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Strategies and Tools in Economic Development Practice

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STRATEGIES AND TOOLS

IN ECONOMIC DEVELOPMENT PRACTICE

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INTRODUCTION

Strategies and Tools in Economic Development Practice provides a comprehensive review of the strategies and tools used in the field by economic development practitioners. Strategies are described in terms of their potential to promote development by affecting the factors of production – land, labor and capital – or their ability to lower operating costs for firms. For each strategy discussed, an example is included to demonstrate its application in the field. At the end of this study, a logic model is presented to illustrate the anticipated short-term and long-term outcomes of each strategy as well as the elements that produce positive results.[1]

The study is organized in chapters around the three traditional building blocks of the economy: land, labor and capital. The importance of these concepts lies in understanding how economies work. Also known as the factors of production, land, labor and capital describe the "ingredients" required to make the products that drive a local economy. The demand for land, labor and capital is driven by the demand for products; this connection is commonly overlooked in the economic development literature. Economic development strategies too often focus on increasing the supply of land, labor and capital while failing to recognize the other side of the equation. Demand for the factors of production can only be increased if there is increased demand for the products made by firms in the region.

While many economic development programs try to promote economic growth by affecting land, labor and capital markets, an increasing number seek to support or attract business by reducing the operating costs of firms. The increased mobility of businesses has led to greater reliance on business assistance and incentive programs as tools to compete with other locals.

Economic development can be thought of in terms of exogenous versus endogenous policies. Exogenous, by definition, means to "originate externally." Exogenous policies attempt to bring about economic growth by drawing demand for local factors of production from outside the region. The most obvious examples of such policies are industry targeting and firm recruitment, often referred to as "smokestack chasing."

Endogenous policies seek "growth from within." This refers to strategies that build on existing strengths within the region to generate economic growth. Endogenous policies include cluster strategies, technology-based economic development and entrepreneurial development strategies. Experts recommend a diverse investment portfolio – one that includes multiple economic development strategies. Yet the focus should be on strategies that build upon a region's assets. Effective policy builds on strengths rather than work from weaknesses.

Economic development programs should be directed at countering market failures. Market failure results when private markets fail to achieve economic efficiency (the point at which maximum benefits are derived from a given amount of resources). There are multiple reasons why inefficiency might occur, including failure to account for externalities or provide public goods. In some cases, benefits to society exceed benefits to private individuals or firms.

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[1] A companion study reviews literature on the effectiveness of various economic development strategies and provides a "what works" matrix to highlight significant findings.

Private actors will invest only to the extent they capture benefits; benefits that accrue to society – beyond the individual or the firm – are not considered in investment decisions. For instance, if a firm develops a new technology, the benefits may extend to other firms, yet those benefits will not be considered investment decisions. This leads to underinvestment and provides justification for public policy intervention.

Market failure is a necessary by-product of public goods. Public goods provide benefits that cannot be withheld from those who have not paid for them. Consumption of public goods is not rival (consumption by one does not prevent consumption by another), and public goods are not excludable (consumption cannot be withheld from individuals). The classic example of a public good is national defense. Consumption of national defense by some does not prevent consumption by others; if some were to invest in national defense, all would benefit, including those who did not pay. That is the reason national defense is financed by tax dollars. These characteristics discourage private sector investment and result in less than optimal production as viewed by society, thereby justifying public expenditure to provide the good or service.

Policy intervention can also be justified when private markets simply do not exist. Economic development funding is often used to establish new markets for goods or services. The critical point is that economic development resources should not substitute for private sector investment, but rather compensate for explicitly identified private market failures.

In addition to economic efficiency, a common objective of economic development policies and programs is more equitable distribution of economic benefits. In many cases, markets operate efficiently, but fail to meet goals relating to equity. In other words, investment may not be distributed among neighborhoods or municipalities in a manner that is perceived to be fair. In fact, this is likely to occur since there are costs associated with doing business in lagging regions that do not exist in economically healthy regions.

Public policies often seek more equitable distribution of private sector resources by encouraging investment in distressed areas. However, there are additional ways that economic development policies and programs can reflect equity goals. For example, inequitable investment can occur if the market redlines a particular region, meaning that the private sector underinvests in a particular region because of risk perceptions about the viability of that region versus another.

