

BEST PERFORMING CITIES

WHERE AMERICA'S JOBS ARE CREATED

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Milken Institute Best Performing Cities: Where America's Jobs are Created

Executive Summary

The Best Performing Cities ranking depicts those U.S. metropolitan areas that are recording the top economic performance and creating the most jobs in the nation. We created this index to enable businesses, economic development agencies, government and public policy groups, to assess and monitor recent performance.

Our index is an outcomes-based measure as opposed to one that incorporates explicit measures of business costs, cost-of-living components such as housing, and other measures of quality-of-life, such as crime rates. We believe that all of these static measures are important, but can be highly subjective in nature. If a metro has a high quality of life, it should be reflected in its firms' ability to create jobs and attract human capital.

The components of our index include job, wage and salary, and technology growth. We include both five-year and one-year performance. The five-year growth averages smooth out the business cycle impacts and don't penalize a metro too heavily for a weak performance in the latest year. The latest year's performance provides a sense of relative momentum of metropolitan economies around the country. We also include measures of concentration and diversity of technology industries in an attempt to quantify a metro's participation in the knowledge-based economy.

Each business cycle has its unique characteristics that impact metropolitan areas differently because of their diverse economic structures. The current cycle had several:

- A severe decline in investment in IT equipment and software.
- A pronounced downturn in manufacturing.
- Terrorism's ripple effects on travel and tourism and related sectors.
- Low interest rates that mitigated contraction in consumer spending and housing.

Top 20 Best Performing Cities

The top 20 Best Performing Cities among the largest 200 metropolitan areas reflect an assorted group of communities. A common key attribute among this year's list was diversity of economic base. Communities with a university presence, sizeable government employment, an array of service-based industries and population-driven growth, fared very well. Additionally, those with clusters of health care services and biotech/bioscience activities performed admirably. Most of the metros on the list are fairly steady, stable performers over the long term.

California has been in the national spotlight in recent months for its ongoing difficulties from the bursting of the tech bubble in Silicon Valley and throughout the Bay Area, and for its \$35 billion budget deficit; still, the state had seven metros in the top 20. This was



down from nine last year, but a noteworthy performance. The state of Texas placed four metros in the top 20 and Florida has two. The South had four other metros and the West had an additional two. There are no metros from the Midwest and only one from the Northeast, indicative of the extent of the downturn in manufacturing activity over the past couple of years and long-term competitiveness problems.

Top 20 Best Performing Cities
Composite Index

2003 Rank	Rank, Year Ago	Metro	Index
1	23	Fayetteville-Springdale-Rogers, AR	100.00
2	3	Las Vegas, NV-AZ	120.00
3	37	Fort Myers-Cape Coral, FL	123.08
4	12	West Palm Beach-Boca Raton, FL	138.77
5	1	San Diego, CA	149.23
6	7	San Luis Obispo-Atascadero, CA	151.08
7	16	Laredo, TX	180.31
8	9	Brownsville-Harlingen-San Benito, TX	183.38
9	5	McAllen-Edinburg-Mission, TX	186.46
10	50	Monmouth-Ocean, NJ	186.46
11	48	Anchorage, AK	194.15
12	20	Raleigh-Durham-Chapel Hill, NC	197.23
13	41	Chico-Paradise, CA	206.46
14	4	Ventura, CA	207.38
15	18	Sacramento, CA	210.46
16	33	Houma, LA	215.08
17	15	Vallejo-Fairfield-Napa, CA	219.08
18	36	San Antonio, TX	223.08
19	28	Washington, DC-MD-VA-WV	226.15
20	11	Riverside-San Bernardino, CA	228.92

Source: Milken Institute

Fayetteville, AR was our top-performing metropolitan area, up from 23rd last year. While this may seem surprising to most of America, it isn't for the metro area's retail/distribution anchor firm, Wal-Mart. Not only was the Fayetteville metro the overall leader, it ranked first in job growth last year. The second-place performing metro, Las Vegas, succeeded despite a difficult environment for a travel and tourism (gaming) destination.

Fort Myers' ranked third with its stable retirement-based economy. West Palm Beach comes in at fourth, recording steady jobs gains despite its high dependence on travel and tourism. Ranking first last year, San Diego remains among the national leaders at fifth despite continuing weakness in demand for technology products and services. San Luis Obispo, CA joins San Diego in the top 10 again at sixth, up one place from last year. Laredo, Brownsville and McAllen, TX rank seventh, eighth and ninth, respectively. Rounding out the top 10 is Monmouth-Ocean, NJ.

Anchorage jumped from 48th last year to 11th in this year's ranking. For an economy with an IT hardware cluster, Raleigh-Durham's 12th ranking is extraordinary; especially considering that it moved up from 20th last year. Chico, CA, ranked 13, a leap from 41st



last year. Ventura slipped from fourth last year to 14th, but it is a remarkable performance for a metro with nearly double the dependence on high-tech as that for the nation.

Sacramento stays in the top 20, moving up to 15th this year. Houma, LA is 16th, courtesy of petroleum manufacturing and oil field service equipment. The Vallejo-Fairfield-Napa, CA metro area remains in the top 20 at 17th this year. San Antonio moves up to 18th, climbing from 36th last year. The other tech center in the top 20 is the Washington, D.C. metro area at 19th. Rounding out the top 20 is Riverside, CA with rapid population growth driven by its affordable housing next door to Los Angeles.

Ten Largest Cities

A metro area in its mature stage with little land available for expansion and high density faces difficulty in recording job growth as rapidly as metros in their early- and mid-stage growth cycles. For these reasons and others, it is a relevant comparison to analyze America's largest metropolitan areas as a distinct class. Among America's 10 largest cities, Washington ranks first, and as previously stated, 19th overall. Coming in second among the Big 10, Houston withstood the problems at its energy-trading and electricity-producing firms to record a solid performance given all the forces buffeting it.

Atlanta didn't completely avoid the tech and telecom wreck, but was third among the Big 10 metros (77th overall). Dallas was just behind Atlanta at fourth among the Big 10 and 78th overall. Philadelphia's economy escaped recession in 2001 and 2002, an unusually positive occurrence for it during a national recession and was fifth in the Big 10. Los Angeles' economy was ravaged by the 1990-91 recession and defense downsizing, but managed to survive the most recent recession with modest dislocations, ranking sixth among the Big Ten.

Boston ranked seventh among the Big 10 economies this year. Chicago was a prime target for economic difficulties given its reliance on telecom equipment, financial services and airline travel. Chicago was eighth among the Big 10. Given all the tough blows that New York has taken over the past two years, the fact that it isn't last among the Big 10 is notable. By historical standards, this was a mild recession for the Detroit metro area, but it was still last among the Big 10 in this year's rankings.

Top Five Best Performing Small Cities

Among America's small cities, Iowa City moved from second last year to first in our current ranking. Tyler, TX is second among smaller metropolitan areas. Home to a major health research facility – the University of Texas Health Center at Tyler – the University of Texas and Tyler Junior College, its economy has continued to add jobs throughout the national recession. Las Cruces, NM slipped from first last year to the still respectable rank of third. Las Cruces had the most rapid employment among the small metros last year. Billings, MT moved up to fourth in the current rankings. Its leisure and hospitality industry was relatively insulated from the impact of 9/11 as the drive-in market grew. Another New Mexico metro area, Santa Fe, joins the top five small cities list.



