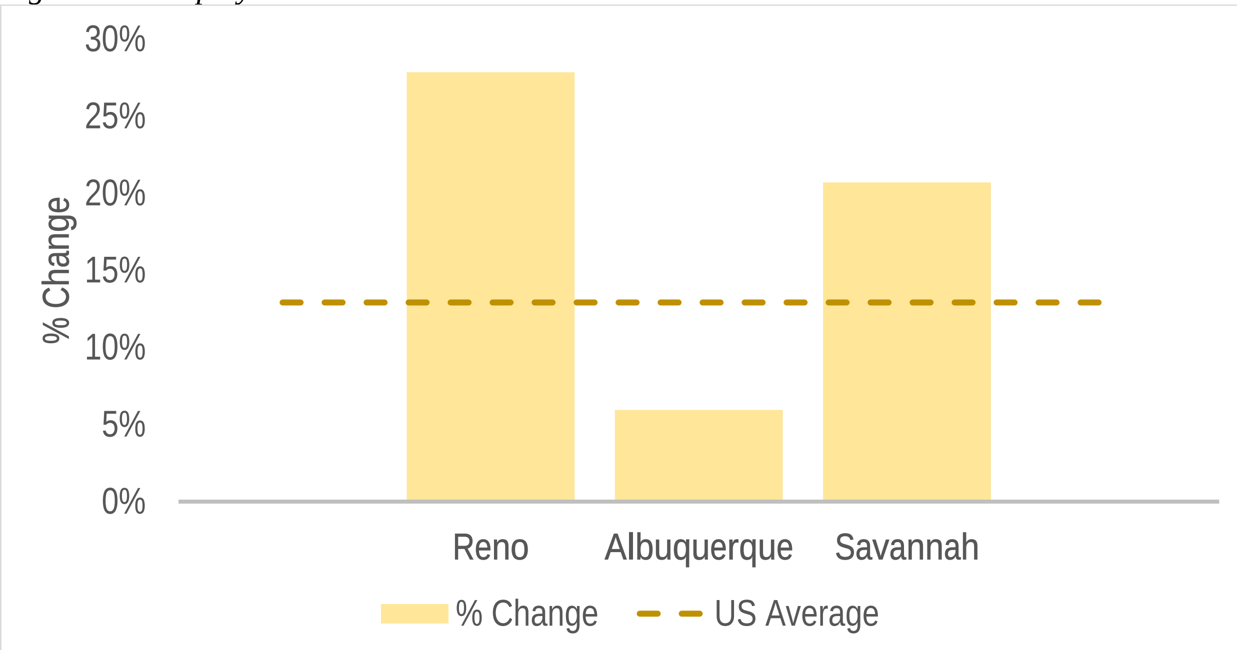
For Reno, this has been a continual challenge. The city's gaming and hospitality sector are its largest single sector of employment (Harvard Business School 2020). As states and municipalities have legalized gaming across the country and Las Vegas has become the premier destination for gaming in Nevada, Reno's gaming and hospitality has entered a decline (Kazmierski 2020).

Like Reno, Savannah has seen growth in manufacturing, however, there are a few reasons why Reno's manufacturing growth is notable compared to Savannah. First off, Savannah has had a significant manufacturing presence compared Reno, which has been able to develop one in a short span of time. Second, there are advantages which have enabled Savannah's manufacturing sector. The first aspect is Savannah's designation. The region has been designated as a Foreign Trade Zone (Savannah Economic Development Authority 2018). This designation allows firms to import components to be manufactured in the region without normal customs or tariff payments. This advantage was also reinforced by the region's proximity to two major military installations: Fort Stewart and Hunter Army Airfield and the Kings Bay Naval Submarine Base (CEDS Strategy Committe 2012). The needs of the installation for equipment and hardware allow for a core manufacturing base that can be nurtured.

Similar to Savannah, Albuquerque has government installations which have become a platform of economic development. The region is home to the Sandia National Laboratories, a significant government research facility which drives the local economy(Mid-Region New Mexico Council of Governments 2015). While this has been seen as both a strength and a weakness (a problem of over reliance), it does offer advantages in the form of a relatively stable anchor. However, Albuquerque's reliance on a state institution and lack of growth sectors outside of the state anchor has led to slower growth compared to Savannah and Reno.