Economic development policies can be used to counter the effects of such perceptions. Policies and programs also pursue equity goals when they attempt to cushion the impact of economic blows or offset the impact of structural or cyclical changes in the economy that result from secular changes in the economic base of specific regions. Finally, economic development policies address equity because the political system is based upon geographic representation. By necessity, political actors will promote policies that reflect their perception of an equitable distribution of resources and either protect or invest in their electoral districts. Equity may be an appropriate goal for economic policies, but there is reason to take caution. Equity goals promote a logic of investing in "worst first" – targeting resources toward the most distressed areas. However, this has proven largely ineffective in practice. It is important to build from strength to address weakness rather than investing directly in areas of weakness.

There is considerable debate about the appropriate role for policy intervention in private markets, yet the number and types of economic development programs continue to grow. This can be interpreted to mean that political and market realities are driving program creation. The following sections discuss various economic development strategies and tools as efforts to affect land, labor and capital markets, as well as to lower operating costs for firms. While an attempt has been made to place economic development programs within this framework, it should be noted that many programs attempt to influence multiple markets.

CHAPTER ONE: LAND

As a factor of production, land refers not only to a physical space, but also to the resources that are associated with that space. Characteristics of the land itself, as well as its proximity to marketplaces or transportation routes affect rents (payments for the use of land); therefore, land is an important part of the production process.

The market determines the value placed on land. Since little can be done to change the supply of land, land values are based on demand. Because all land is not equal, values will often vary significantly from one area to another. Efforts to intervene in land markets must focus on redistributing existing demand. This means making land more attractive as a location for living or doing business.

It is often cheaper in financial terms to develop green fields (undeveloped sites) than to redevelop abandoned sites. The considerable expense involved in assembling and preparing abandoned sites has implications for spatial equity and resource conservation, since many are located in distressed urban areas. For this reason, policy intervention (providing resources to assemble and remedy land) is justified in terms of equity goals. Intervention may also be justified in terms of economic efficiency by arguing that capital market failure can occur when the negative effects of the surrounding neighborhood divert investment from a particular business site location.

Economic development is often thought of as real estate development because of the vast amount of resources local governments devote to developing residential, commercial and industrial sites. The following section describes strategies to affect land values through housing markets, business site locations and physical amenities.

MARKET RATE HOUSING

Maintaining an economically diverse residential base is critical to the health of a municipality. The addition of new housing units in a growing area is a necessity and an automatic outcome of population shifts. In declining areas, developing new housing is often a challenge, but it is viewed as an important economic development strategy. By retaining residents or attracting new ones to the city, local leaders hope to capture additional tax revenue. New housing not only adds to the residential property tax base, but can also contribute to the commercial property tax base by attracting new businesses.

The availability of downtown residential units is particularly important. Labor markets and housing markets are directly related – housing attracts labor. More importantly, people tend to start businesses close to where they live if the market makes it possible. The availability of downtown housing may reinvigorate downtown business activity. Finally, housing is part of the amenity package that attracts business and amenities justify higher rent levels for downtown commercial space.

Construction

The availability of newly constructed housing is key to drawing residents to an area. New housing is generally abundant in growing communities, but attracting investment for new homes in struggling communities can be a difficult yet important part of revitalization efforts.

Examples:

– City of Cleveland, Cleveland, Ohio

Cleveland has been recognized as a national model for its success in developing housing in the central city. While the city has not escaped the effects of urban sprawl, it has combated the problem with an active residential construction agenda. For decades, new home construction within city boundaries was virtually nonexistent. In the 1990s, the city issued more than 1,600 building permits for new-home construction. In many years, this surpassed the number issued by any suburban community in the county.

Perhaps the most surprising fact is that new homes are selling at market rate prices. While the city has offered incentives to buy, including property tax abatements and special financing packages, sale prices have been comparable to suburban housing. Furthermore, new construction has occurred throughout the city, not just in select neighborhoods. Upscale infill housing has been built in one of Cleveland's more economically distressed neighborhoods; high-end townhouse developments across the city are selling out in a matter of months. The building boom has shown few signs of slowing. By following a focused agenda and ignoring the naysayers, Cleveland has successfully used new residential construction as a tool for revitalization. Miller, J. (2000, April 3). New homes, new hope. *Crain's Cleveland Business* [online]. For more information: http://www.crainscleveland.com/article.cms?articleId=28066

Conversion/Adaptive Reuse

Older residential areas face a number of disadvantages when attempting to develop housing. Newer communities generally offer larger lots, better infrastructure and higher quality services. However, central cities and inner ring suburbs are finding ways to capitalize on their assets; a key strategy has been to renovate existing structures to housing demands. Adaptive reuse can capitalize on unique architecture and the desire to recapture the feeling of community that exists in close-knit neighborhoods.