Introduction

Our latest comprehensive index, “Best Performing Cities: Where America’s Jobs are Created,” reflects those metropolitan areas that recorded the best economic performance and created the most jobs. We structured the index to allow individual metropolitan areas to shift position from year-to-year, but avoid mass migration within the rankings. On the other hand, when a metropolitan area’s economic condition shifts dramatically, an index should reflect these changing dynamics.

This index is constructed to allow businesses, economic development agencies, government and public policy groups the ability to assess and monitor recent performance. The Milken Institute Best Performing Cities index utilizes the same methodology that we used and was published by *Forbes* in its annual Best Places for Business edition over the past four years, permitting a consistent performance evaluation with past years.

Index Outcomes-Based, Not Cost-Based

This index includes job, wage and salary and technology output growth over the most recent five years and the latest year’s performance. We also incorporated the latest 12-month job growth performance. Employment growth receives the highest weighting in our index because it is the critical factor in determining the vibrancy of America’s communities. Wage and salary growth measures the quality of the jobs being created. Technology output growth is included because of its critical role in determining the economic vibrancy of cities (or a region’s ability to withstand a technology shock as in the current environment.)

**2003 Milken Institute Best Performing Cities
Components**

Component	Weight
Job Growth (I=1997)	0.143
Job Growth (I=2001)	0.143
Wages and Salaries Growth (I=1996)	0.143
Wages and Salaries Growth (I=2000)	0.143
Short Term Job Growth (Dec '01- Dec '02)	0.143
Relative HT GDP Growth (I=1997)	0.071
Relative HT GDP Growth (I=2001)	0.071
High Tech GDP LQ	0.071
# of High Tech GDP LQ >1	0.071

Source: Milken Institute 2003 Most Dynamic Places

The five-year growth averages smooth out the business cycle impacts and don’t penalize a city too heavily for a weak performance in the latest year. The latest year’s performance provides a sense of relative momentum of metropolitan economies around the country.



Some additional technology measures were included that reflect the concentration and diversity of technology industries in metropolitan areas. We include a high-tech location quotient (a measure of concentration in a metro to the nation as a whole) to incorporate a metro's participation in the knowledge-based economy. We also measure what metropolitan areas have a higher concentration of technology industries (out of a potential of 14) than the concentration quotient for the nation.

Our index is an outcomes-based measure as opposed to one that incorporates explicit measures of business costs, cost-of-living components such as housing, and other measures of quality-of-life such as crime rates. We believe that all of these static measures are important, but can be highly subjective in nature. If a metro has a high quality of life, it should be reflected in the ability of its businesses to create jobs and attract human capital. Thus, some industries choose to remain in the most expensive cities even though technology clearly enables business entities to move to a lower-cost location. Therefore, a better measurement of the "real" cost of doing business should include not only the conventional cost of doing business (wages, tax rates, real estate costs and others), but the benefit of situating in expensive locations.

In theory, a prospering region will raise wages as well as rents as both human capital and land inputs are more fully utilized. Nevertheless, holding all other factors constant, such as the productivity associated with being in one location versus another, a firm will locate where business costs are lower and their employees' standard of living is higher.

Keys to Becoming a Best Performing City

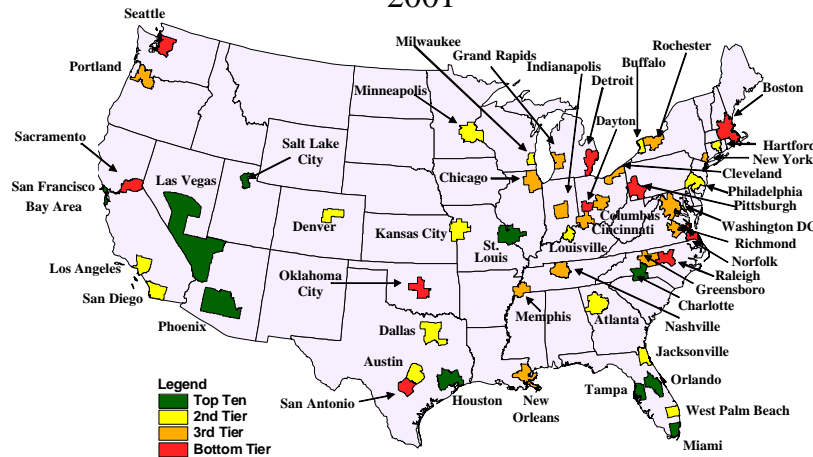
Cities must appreciate the criteria that will propel them forward and triangulate a course. What is required to be a Best Performing City?

Economic Dynamism

The key to regional sustainability over the long haul is the diversity of its ecosystem. A metro must be able to innovate, start and grow new firms continually to augment the diversity of its economic ecosystem because many large firms will likely stagnate or even disappear. Entrepreneurial capacity and behavior are prime drivers of economic growth and job creation. Entrepreneurs are necessary visionaries of the economic potential of new technologies and how to apply them to business concept innovations.



“Gazelle” Jobs 2001



Regional economic dynamism is epitomized by fast-growing, entrepreneurial companies – “gazelle” companies. For a metro area to be a successful over the long haul, it has to have capable entrepreneurs. In the theory of clustered economies, its very foundation rests upon its rejuvenation capability. Over the long-term, cities with strength in entrepreneurship will be among our Best Performing Cities.

Capital Access

The explosion in the availability of capital to individuals has supported new economy growth. In the past, riskier, more innovative entrepreneurs faced great difficulty in obtaining early-stage funding. The increased availability of risk capital to technology start-ups is particularly powerful because their product or service is unproven and the market potential is difficult to ascertain.

Many of these new firms require large amounts of external financing for an extended period before they can tap traditional debt or equity markets. Private equity from pools of individual investors (angels) or highly specialized venture capital (VC) firms attempt to fill this void. Venture capital funding represents a small share of the overall capital markets, but its true value cannot be measured in dollars. VCs assist in business plan development, become board members, lend management skills, suggest strategic partnerships and alliances, assist in expansion plans, and can bring in key talent where needed. Venture capital activity is an excellent way to assess whether financiers have confidence in the new ideas and entrepreneurial infrastructure of a region. Despite the current difficult environment for private equity, metros that develop deep private capital markets are poised for expansion.

Human/Creative Capital

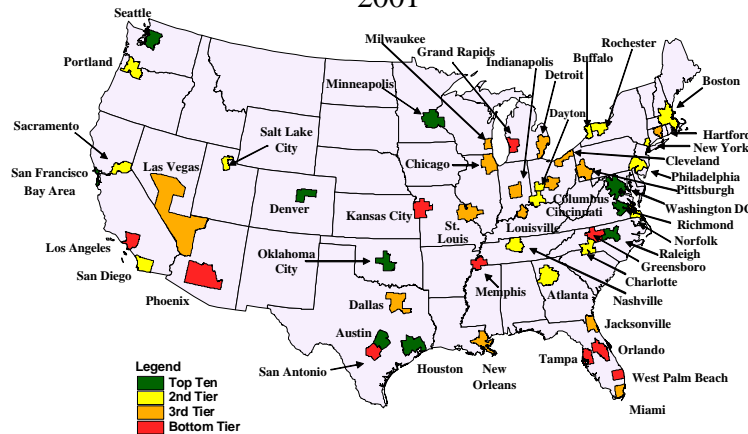
A region’s most important source of competitive advantage is the knowledge embedded in its people. In the past, firms attracted people; in the current, increasingly intangible



economy, concentrations of talent are attracting firms. The knowledge, skills, experience and innovative potential of talented individuals have greater value than capital equipment. A successful enterprise accesses, creates and utilizes knowledge to sustain competitive advantage.