In this way, Savannah and Albuquerque typify two of the industrial district types presented by Markusen. Savannah's manufacturing base resembles an Italianate NID, with some support from government institutions. Albuquerque represents a state-anchored district, which serves as a focal point for economic activity. So given these advantages, how was Reno, able to grow employment so significantly compared to its counter parts?

*Figure 1.4: Employment Growth 2011-2018*



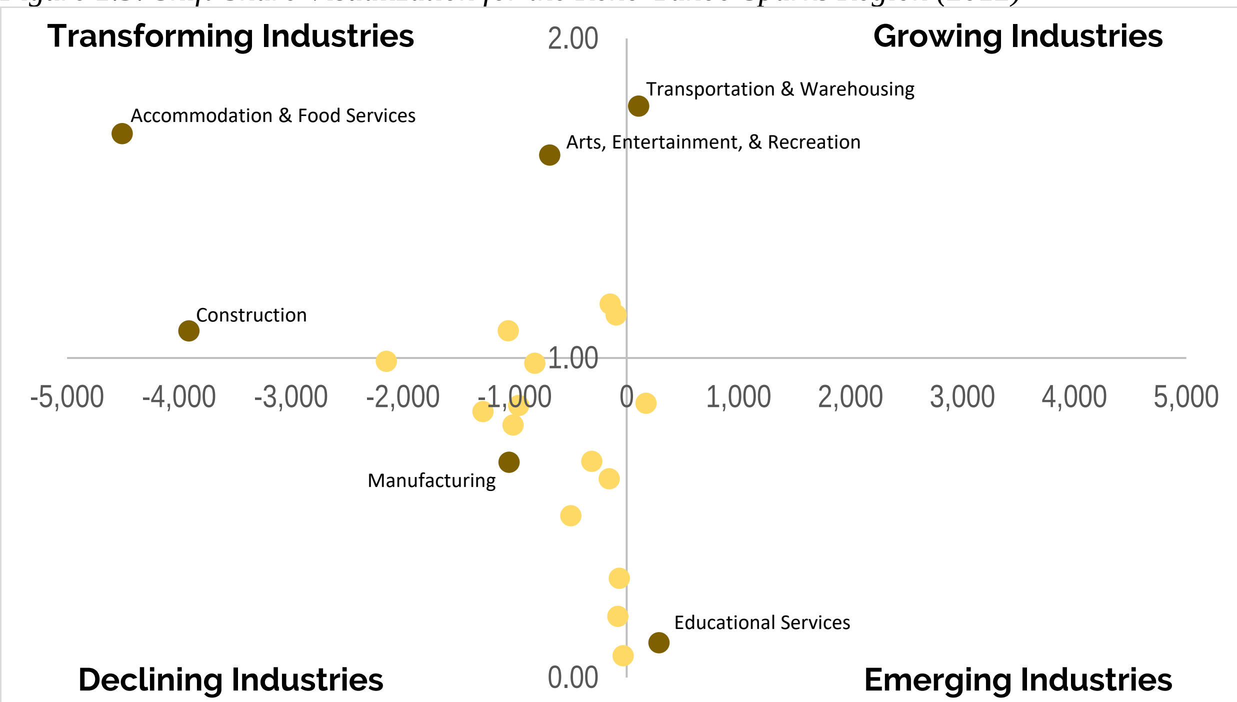

*Source: QCEW Annual Overview 2011 & 2018, StatsAmerica; Calculated by the Author*

## IV. The second pivot: networking from warehousing to manufacturing

Reno's theme before the 2008 economic crisis had been a satellite-platform industrial quality. Regional leaders had noted with concern in late 1990s that the Reno area was becoming a retirement community with a declining gaming sector (Osborne 2020). The leaders at the time had begun courting companies looking to build warehouses that allowed for distribution up and down the West Coast (Osborne 2020). The cheap land and access to major highways allowed for warehousing to become the second largest sector outside of hospitality. However, employment in distribution was less than half of the jobs in hospitality (15,000 compared to 36,000) (Harvard Business School 2020).