Examples:

– Blue Devil Ventures, Durham, N.C.

Blue Devil Ventures (BDV) is a community development company formed in 1995. It specializes in the adaptive reuse of historic urban properties. Its focus is on developing downtown Durham residential opportunities that will act as a catalyst for urban revitalization and the creation of a "24-hour" city.

BDVs most ambitious undertaking has been the West Village project, which is the adaptive reuse of five former tobacco warehouses built between 1895 and 1926. The ornate brick buildings cover eight acres of land totaling more than 300,000 square feet. West Village opened in 2000, with the warehouses transformed into 243 market rate, loft-style apartments and 31,500 square feet of commercial space.

Within a year, nearly all units were leased. It appears to be meeting initial hopes that it would lead to further development of the area, as more projects are in the planning stage. BDV intends to build 300 to 350 new condominiums and 50 townhouses over the next few years. Other developers have projects lined up as well. The new housing also has led to increased retail activity in the area. Blue Devil Ventures [online]. For more information: www.bluedevilventures.com.

BUSINESS SITE LOCATIONS

While developing housing is considered an important economic development strategy, intervention in land markets is often targeted toward establishing business site locations. States and localities have invested tremendous resources in preparing land for commercial development. Commercial enterprises generate jobs and tax revenues; therefore, public investment is justified as a means to attract greater private sector investment. Construction or conversion of commercial facilities, land assembly and site preparation has become important elements of economic development strategies.

Construction

Many areas have used new construction to recruit new businesses. New facilities and infrastructure offset the costs associated with starting up or relocating.

Examples:

– Research Triangle Park, N.C.

Research Triangle Park may be one of the world's most recognized business parks. The 7,000-acre site is home to 140 private, governmental and nonprofit companies, 106 of which are involved in research and development. These companies employ over 42,000 people and have in excess of 17 million square feet of building space.

The park resulted from the efforts of individuals in both the public and private sector who sought to capitalize on the research activities of the region's three leading universities. It opened in 1959 and is owned and operated by a nonprofit organization, the Research Triangle Foundation. Research Triangle Park has been credited with much of the region's economic growth over the last few decades. Research Triangle Park [online]. For more information: www.rtp.org.

Conversion/Adaptive Reuse

Cities and towns in many parts of the country are facing problems associated with a growing number of vacant or dilapidated commercial and industrial structures. Efforts to revitalize older segments of the community often focus on finding new uses for such facilities.

Examples:

– City of Ferndale and City of Royal Oak, Oakland County, Mich.

Two suburban communities in Oakland County have attracted national attention for their success in recycling older commercial buildings. The 1920s-era Washington Square Plaza building in Royal Oak was renovated from top to bottom and has been able to attract some high-tech businesses in addition to restaurants and other retail. It now houses a 2,000-seat music venue, 41 offices, a conference center and a rooftop garden.

Royal Oak has also saved a historic bank building to serve as the new home for a Barnes & Noble bookstore and loft apartments. Ferndale, located just south of Royal Oak, has turned a former Masonic Temple into a successful restaurant. Martindale, M. (2001, July 19). "Cities find success in restoring buildings." *The Detroit News* [online]. For more information: http://detnews.com/2001/oakland/0107/19/d04-249573.htm.

– The Arcade, Cleveland, Ohio

The Arcade in downtown Cleveland, which first opened in 1890, has been hailed as an architectural masterpiece. It was the first building in Cleveland to be listed on the National Register of Historic Places. Despite its prominence, it suffered the same fate as many older downtown structures. While the Arcade remained home to some offices and retail establishments throughout its history, the building was largely vacant and in need of serious renovation by the 1990s.

After several years of planning and negotiating, a deal resulted in a $60-million renovation and redevelopment project that took approximately two years to complete. The Arcade reopened in 2001 and now houses a Hyatt Hotel, stores and restaurants. The building was carefully restored to its original splendor, but with a new use in mind. The hotel does not adhere to traditional design schemes and takes advantage of the unique architectural elements by having rooms that open to walkways overlooking the beautiful glass-covered atrium.