Workforce Education

2001



People used to follow jobs to a new city for economic reasons. Today lifestyle considerations are important as well. In other words, geography matters more than ever to businesses because skilled technical and creative people determine firm and metropolitan success. A successful business considers where high-end human capital chooses to reside.

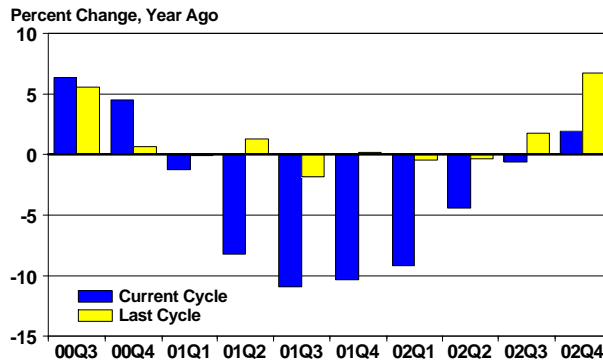
Innovation Capacity

Because knowledge is generated and shared more efficiently in close proximity, economic activity based on new knowledge has a high propensity to cluster geographically. In leading clusters, fewer innovations will escape to other regions – or at least they will do so at a slower rate. The innovation capacity of a metropolitan area is an important component of its long-term economic development potential.

Research laboratories – private, government and university-based – are important drivers of economic development. Investments in R&D strengthen local research competency and attract further investments by the private and public sectors in a process of dynamic feedback loops. Access to the latest innovations is attractive to firms because it gives them an important competitive advantage against firms without proximity. Research capacity is a necessary, but insufficient factor in determining regional success. It's not just about the research, but what you do with it that counts.



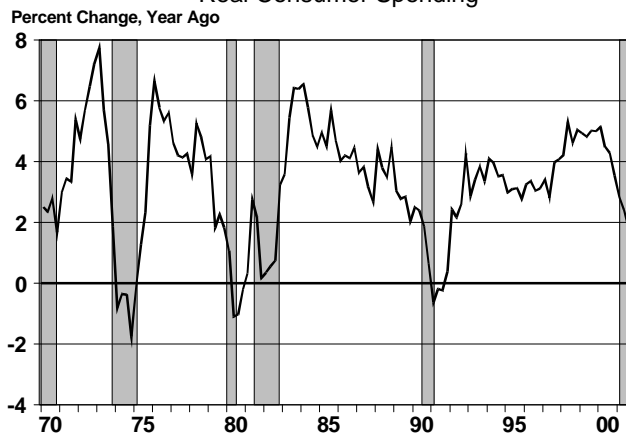
Business Investment Equipment and Software



Sources: Global Insight; Milken Institute

The recent recession may have been one of the mildest in the post-war period, but it was a severe downturn in manufacturing, particularly in durable goods. Also layered upon this business cycle was the impact of 9/11 on travel and tourism (especially airlines), commercial aircraft production and other ripple effects on suppliers to these sectors. Additionally, because of the severe and extended downturn in equity markets, financial services centers have suffered – just ask the 30 percent of investment bankers on the Street who were handed their walking papers over the past couple of years.

Consumer Dampens Recession Real Consumer Spending



Sources: Global Insight; Milken Institute

Fortunately for many of America’s communities, there have been some fortuitous dimensions to the current business cycle. One of those is that the consumer and housing sectors remained remarkably strong during the recent recession. Falling equity markets caused a negative wealth effect, but the Federal Reserve was able to aggressively cut



interest rates due to benign inflation. This allowed consumers to refinance their mortgages and added billions to discretionary income. Corporate headquarters and other major regional centers of retailers and other consumer-based firms didn't suffer as severely as in the past. For example, Wal-Mart's major presence and continued expansion in the Fayetteville, AR metro area greatly assisted its performance.

Best Performing Cities: Largest 200 City List

Our top 20 best performing cities among the largest 200 metropolitan areas reflect an assorted group of communities. A common key attribute among this year's list was diversity of economic base. Communities with a university presence, sizeable government employment, an array of service-based industries and population driven growth fared very well. Additionally, those with clusters of biotech/bioscience activities performed admirably. Most of the metros on the list are fairly steady, stable performers over the long term.

Top 20 Best Performing Cities
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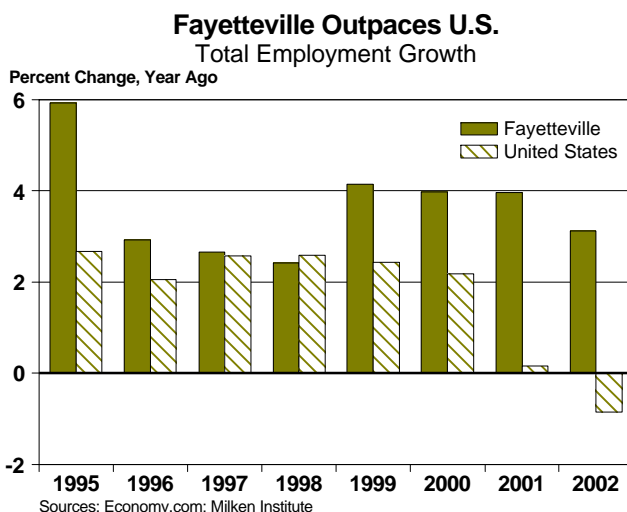
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Source: Milken Institute

California has been in the national spotlight in recent months for its ongoing difficulties in Silicon Valley and throughout the Bay Area following the bursting of the tech bubble, as well as for its \$35 billion budget deficit, still, the state had seven metros in the top 20. This was down from nine last year, but a noteworthy performance. The state of Texas placed four metros in the top 20 and Florida has two. The South had four other metros and the West had two additional ones. There are no metros from the Midwest and only one from the Northeast, indicative of the extent of the downturn in manufacturing activity over the past couple of years and long-term competitiveness problems.



Fayetteville, AR was our top-performing metropolitan area this year, up from 23rd last year. While this may seem surprising to most of America, it isn't for the metro area's retail/distribution anchor firm, Wal-Mart. Not only was the Fayetteville metro the overall leader, it ranked first in job growth last year. The recession caused Americans to shift spending to discounters and away from more upscale retailers. Combined with problems at other major retailers such as K-Mart, Wal-Mart gained market share in this vital segment. Fayetteville's retail and transportation cluster is more than just Wal-Mart, though. A wide agglomeration of suppliers, partner-firms and IT intensive logistic firms such as J.B. Hunt are located here.



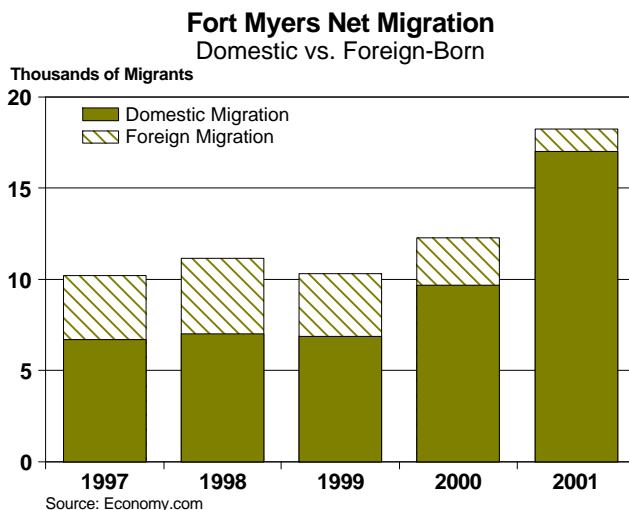
The University of Arkansas is the area's second largest employer and it has been on an aggressive expansion program including a new research park. Another important local industry is poultry processing. Tyson's Foods and Pinnacle Foods Corporation are headquartered in the Fayetteville metro area. Despite a greater-than-average concentration of manufacturing there, it has a low dependence on durable goods, which aided its performance during the recent recession. Fayetteville is certainly no technology center, but it ranked first last year and second over the last five years in technology output growth among all U.S. metros. The region has experienced a high rate of immigration with population growth at nearly three times the national rate. Economic success comes at a cost - the Fayetteville area's home price appreciation has been among the national leaders.