The 2008 recession was particularly impactful on the Reno metropolitan area. Between 2008 and 2012, the hospitality cluster lost 25% of its jobs (StatsAmerica 2008). The average loss for clusters with more than 100 jobs was 16% (StatsAmerica 2008). Further compounding the issue, hospitality in 2008 accounted for 31% of tradeable employment in the region. In my interviews with development officials, diversification was a common point they referenced in thinking about how to coordinate development (Osborne 2020; Kazmierski 2020; Stockhan 2020).

*Figure 1.5: Shift-Share Visualization for the Reno-Tahoe-Sparks Region (2012)*




*Source: QCEW Annual Overview 2008 & 2011, StatsAmerica; Calculated by the Author*

The strategy Reno pursued was to position Reno as "place to grow". This was done through several policies and pieces. First, there was a focus on the development of regional networks by leveraging Reno's distribution platform. The second element was the use of their regulatory environment to enable development. Finally, regional coordination and community development has allowed the area to meet the needs of workers and employees.

The first major policy pursued by the region was the development of business networks to attract businesses. This began with the hiring of Mike Kazmierski as the President of the Economic Development Agency of Western Nevada. Kazmierski's previous experience included attracting businesses from California to Colorado Springs (Kazmierski 2020). Reno additionally had connections to major regional firms through warehousing and distribution satellite campuses. This offered the region the opportunity to highlight the region as a candidate for expansion (Kazmierski 2020). Regional officials described the pitch as a place where businesses could not only open a satellite office, but also easily scale up. This worked as both a retention and expansion strategy and an attraction strategy. Kazmierski noted they approached companies that were growing at high rates (20% or higher) annually. The relatively cheap land in the region allowed them to convince companies they could expand close by to their headquarters. Additionally, this allowed the region to build a relationship with companies that could lead to expansion within the region. Tesla for example, had a warehouse at the Tahoe-Reno Industrial Complex before deciding to locate its Giga Factory in the region (Osborne 2020).

This strategy of leveraging their satellite platform status was complimented by a regulatory environment that enabled companies to make changes. Part of this regulatory environment is a result of previous state decisions. The state classifies counties as either ‘urban’ or ‘rural’. Counties labeled as ‘rural’ have more relaxed environmental regulations. This designation has allowed the major business park in Storey County, the Tahoe-Reno Industrial Center, to approve development quickly. Furthermore, the county has worked to develop a friendly regulatory environment as an attraction tool. As Austin Osborne, Storey County’s noted, they were able to demonstrate how they were able to provide a grading permit in five days to a firm (Osborne 2020).

However, officials were quick to stress that it was not simply ease of business that made companies eager to do business in the Reno-Tahoe-Sparks region. Osborne notes that what made companies comfortable in the region was that there was in his words a, “stable and predictable partner in government." (Osborne 2020). Kazmierski noted in his interview that businesses wanted to feel that government wanted these businesses to do well. This was accomplished by being well coordinated within government structures. Osborne touted how the government of Storey County, from the fire chief to the permitting office, were involved in economic development. He describes an example where he and the fire chief flew over a weekend to Taiwan to inspect a facility that a company wanted to duplicate in Storey County (Osborne 2020). The county also pioneered the use of electronic stamping of site plans, and took staff time to pre-approve development based on existing regulations. The way officials described these initiatives were as a team effort. Kazmierski talked extensively how EDAWN and other partners worked with the local community college to develop certification courses to meet the labor requirements of employers and to connect businesses with the University of Nevada Reno.

Perhaps the most illuminating comment was from Osborne however. "We were able to know what the rights and requirements on the property were and what local utilities could and could not provide." (Osborne 2020). The coordination was not simply a passing along information, but being on the same page and being able to communicate relevant information to businesses quickly. This allowed Reno to be a reliable partner for companies who were trying to manage complex supply chains and timing considerations.

The final element is the regional coordination and community development. These may not appear complimentary, but officials I spoke to saw the coordination as part of their development. The provision of infrastructure, housing, and amenities is a regional issue for several reasons. While Storey County has been the location of the most job growth, the lack of current housing has meant the city of Reno and Washoe County have absorbed most of the population growth (Stockhan 2020). This has led to some contention between actors as Washoe

County and Reno have had to expend more resources to provide for the increase in the population without the taxes revenue commercial and industrial activity offers C(Stockhan 2020).