Brownfield Redevelopment

Brownfield redevelopment refers to the reuse of abandoned, idled or underused industrial and commercial sites where expansion or redevelopment is complicated by environmental contamination. Brownfields are particularly problematic in older industrial cities.

Examples:

– Brownfield Redevelopment Initiative, Kalamazoo, Mich.

This initiative stimulates investment in distressed neighborhoods through brownfield remediation and business incentives to redevelop property. It is operated by the city's economic development and planning agency, but involves partner organizations (other redevelopment and environmental agencies).

The BRI program identifies, prioritizes and acquires brownfield sites that have reverted to public ownership because previous owners failed to pay property taxes. Resources are assembled for site preparation activities such as demolition and environmental assessment. Public input sessions with community stakeholders are part of the process to negotiate purchase and development agreements between the city and prospective developers.

This approach leads to several benefits. Among them are protection of public health and a cleaner environment; tax-base enhancement by finding productive uses for neglected sites; job creation and retention; spin-off redevelopment and stronger neighborhoods; an alternative to urban sprawl and the loss of open space.

Kalamazoo was one of the first cities in Michigan to create a brownfield authority and to implement a brownfield plan. Benefits to developers who successfully redevelop brownfields include reimbursement for eligible environmental expenses (baseline environmental assessment and other response activities); a state tax credit for up to 10 percent of investment in property improvements ($1 million upper limit on credit); and resources for enhancing private investment with public improvements.

Priority is given to sites that are publicly owned, abandoned or generate minimal property tax base (if privately owned). While the environmental hazards vary with each site, the city works cooperatively with the U.S. Environmental Protection Agency and the Michigan Department of Environmental Quality to bring expertise and resources to each brownfield redevelopment project.

To date, the Brownfield Redevelopment Initiative has completed three projects, has two projects underway, is negotiating two others and has identified 11 sites as potential projects. The three completed sites have been successfully redeveloped. One site is now home to a 10,000-square-foot manufacturing facility for a casting and mold-making company. The second site hosts a 4,000-square-foot bakery. A textile company built a 30,000-square-foot laundry facility on the third site.

Redevelopment plans are being implemented for the two projects in progress. Kalamazoo Brownfield Redevelopment Initiative [online]. For more information: http://www.theforum.org/cur/kzooinfo/briinfo.htm and Innovative Local Economic Development Programs (1999). Georgia Institute of Technology. For more information: www.osec.doc.gov/eda/pdf/1G3_1_InnovLDEP.pdf

– Portland Brownfield Initiative, Portland, Ore.

Portland has been working since 1996 to devise government, business and community-supported processes that foster restoration and reuse of contaminated land and promote revitalization of specific city neighborhoods. Public and private partnerships have cleaned up and recycled hundreds of acres of contaminated property and created jobs while promoting brownfields redevelopment, pollution prevention and greenspace protection.

The initiative addressed the issue of environmental justice and equity in communities that, historically, may have suffered the loss of commerce and vitality due, at least in part, from environmental concerns. In December 1996, the Portland Brownfields Initiative hosted a series of brownfield roundtables to develop community-based brownfield action plans (BAPs). This process was central to providing direction and guidance to the Portland Initiative. Portland Brownfield Showcase Program [online]. For more information: www.brownfield.org

Land Assembly

The time and cost associated with land acquisition, assembly and site preparation can be the largest barriers to redevelopment. To offset this problem, many cities devise means to accomplish these tasks themselves. The effort serves to attract developers who might be deterred were they required to do this work themselves.

Examples:

– Urban Redevelopment Authority of Pittsburgh, Pittsburgh, Pa.

The Urban Redevelopment Authority (URA) of Pittsburgh was created in 1946 to fight blight through urban renewal. The URA now carries out the city's major development projects, programs and activities to help generate, stimulate and manage growth and development in Pittsburgh.

The URA also provides administrative, financial, accounting, economic, legal and secretarial services for The Pittsburgh Economic & Industrial Development Corporation (PEIDC), which acts as Pittsburgh's industrial development corporation for real estate development.