Our second best performing metro, Las Vegas, succeeded despite a difficult environment for a travel and tourism (gaming) destination. 9/11-induced weakness in 2002 caused the slowest employment growth in many years. Nevertheless, employment growth in Las Vegas was 2nd in the nation over the last five years. Gaming revenues on the Strip are up from one year ago, but still down from two years ago. Foreign visitations are off the



most, compounded by the Iraq war and SARS, but its astute casino operators and local marketing officials were able to offset much of the foreign weakness by aggressive targeting of domestic travelers, particularly the large Southern California drive-in market. To stay among the leaders over the long haul, Las Vegas must attract and nurture knowledge-based firms. Regardless, its low business costs and business-friendly environment promise to keep it well positioned.

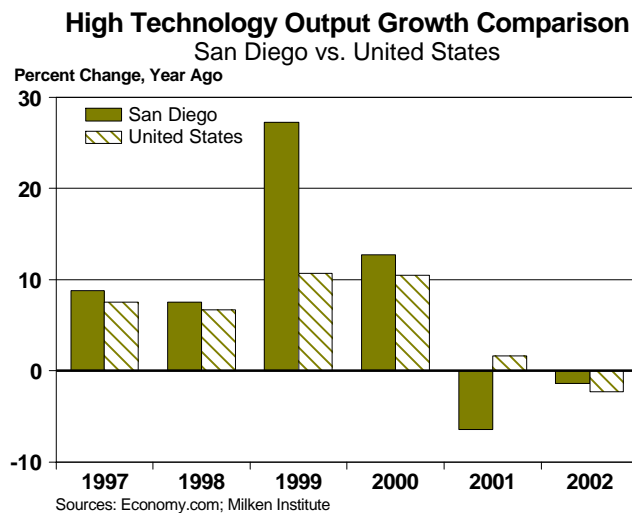
Fort Myers ranked third with its stable retirement-based economy. Over 25 percent of the metro area’s residents are 65 or older. It has been attracting more recent retirees with its lower living costs compared to the rest of southwest Florida. Its expanding retirement population has increased demand for local financial services where jobs are growing by more than 6 percent. Health services are witnessing brisk growth as well. Manufacturing is a small part of its economic base, which helped insulate it during the recent downturn. There are even new technology activities. The Florida Gulf Coast Technology and Research Park, currently under construction, will house an incubator for Florida Gulf Coast University. Over the past five years, Fort Meyers ranked 25th in technology output growth.



Another Florida metro, West Palm Beach, comes in at fourth. Its economy witnessed steady job gains despite its high dependence on travel and tourism. Cruise bookings have held up and the area has been attracting well-heeled tourists who have stayed in the U.S. rather than travel abroad. Rising demand for health care services has stimulated its economy as medical and surgical hospitals are the second-largest employment category in the metro area. It has a high-tech base, too. The metro recorded the 18th-fastest high-tech growth in the country over the last five years. Computer system design and related services have seen strong growth. Its telecom equipment manufacturing, Siemens, has been forced to layoff staff, but the metro has withstood the loss remarkably well.



Last year's top-ranked metro, San Diego, remains among the national leaders at fifth despite continuing weakness in demand for its technology products and services. It is one of the few technology centers that has managed to avoid recession, a testament to the diversity of its technology sectors and a large military presence. San Diego has a high dependence on travel and tourism, but most of its visitors are domestic so the post-9/11 drop-off in foreign travelers did not affect it greatly. Employment in its leisure and hospitality industries is recovering. General Atomics and Northrop Grumman have seen demand for their unmanned aerial vehicles soar courtesy of successful deployment in Afghanistan and Iraq. Development of combat versions of the UAVs is moving forward. San Diego's biotech and life science communities have seen a falloff in venture capital placements, but it is still the top recipient overall. Job growth in San Diego was the fifth fastest in the country in 2002.

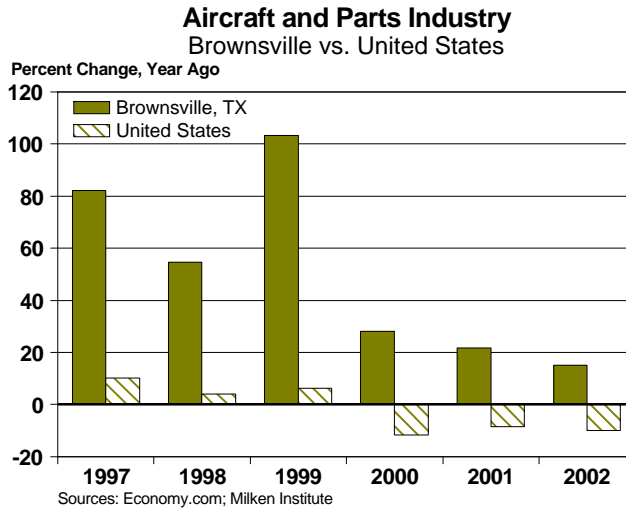


San Luis Obispo, CA joins San Diego in the top 10 again this year at sixth, up one place from last year. San Luis Obispo is blessed with the lowest business and living costs in Coastal California. Cal Poly State University is the largest employer in the metro area giving the region additional stability. Its dependence on manufacturing is almost half that for the nation as a whole. It is gaining a toe hold in high tech with the presence of Intel. Its drive-in tourist market held up reasonably well.

Laredo, TX ranks seventh this year. It was among the few metros that recorded positive job growth in both 2001 and 2002. It has benefited from its border location with Mexico, but maquiladora competitiveness problems with China are hurting manufacturing across the border, as well as its transportation and logistics operations. Increased security threats stemming from 9/11 have increased federal hiring in customs and immigration in the region. Laredo was in the top 10 in job growth over the last five years and last year. Texas A&M's International University is in the metro area as well.



Brownsville, TX joins the list at eight this year. Spring break brings in over 100,000 tourists and port activity was up by double-digit thanks to greater petroleum and break bulk export quantities. The West Coast port shutdown also aided activity and may allow it to attract additional customers on a permanent basis. It is well-positioned as a cross-border trade hub. Its growth in aerospace propelled the metro to first in high-tech growth over the last five years.