One example of coordination is an agreement between Storey County and Washoe County over water infrastructure. The increase in population required infrastructure improvements which would cost over $100 million (Osborne 2020). At the same time, the Reno-Tahoe Industrial Center required greater water for its tenants. The negotiations between Washoe County and Storey County led to the Industrial Center paying for a significant amount of the required improvements (Osborne 2020). Additionally, Storey County has agreed in principle to allow for housing development near the industrial park in order to reduce the strain on transportation infrastructure and relieve pressure on cost of housing, which had grown from an average of $135,000 in 2012 to $370,000 in 2019 CITE; an increase of over 170% (Damon and Amer 2019).

Part this regional coordination also includes Reno’s choices in community development. As Markusen puts forward, occupational targeting is reliant on policies which encourage the development of amenities which the target occupation enjoys broadly. For Reno, this was the development of a urban style midtown which provided spaces like cocktail bars, trendy tattoo parlors, craft breweries, and farm to table restaurants (Damon and Amer 2019). As Arlo Stockhan noted, the city’s community development policies sought to bring an urban flavor to a city connected to environmental recreation (Stockhan 2020). This allowed Storey County to more easily attract businesses and convince businesses to expand in the region, as employees enjoyed the area are attractions it had to offer (Osborne 2020; Stockhan 2020). In this way, community development addressed one of the threats Markusen identified for many satellite platform districts, that employees had more loyalty to their employer than the location they were in (Markusen 1996). The development of Reno's community assets and infrastructure helped transform the city into a more dynamic labor market that attracted workers from primary cities along the West Coast. A presentation by EDAWN noted that the cost of a Uhaul truck from San Jose, California to Reno for a 3-4 bedroom house was $1,232 compared to $182 in the opposite direction (Applied Analysis 2020).

## V. Implications for practice

There are several takeways from this case study. First, it offers further evidence of Meili and Mayer's observation that networks of knowledge and connections are key components of economic growth, specifically in regards to regions. Reno's success came because it was able to leverage networks in its region. As the west coast cities began exhibit certain diseconomies of scale, Reno was able to grow through the networks it had developed. Second tier cities can use this strategy to drive growth. By focusing on relatively close regional firms, they can be more competitive to firms while also mitigating the issues that come with being a satellite office, such as being removed from decision makers (Markusen 1996). Furthermore, quickly growing regional firms offer natural avenues for business expansion later, as evidenced by Tesla in Reno.

In terms of government policy, I caution that takeaways should focus not on lax regulation, but stable, predictable regulatory regimes and internal department coordination. All officials noted how they were able to help businesses get the approvals they needed quickly. While there is plenty of zeal to reform regulation in many municipalities, predictability is less spoken about. Providing predictability requires more work up front from a planning perspective. Getting by right uses and pre-approvals for a variety of actions into ordinances and regulations provides certainty businesses will not be denied in getting permits.

Coordination between departments bolsters this by allowing for faster administrative procedures and allows for clear communication between the government and business. If departments are not on the same page, it can lead to uncertainty and hold ups. This additionally creates an environment in which businesses owners are unsure if they have partners in government. That does not mean governments cannot have proper regulation, but instead it needs to be clearly communicated, and government officials must understand how their other offices work so as to provide proper context.

The final and perhaps most important takeaway is the need for the coordination of economic development and community development. Reno demonstrated how a community development strategy can complement industrial economic strategy, However, community development plans also need to provide for future demand as the result of growth. The region for all of its success still faces significant challenges as a result of its growth. Housing will continue to be a major difficulty, and the regional balance of growth has taxed the City of Reno's resources (Stockhan 2020). Reno has done an admirable job implementing an occupational targeting strategy through community development, which should be emulated by other second tier cities. However, cities should ensure that their economic development strategies are complimented by growth plans and community development plans that acknowledge and address the issues raised by employment growth.

Reno offers an example of how a regionally focused strategy can provide growth, and that second-tier cities can provide both economic opportunities and quality urban amenities. Despite their challenges, the region provides a blueprint for policy that other economic developers can follow.

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