With this designation, the PEIDC is able to purchase real estate, obtain private and public financing (including low-interest loans from the state), and sell or lease property. The PEIDC becomes involved in commercial or industrial development projects when private real estate developers are unwilling. As a certified industrial development corporation, the PEIDC can obtain, on behalf of a company, low-interest financing for industrial real estate renovation and construction.

The URA has repeatedly demonstrated the value of land preparation as an economic development tool. The authority has been able to use its ability to secure low-cost financing to prepare land for development when private sector developers are deterred by the financial risks.

This has been particularly useful in redeveloping sites that were plagued by environmental hazards.

Redevelopment of a former steel mill site on the city's south side is one of the most visible examples of the URA's work. Soon after LTV closed the steel mill, the URA acquired the 123-acre property. While private developers may not have been willing or able to finance the cleanup and redevelopment of such a large site, the URA capitalized on its ability to secure public and private funding. It completed most environmental testing and remediation within a relatively short time.

The site is now home to several new developments, including a distribution facility and sports medicine complex for the University of Pittsburgh Medical Center, practice facilities for the Pittsburgh Steelers and University of Pittsburgh football teams, an FBI office building and the University of Pittsburgh's McGowan Center for Artificial Organ Development.

Another prominent example of the URA's work is the Washington's Landing/Herr's Landing project. This project involved redevelopment of a 42-acre island parcel that once was the site of a stockyard, rendering plant and other industrial operations. The island was mostly blighted by 1960 and the soil was contaminated. URA began acquiring property in 1978 and by 1989 owned the entire 42 acres. The land was cleared and remedied.

Improvements made including public parks, tennis courts and a hiking/biking trail around the perimeter of the island. Redevelopment is nearly complete with housing, offices, light industrial use and a marina. The project is estimated to generate almost $1 million in new annual taxes. Urban Redevelopment Authority of Pittsburgh [online]. For more information: www.ura.org.

– City of Cleveland Land Bank, Cleveland OH

In an effort to find desirable uses for vacant and derelict property, Cleveland has established a land bank to assemble and market such parcels. Properties become part of the land bank when the city forecloses on tax delinquent properties and assumes ownership. They are then made available to eligible buyers for a minimal fee.

There are three types of land bank lots: non-buildable, which are offered to adjacent landowners for $1 (these are lots with less than 40-ft. frontages); buildable lots available for $100 for new home construction; and lots that are being held for future development opportunities (when a number of city-owned lots and tax-delinquent properties in the foreclosure process is located in close proximity, the city will bank them until foreclosure is complete and the lots can be consolidated).

Persons interested in buying property held in the land bank must submit a written proposal to the city. The city council representative will be notified about the proposal, the potential buyer must be able to prove he or she can afford the development and must not be delinquent in property tax payments or have any outstanding housing code violations. The proposal will be evaluated to determine if the development is suitable for the neighborhood. A neighborhood advisory committee composed of local residents must review a proposal submitted by an adjacent owner.

City Council approval is the final step in acquiring property, after which a purchase agreement and deed will be drawn up and signed. City of Cleveland Department of Community Development [online]. For more information: www.city.cleveland.oh.us/government/departments/commdev/cdneigdev/cdndlandbank.html

PHYSICAL AMENITIES

Many economic development efforts seek to increase the amenity value of a region. These efforts can take various forms, including building sports stadiums, supporting cultural institutions such as performing arts theaters and museums, or developing historic districts, parks or waterfront areas. Public investment is generally justified by arguing that such projects spur economic growth by attracting visitors not only to a set destination, but also to the area surrounding the destination, thereby serving as a catalyst for additional development. Furthermore, an attractive amenity package may influence the decision of companies or individuals seeking a permanent home.

Natural Resources

Efforts to exploit natural amenities are common among economic development strategies. Taking advantage of opportunities provided by the environment often serves to attract tourist dollars. This is true for communities located along oceans, lakes or rivers as well as those in mountains or forests.

Examples:

– The River Walk, San Antonio, Texas

San Antonio has served as a model for cities seeking ways to capitalize on their environmental assets. At one time the San Antonio River, which runs through the heart of downtown, was seen as a danger to the city. Today it is the most visited tourist attraction in Texas.

After a 1921 flood that killed 50 people and caused millions of dollars in property damage, there were public outcries to cover the river with concrete and let the riverbed serve as a sewer. The efforts of a small group of women saved the river. The group later formed the nucleus of the San Antonio Conservation Society.