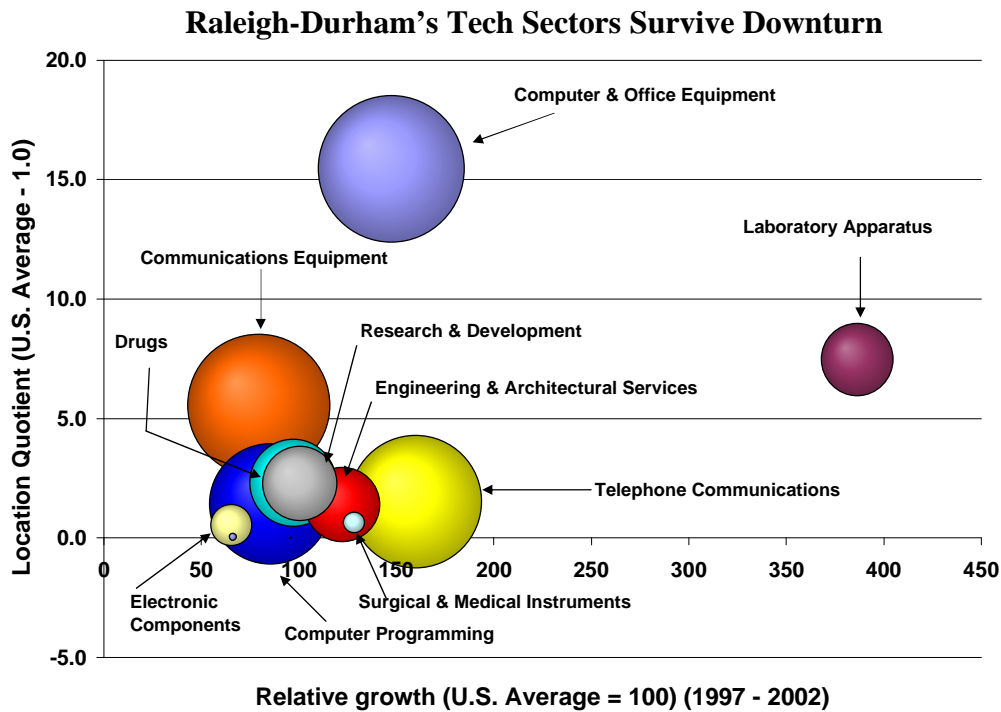
McAllen, TX joins its southern Texas border-area neighbors on the list at ninth this year. A high share of state and local employment has helped inoculate the metro from falling maquiladora production. Trade and warehousing activity has been weak. The metro still had the second-fastest employment growth in the nation last year. Home health care services witnessed strong growth last year.

Rounding out the top 10 is Monmouth-Ocean, NJ which expanded as a bedroom community for the New York metro area as well as a retirement destination. Nearly one-quarter of the metro’s income is earned outside of the community. The metro has experienced consistent job gains during the recent recession while its neighbors weathered a substantial downturn. The metro area’s top employment category is medical and surgical hospitals, which continued to add jobs. The area also has a tech component with activities 34 percent more important to its economy than for the nation. Lucent Technologies, AT&T and Verizon all have a major presence in the metro area.

Anchorage jumped from 48th last year to 11th in this year’s ranking. Anchorage is another tourist location benefiting from Americans’ reduced foreign travel to “safer” domestic sites. Its local cruise industry has done very well. High oil prices and increasing volumes in the Cook Inlet aided employment at its energy-service firms. Anchorage is also home to one-third of all state and local employment in Alaska. A growing military presence is assisting the region’s economy, too.



For an economy with an IT hardware cluster, Raleigh-Durham's twelfth ranking is extraordinary, especially considering that it moved up from 20th last year. Its economy is 2.2 times more dependent on high-tech industries than the U.S. average and represents more than 12 percent of its employment base. The metro's tech firms are among the elite, including IBM (the metro's 3rd largest employer), Nortel networks, GlaxoSmithKline, the SAS Institute and Cisco Systems. Novo Nordisk announced that it is increasing its manufacturing capacity at its Clayton facility in response to high demand for insulin. Raleigh has a contingent of life science firms and three universities that helped stabilize its performance. The metro is also the state capital which, provides an additional source of constancy. Raleigh has witnessed the 11th fastest growth in wages and salaries in the country over the past five years. Its employment growth slowed over the last two years, but was one of just a handful of tech centers to witness any employment gain.



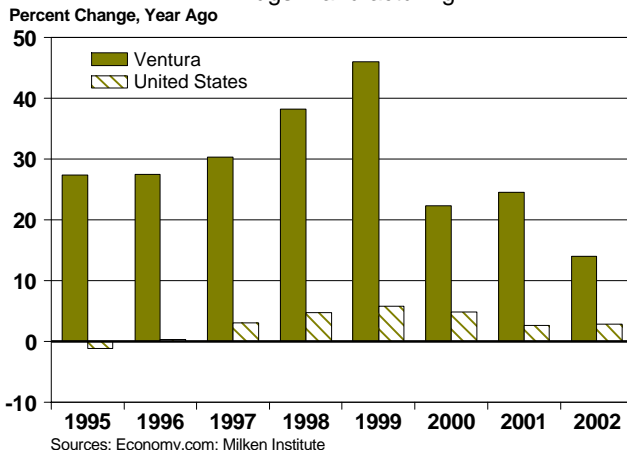
Chico, CA ranked 13 on our Best Performing Cities list, a leap from 41st last year. Chico ranked 7th in the nation in employment growth last year. One of the smaller metros among the top 200 in population, its economy's stability is aided by Chico State University and health care services. The area has been attracting Silicon Valley refugees with its lower housing costs and the more casual lifestyle that it offers. Stability was the key for Chico.

Ventura slipped from fourth last year to 14th, but still demonstrated remarkable performance for a metro with nearly double the dependence on high-tech as the nation. Its electronics and semiconductor companies did cut employment over the past couple of



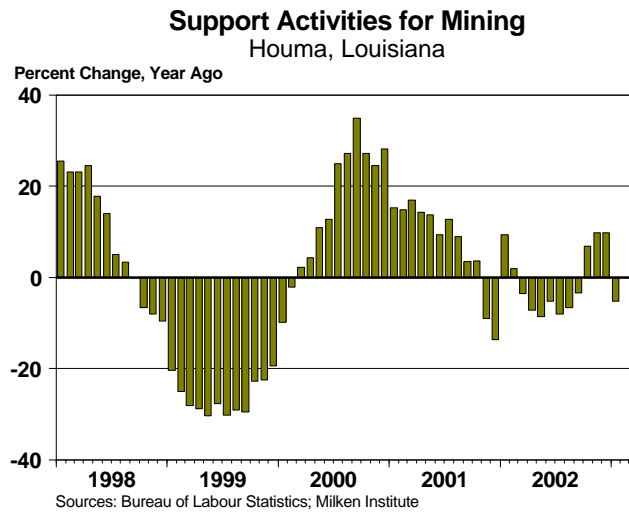
years, but its biotechnology anchor (Amgen) has the largest market valuation in the industry. Boeing Co.'s Rocketdyne division is the metro's second-largest employer. Amgen's recent acquisition of Seattle-based Immunex is bringing highly trained researchers into the Thousand Oaks area. The county's largest employer is the Naval Base at Point Magu, providing some stability. The Port of Hueneme is expanding, adding to port volumes. Its close proximity to Los Angeles and high quality of life are making it attractive to commuters.

Ventura Outpaces U.S. Drugs Manufacturing



Sacramento stays in the top 20, moving up to 15th this year. State budget problems have stalled government employment expansion and its tech firms suffer from weak demand; however job growth has remained in the positive column. Intel is Sacramento's second-largest employer and HP is seventh. Several small software and electronics firms have garnered defense and homeland security contracts. Sacramento has the lowest cost of doing business among the large Northern California metros and plenty of land available for housing and business expansion. It has become a major back-office site for financial services firms, and Bank of America has moved many of its operations to Sacramento.