Construction of the River Walk began in 1937 as a WPA project; design plans were supported by a district tax. For many years, the River Walk was primarily a park, but commercial development began in preparation for the World's Fair in 1968. Development has continued since that time and is still taking place.

The River Walk is now a three-level entertainment complex that includes shops, restaurants, sidewalk cafes, nightclubs and hotels. There is an outdoor theater where the audience sits on one side of the riverbank while actors perform one the other. The river also hosts two annual parades: the Fiesta River Parade and Holiday River Parade, which literally float down the waterway. Amidst all the activity, there are stretches that remain quiet and park-like. Visitors can also take riverboat tours. The River Walk has been credited with bringing new life and economic vitality to downtown San Antonio. San Antonio Tourist. For more information: www.sanantoniotourist.com.

Arts and Culture

Cultural institutions have the ability to attract a socially and economically diverse group of patrons. Because these institutions are often located in the heart of urban areas, they can be particularly helpful to central cities. Local leaders have begun to recognize how museums and theaters contribute to a city's vitality and their potential to spur further development.

Examples:

– Playhouse Square, Cleveland, Ohio

By all accounts, the redevelopment of the Playhouse Square area has been a tremendous success for Cleveland. It has been credited with being a catalyst for downtown revitalization and has contributed to the much-improved image of the city center.

Efforts to restore this block of four historic theaters date back to the 1970s when two of the theaters were scheduled for demolition to make way for parking lots. Community activists stepped in to fight the plans, eventually leading to the formation of the Playhouse Square Foundation in 1973, a nonprofit organization created to help raise money for the renovation of the theaters. The fight to save the theaters was not easily won, but the foundation was persistent.

In 1978, the theaters were listed on the National Register of Historic Places. Throughout the 1980s three of the theaters were restored and reopened. Renovation of the fourth theater was completed in 1998. The following year, Playhouse Square Foundation acquired an additional theater and has plans to renovate it as well (although this theater was in reasonably good condition and is the current venue for the longest-running show in Cleveland history).

Playhouse Square attracts over one million patrons a year, drawing many visitors from outside the region. It is the second largest performing arts center in the country, after New York City's Lincoln Center.

Despite these successes, redevelopment of the theater district as a whole was slow to emerge. Playhouse Square Foundation again stepped up to the plate. It expanded its role and became a developer, forming a number of holding companies to achieve its goals. It now owns a hotel, a restaurant and office buildings in the blocks that surround the theaters.

Private investors finally began to take notice. Several projects are currently underway, including the renovation of two apartment buildings. Playhouse Square has been cited as one of the nation's best examples of culture helping to transform a struggling inner city. Brown, T. (2002, January 20). The show does go on in Playhouse Square. *The Plain Dealer*, p. A1, A12-A13.

Sports and Recreation

The world's leading cities have long been associated with recreation, culture, sports, consumption and "fun." When suburbanization and economic change threatened the role and identity of cities, many looked to recreation and hospitality to reverse undesirable trends. Today, there is virtually no city that has not implemented a tourist, sports, recreation or "fun" strategy to facilitate redevelopment and economic growth and to restore the image of its downtown area as a regional center.

Examples:

– City of Indianapolis, Indianapolis, Ind.

No city has focused as extensively on sports and hospitality for redevelopment and economic expansion as Indianapolis. Across three decades and the administrations of two different mayors, Indianapolis developed and implemented an aggressive program that focused on amateur sporting events and organizations, professional sports teams, conventions, the hospitality industry and retail consumption.

The amateur sports element was designed to stimulate new development through the attraction of sports governing bodies and the hosting of national and international events. The professional sports strategy involved substituting downtown recreational activities for those in the suburbs to bring more residents to the downtown area.

To implement the strategy, considerable resources went into building new facilities. Between 1974 and 1999, more than $3 billion was spent on new construction either directly or indirectly related to the sports strategy. Indianapolis devoted some public money to downtown development, but nearly two-thirds of the costs were covered by the private sector. As a result of this investment, Indianapolis has succeeded in attracting a number of amateur and professional sporting events. Rosentraub, M. (2000, January). *Indianapolis, A Sports Strategy, and the Redefinition of Downtown Redevelopment*. Paper presented at the conference of the North American Institute for Comparative Urban Research, Barcelona, Spain.

CHAPTER TWO: LABOR

Policymakers have paid considerable attention to labor force development as an economic development strategy. Labor is a key input in the production process. Therefore, the availability of skilled workers is critical to the success of a business or industry. Scarce, skilled and in-demand labor helps to retain or attract private investment.

The skill mix, age structure, degree of mobility and expectations of those who comprise the labor market are several characteristics that affect the industry mix and size of a regional economy. Industry structure and the existing labor pool are interdependent. Preparing workers for the demands of industry is an important goal of economic development policy.

Many work force development strategies include efforts to affect both labor supply and labor demand. Work force programs designed to improve the skills or wages of individuals are labor-supply programs. Those that focus on the needs of employers or work with employers to increase the number of persons they hire are labor-demand programs.

Interventions designed to affect work force preparedness (supply) should carefully consider their target population. Incumbent workers (those already participating in the work force) generally require specific skill training to maintain their position in the labor force or to make a transition to occupations in higher demand. New entrants (those entering the labor force for the first time) and migrants (those new to the region's labor market) will have different needs and require different approaches.

Understanding the distinct needs of these target populations is an important element of program implementation, yet this is just one side of the equation. Interventions to increase demand for labor must fully understand the needs of local industry and recognize that the demand for workers will always depend on demand for products. A failure to account for the structure of local industry and the relevance of the product cycle on the structure of demand for labor will also result in an ineffective labor force development strategy.

Another point to consider when intervening in labor markets is that many factors important to the success of workers (and therefore industry) are beyond the scope of labor force development strategies. Issues involving childcare, transportation and health, among others, have a tremendous effect on work force performance. These issues should be considered when formulating policy; the possible need for supportive services for workers should be recognized.

Policy intervention in the labor market can be justified as a means to address various forms of labor market failure. There are two primary sources of labor market failure: involuntary unemployment and underinvestment in human capital.

Unemployment represents a market failure if it is involuntary, meaning that unemployed individuals are willing to work at the prevailing wage for jobs for which they are qualified. It is considered to be involuntary unemployment, because the unemployed would be willing to work at the market rate, but cannot find jobs. An intervention that provides a benefit to the worker that is equal to the difference between the lowest wage the worker will accept and the wage the firm is paying would reduce unemployment (Bartik 1990).

Labor market failure also occurs when there is underinvestment in human capital. Individuals may underinvest in human capital due to their inability to finance education (since lenders cannot repossess human capital if the borrower fails to repay) or because training or the value of human capital is difficult to measure before it has been acquired. Society can also underinvest in human capital because it fails adequately to account for the positive externalities that result from a well-educated population (Bartik 1990).

Other justifications for intervention in labor markets include shortening search time for workers in need of jobs and firms in need of workers, reducing cyclical unemployment that results from shifts in the business cycle, and promoting objective skill standards for technical occupations to ensure the training activities satisfy market demands. Some believe that underemployment can represent market failure if workers are unable to find higher paying jobs for which they are qualified. Creating jobs for underemployed workers has been one strategy pursued, but if there is no market support for these positions, it will ultimately lead to economic inefficiency.

The labor force development strategies described below include efforts to: 1) improve the general education of the population; 2) provide occupational or industry-specific training; 3) match work force skills with industry needs.

General education programs provide instruction in basic skills that will benefit an individual working in any industry. Occupational or industry specific training programs provide specialized instruction that will benefit workers in particular jobs. Job matching programs work with the local work force and local industry to match workers with specific skill sets with businesses that demand those skills.

Within each of the three broad categories of labor force development are more specific program areas. The following sections provide a brief overview of these program areas and at least one example to illustrate their implementation. The final section includes a review of the available literature about the evaluation of work force development programs and a more general summary of what constitutes an effective labor force development program.

GENERAL EDUCATION

Many labor force development programs are designed to give work force participants basic educational skills that will improve their chances of finding and retaining employment in any industry. This type of training is not occupation or industry specific. That is a key distinction. The skills developed as a result of these programs are portable; they move with the worker.

Programs that teach general education skills usually target those who have not yet entered the labor force: they focus on preparing the next generation of workers. Job training systems are often ill equipped to deliver these types of services. Little or no attention has been given to the idea of working with parents to teach them to be better job coaches for their children. Intervention is usually introduced only when traditional education has failed.