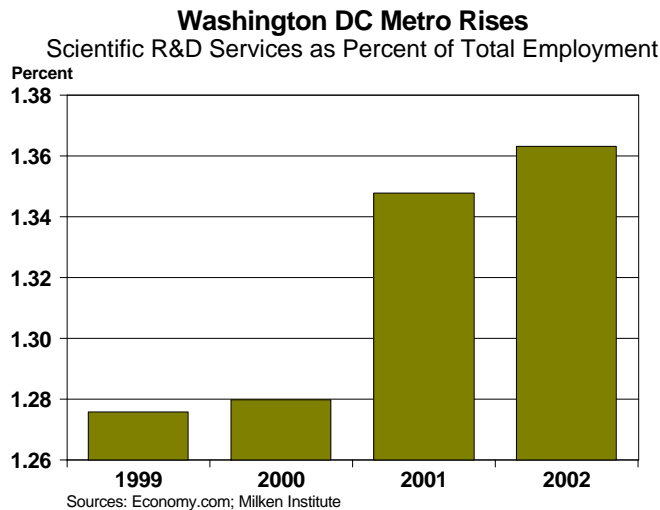
Houma, LA is 16th this year, courtesy of petroleum manufacturing and oil field service equipment. Crude oil and gas extraction is critical for the metro area with over 7 percent of its employment base in the sector. Drilling activity picked up with the rise in natural gas prices and continued high oil prices. The metro will find it difficult to remain among the national leaders, however, unless it increases its residents' educational attainment. The proportion of the adult population with a bachelor's degree is 10 percentage points below the national average and the lowest of Louisiana's metros.



The Vallejo-Fairfield-Napa, CA metro area remained in the top 20 at 17th this year. It is the San Francisco Bay area’s lowest cost metro, especially for businesses. Despite a wine glut, the region has held up very well. The area also has a large chemicals manufacturing industry that has performed admirably. International travel has declined in Napa Valley which has harmed the area’s economy. Asian immigration has been strong bolstering the region’s housing and retail sectors. The metro area ranked 6th in job growth and 8th in wage and salary growth over the past five years.

San Antonio moved up to 18th this year on the Best Performing Cities list, climbing from 36th. Its service sector continues to expand with health services and education leading the way. San Antonio is not without its share of tech problems, however. Phillips Semiconductors’ decision to close its chip plant will hurt the area’s efforts to move among the major players in the industry. It is also a major trade gateway to Mexico. Among Texas’ large metros, San Antonio has the most affordable housing.

The other tech center in the top 20 is the Washington, D.C. metro area. At 19th place it was aided by expansion of the federal government’s homeland security spending. Contrary to the late 1990s, the District is the strongest economy in the region while its Southern Maryland and Northern Virginia suburbs struggle. Verizon cut payrolls and WorldCom is shrinking. The region’s defense-related firms will continue to benefit from increases in procurement and outsourcing federal government work. Its life science firms are expanding as well.

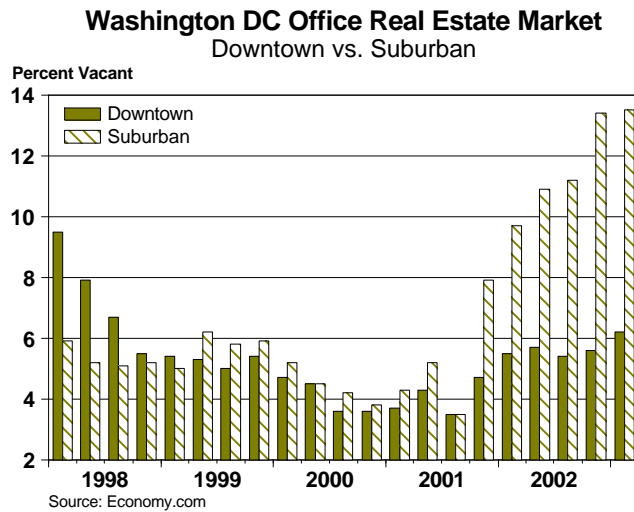


Rounding out the top 20 is Riverside, CA with rapid population growth driven by its affordable housing next door to Los Angeles. New home construction has been robust and construction employment there represents nearly twice the employment share of the U.S. on average. Many goods that come in through the LA and Long Beach ports are broken down and transloaded in Riverside for domestic delivery. It has also developed an air cargo transport logistics hub at its Ontario airport. Many Southern California manufacturers have relocated operations to that metro because of its lower business costs and more business friendly environment.

America's 10 Largest Cities' Performance

A metro area in its mature stage with little land available for expansion and high density faces difficulty in recording job growth as rapidly as metros in their early- and mid-stage growth cycles. Congestion-related problems add to costs forcing out some lower-value-added activities. For these reasons and others, it is a relevant comparison to analyze America's largest metropolitan areas as a distinct class. For example, it is an unreasonable expectation for New York City, with the densest center in the U.S., to experience job growth at the same pace as Fayetteville, AR.

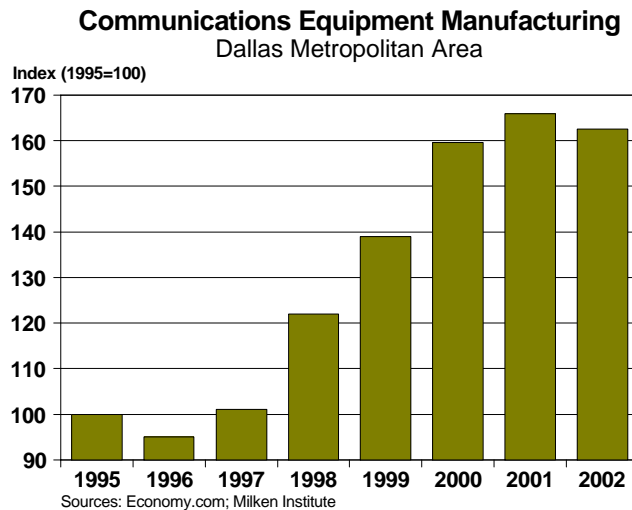
Among America's 10 largest cities, Washington ranks first, and as previously stated, 19th overall. This is very impressive performance for a metro of its size. In Washington's case, its metro core, the District of Columbia, was the primary reason for its outstanding performance. The Washington metro was one of only two of the Big 10 that didn't witness an employment decline in either 2001 or 2002. Washington was joined in this elite group by Houston.



Houston withstood the problems at its energy-trading (Enron) and electricity-producing firms to record a solid performance given all the forces buffeting it. Houston was among the top 25 on the latest year’s wage and salary growth ranking, second among the Big 10 and 25th overall. It also has a common characteristic with Fayetteville: Wal-Mart, too, is Houston’s largest employer. High oil and natural gases prices aided its energy exploration and service firms such as Halliburton. Houston is the dominant technology center for the global oil and gas industry. Health care services are another sector that helped stabilize its employment base.

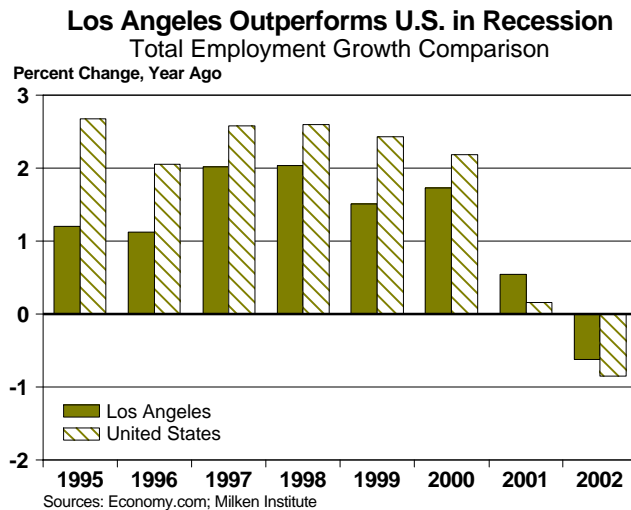
Atlanta didn’t completely avoid the tech and telecom wreck, but was third among the Big 10 metros (77th overall). Atlanta has one of the most diverse industrial bases in the country, which greatly assisted it in avoiding a severe downturn. Airline employment and travel through its Hartsfield airport declined due to fallout from 9/11, but pent-up demand for new homes kept residential construction strong. Congestion-related infrastructure problems will preclude it from rejoining the top performers over the next few years, though.

Dallas was just behind Atlanta at fourth among the Big 10 and 78th overall. Dallas shared some of the same maladies as Atlanta stemming from the telecom and tech fallout. Durables manufacturing represents 72 percent of its manufacturing base versus 62 percent for the United States. It chip and telecom equipment manufacturers (Texas Instruments being the dominant one) cut production by over 20 percent from its peak in 2000. Weak airline travel hurt it as well. Nevertheless, its importance as a center of technology production and a gateway to trade with Latin America is preserved.



Philadelphia’s economy escaped recession in 2001 and 2002, an unusually positive occurrence for it during a national recession, and it was fifth in the Big 10 (107th overall). Philadelphia’s economy is structurally improved and its high concentration of institutions of higher learning, along with its strengths in biopharmaceutical activities, helped shield it. Philadelphia’s defense contractors (Boeing and Lockheed Martin) have benefited from increased procurement activities. Its important health care services sectors continued to expand. General medical and surgical hospitals are the top employment category in the metro area with 111,000.

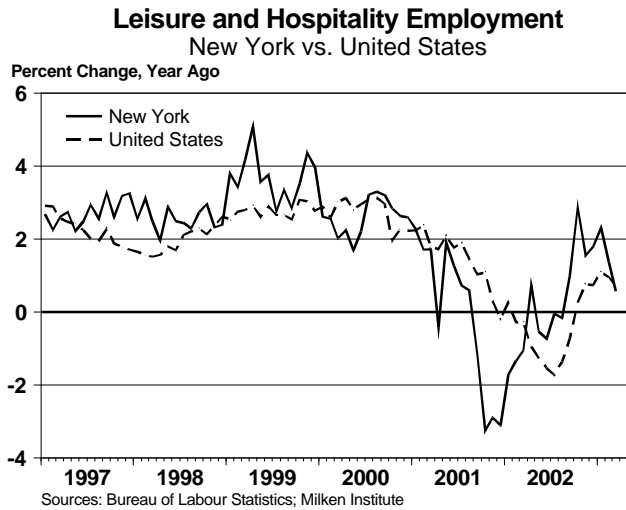
Los Angeles’ economy was ravaged by the 1990-91 recession and defense downsizing, but managed to survive the most recent recession with modest dislocations, ranking sixth among the Big 10. L.A.’s travel and tourism industry was harmed by 9/11 fallout, but much of it was offset by the strength of the drive-in market as travelers stayed home rather than going abroad. The entertainment industry provided stability for the region’s economy with domestic box office receipts up over 10 percent in 2002. Its apparel and small fabricated-metals producers saw a decline in output and cut payrolls, but some of it was mitigated by rising federal defense procurement for the still substantial aerospace sector. Health care services and universities were important anchors for the regional economy.



Boston ranked seventh among the Big 10 economies this year. It was hit by several less than fortuitous developments. Its high concentration of web design and other computer systems design and related services was hurt by the IT retrenchment. Over the past 12 months, information services employment has declined by 7.2 percent. Boston also has an important financial services sector with Fidelity and Putnam among its top employers. Fortunately, the mutual fund industry was less impacted than Wall Street’s investment bankers. Lastly, Boston’s biomedical research and development sector helped insulate it. Nevertheless, overall employment fell in 2001 and 2002.

Chicago was a prime target for economic difficulties given its reliance on telecom equipment, financial services and airline travel. Chicago was eighth among the Big 10. Motorola has undertaken several employment reductions as telecom equipment orders plunged by more than 40 percent. Its insurance companies are besieged by higher premiums and immense pressure on profits. Bank One has relocated back-office support functions, such as call centers, to other lower-cost Midwestern locations. United and American are other major employers that have been sending out pink slips.

Given the tough blows that New York City has taken over the past two years, the fact that it isn’t last among the Big 10 is notable. Coming in at ninth, New York was the main epicenter for the terrorist attacks. The annual benchmark employment revisions show that the 9/11 impacts on the New York metro economy were more than first revealed. Broad swaths of its leisure and hospitality industries were ensconced in a prolonged downturn. The worst may be over for Wall Street, but 25,000 securities industry jobs have been lost since 2000 with enormous ripple effects on its regional economy. The city’s fiscal crisis is of great concern to businesses and residents because of expenditure cuts and higher taxes.



By historical standards, this was a mild recession for the Detroit metro area, but it was still last among the Big 10 in this year's rankings. The auto sector's downturn was modest, but production and employment did fall and the metro area's top three employers remain auto producers. Additionally, its large hospital sector is consolidating and restructuring itself, harming employment levels in the short term. Computer and data processing services witnessed a decline in employment, too. Casino development and Renaissance Center redevelopment need to be successful to jump-start Detroit's revival.

Top and Bottom Moving Metros

The metros with the largest climbs from last year's ranking reveal several common traits: college town, state capital and service-dominated economy. Savannah, GA climbed 81 spots this year to lead the climbers. Des Moines was second and Newburgh, NY-PA was third. Madison rose 59 spots and almost broke into the top 20 overall. Albany, NY was fifth and climbed 59 spots along with Knoxville and Lincoln. Kalamazoo and Harrisburg had notable jumps. With many states experiencing budget shortfalls, state capitals and university towns may not be as well-positioned for growth over the next couple of years.



Fastest Climbing Metros, 200 Larger Metros

2003 Milken Institute Best Performing Cities

Metro	2003 Rank	2002 Rank	Spots Climbed
Savannah, GA	75	156	81
Des Moines, IA	87	160	73
Newburgh, NY-PA	64	134	70
Madison, WI	21	80	59
Albany-Schenectady-Troy, NY	37	96	59
Knoxville, TN	48	107	59
Lincoln, NE	50	109	59
Springfield, IL	122	179	57
Kalamazoo-Battle Creek, MI	115	169	54
Macon, GA	129	182	53
Charleston-North Charleston, SC	35	87	52
Utica-Rome, NY	125	175	50
Waco, TX	81	130	49
Harrisburg-Lebanon-Carlisle, PA	114	162	48
Biloxi-Gulfport-Pascagoula, MS	143	189	46

Source: Milken Institute

Santa Cruz-Watsonville, CA had the dubious distinction of recording the largest tumble in this year's Best Performing Cities. Santa Cruz fell 106 spots, from 38 to 144. No surprise here as the San Francisco Bay Area tech meltdown hit it hard. It became a popular option for area businesses in the shadow of Silicon Valley. Additionally, many Silicon Valley tech workers found the lower housing prices and quality of life to be appealing. The fall would have been more severe without the presence of U.C. Santa Cruz, the metro's largest employer.

Fastest Falling Metros, 200 Larger Metros

2003 Milken Institute Best Performing Cities

Metro	2003 Rank	2002 Rank	Spots Down
Santa Cruz-Watsonville, CA	144	38	106
Boston, MA	136	45	91
Portland-Vancouver, OR-WA	141	55	86
San Jose, CA	147	61	86
San Francisco, CA	134	54	80
Boulder-Longmont, CO	92	13	79
Santa Barbara-Santa Maria-Lompoc, CA	100	31	69
Boise City, ID	72	6	66
Dallas, TX	78	14	64
Allentown-Bethlehem-Easton, PA	128	64	64
Salt Lake City-Ogden, UT	121	60	61
Spokane, WA	157	98	59
Wichita, KS	171	115	56
Binghamton, NY	192	138	54
Greensboro-Winston Salem, NC	158	106	52

Source: Milken Institute

Boston had the second-largest decline falling 91 spots for reasons already enumerated. Portland, OR was next with a decline of 86 spots. Semiconductors and other electronic components manufacturing is its largest employment category. Declining chip production at Intel and others pushed its economy downward. Portland's previous high-tech success



has left it twice as dependent on IT as the nation. Portland also was hurt by declining international trade through its port.

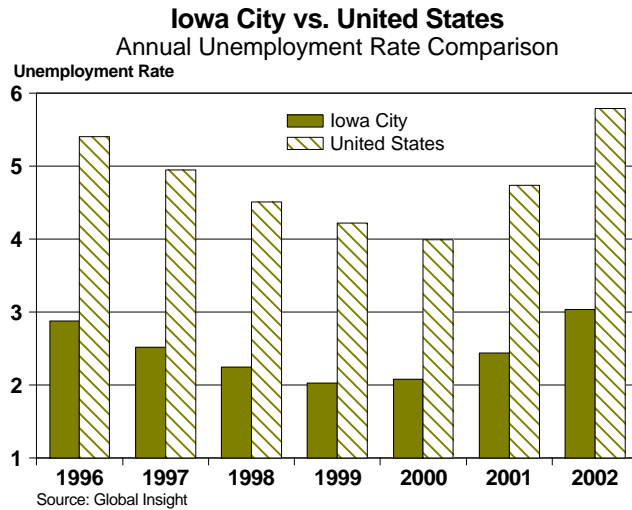
San Jose, known as Silicon Valley throughout the world, tumbled 86 places this year. With an economy nearly four-times as dependent on high-tech as the rest of the nation, Silicon Valley has experienced a severe contraction. Employment fell 2.6 percent and 9.4 percent in 2001 and 2002, respectively. Its unemployment rate rose from just under 2.0 percent to over 8.0 percent. Silicon Valley's neighbor to the north, San Francisco, is next, falling 80 places. The dot-com bubble burst was centered in its South of Market area. Finally, consolidation in financial services and reduced Asian travel inflicted substantial harm.

Boulder fell 79 places as its economic base – technology – is nearly three times larger than for the nation as a whole. Boulder was in the top 20 last year. Boulder's economy boomed in the late 1990s and its five-year wage and salary growth is still the fastest in the country, but its job growth last year plunged to 194th. Computer systems design and related services is the biggest employer in Boulder. Santa Barbara was next falling 69 places. A falloff in tourism and its tech concentration are largely responsible.

Boise fell from sixth last year to 72nd in this year's ranking. Micro Technology employs over 10,000 and the decline in chip production hurt its performance. Dallas was next on the fastest-falling list, declining 64 spots. Salt Lake City was on this list as well with the post-Olympic slowdown and problems in its tech sector. Spokane was harmed by its dependence on aluminum and commercial aerospace. Wichita, the city most dependent on commercial aircraft production, fell 56 spots to rank 171st overall.

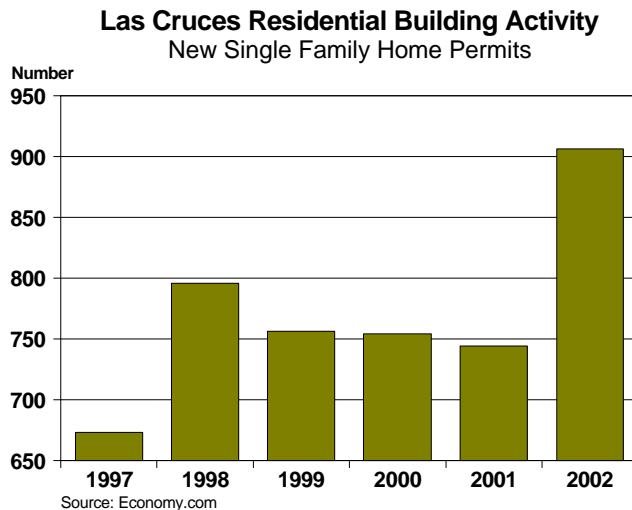
Best Performing Cities: Small City List

Among America's small cities, Iowa City moved from second last year to first in our current ranking. Iowa City is the classic university town in almost every respect. The University of Iowa employs more than one in four people in the labor force in Iowa City. It has a pleasant college town atmosphere and many graduates like to remain there. Its population has high educational attainment and many research-based startups are underway. State funding cutbacks will hurt over the next year.



Tyler, TX is second among smaller metropolitan areas this year. Home to a major health research facility – the University of Texas Health Center at Tyler – the University of Texas and Tyler Junior College, its economy has continued to add jobs throughout the national recession. Efforts to leverage the technical research talent at the University of Texas are beginning to prove fruitful in new businesses and job creation. Additionally, within the last decade, health care’s employment share rose from 14 percent to 18 percent.

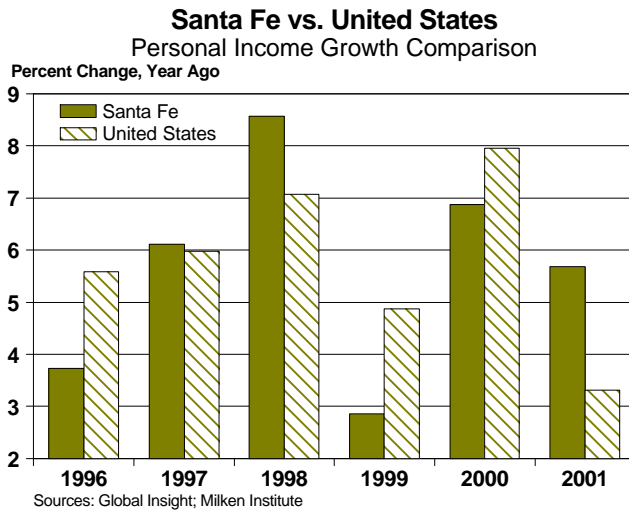
Las Cruces, NM slipped from first last year to the still respectable rank of third this year. Las Cruces had the most rapid employment among the small metros last year. The White Sands Missile Range, New Mexico State University, Memorial Medical Center and the NASA LBJ Test Facility provide a stable base of employment. Las Cruces is becoming an attractive retirement choice, boosting its housing sector. It also has strong trade ties with Mexico.





Billings, MT moved up to fourth in the current rankings. Its leisure and hospitality industry was relatively insulated from the impact of 9/11 as the drive-in market grew. The National Park service reports that visits to Yellowstone National Park rose 8 percent. Billings faces a paradox in that if Americans resume foreign travel, its economy will suffer. The Deaconess Billings Clinic is the area’s largest employer and Montana State University-Billings is major employer.

Another New Mexico metro area, Santa Fe, joins the top five small cities list. Santa Fe was third in job growth among the small metros last year. Its unemployment rate is below 3 percent. Los Alamos National Laboratory is its largest employer by far with more than 13,000 employees. St. Vincent Hospital is the next largest employer with just 1,400. Rising defense research spending has assisted the area, driving government employment up by over 2 percent in 2002. Santa Fe benefits from the stability of being the state capital. Its tourism industry has been less affected by 9/11 fallout than most areas.





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