Remedial Education

Remedial education programs target those who lack competency in such core areas as reading, writing and arithmetic. Computer literacy is also a common component. These programs often seek to help individuals without a high school diploma or equivalent.

Examples:

– Bidwell Training Center, Pittsburgh, Pa.

The Bidwell Training Center offers various academic and literacy programs that build the basic skills of the local labor force. Bidwell has a wide range of tailored support services to help identify and remove barriers that stand in the way of further education. Trained professionals who are experts in working with adult learners provide the instruction. Free student classes include adult literacy, math and reading skills, and beginning instruction in typing and computer keyboarding. Bidwell also offers G.E.D. preparation classes for students who lack a high school diploma. Bidwell Training Center [online]. For more information: http://www.bidwell-training.org/.

Soft Skills Training

In recent years more attention has been directed toward developing the "soft skills" of job seekers. Many work force training programs have focused on developing the skills needed to perform specific jobs. But there is concern that a large segment of the labor force lacks the basic skills needed to secure employment in any industry. Soft skills training programs expose individuals to the more general skills needed to find jobs and maintain them for the long-term. Among these skills are interviewing, time management, interpersonal relations, accepting supervision and recognizing the importance of a positive attitude. Such programs target persons who have limited work experience and may not have the tools to obtain a job or keep a job for long periods.

Examples:

– The Personal Management Skills: Soft Skills Training Curriculum, National

The U.S. Department of Housing and Urban Development (HUD) has developed a program specifically designed to assist individuals in learning life skills that will help them in the job market. The Personal Management Skills: Soft Skills Training Curriculum includes nine lessons organized within three key areas: positive attitudes and behaviors, adaptability and responsibility. The lessons teach participants workplace values and ethics; taking direction and accepting criticism; self-motivation and initiative; strengths and limitations; overcoming obstacles, recognizing and respecting diversity and change; resource management; time management, and money management.

The training curriculum is available to multi-service technology centers that have been established as part of HUD's Neighborhood Networks program. Neighborhood Networks, which began in 1995, builds on public/private partnerships to help fill the digital divide and provide opportunities for lifelong learning to individuals and families in assisted housing. "Soft skills training curriculum debuts on web." HUD's Neighborhood Networks [online]. For more information: www.hud.gov/nnw/nnwnew_0897.html

OCCUPATION OR INDUSTRY SPECIFIC TRAINING

Occupation or industry-specific training programs are just what the words imply – work force development programs to give individuals the skills necessary for employment in particular professions or types of business. These programs are often is developed with the needs of the local economy in mind; therefore, partnerships between educational institutions and industry should be a critical component.

Apprenticeships

Apprenticeship is a formal schooling method in a skilled trade that combines on-the-job-training (paid, full-time employment) with related classroom instruction. This form of training, with a long history among craftsmen, has been employed by many industries.

Examples:

– College Tech Prep, Guilford County, N.C.

Apprenticeships are one element of the College Tech Prep work force development program. Businesses employ student apprentices and place them in a very structured on-the-job training curriculum. Strong partnerships between public agencies, educational institutions and several industry councils account for the program's success. Innovative Local Economic Development Programs (1999). Georgia Institute of Technology. For more information: www.osec.doc.gov/eda/pdf/1G3_1_InnovLDEP.pdf

– Auto Industry, Detroit, Mich.

Detroit's big three automakers have apprentice programs to train participants in a number of auto industry jobs. Each facility that Ford, General Motors, or DaimlerChrysler operates has a joint committee or apprenticeship council composed of United Auto Workers (UAW) and company representatives that administer union apprenticeship programs. The number of apprenticeship positions is negotiated and spelled out in union contracts. Apprentices may be current UAW members interested in learning a new skill or come from a pool of external candidates who must apply and submit to testing. Big 3 Skilled Trades Apprenticeships. Detroit Public Library [online]. For more information: www.detroit.lib.mi.us/ceic/auto_app.htm.

Specialized Training/Vocational Training

Vocational training programs are designed for specific occupations. Instruction is generally very focused on the skills required for employment in one industry and is intended to place individuals along a career path that will lead to long-term stability.

Examples:

- Focus: Hope, Detroit, Mich.

Focus: Hope is a civil and human rights organization that has developed a series of nationally recognized work force training programs. The Machinist Training Institute provides Michigan state-licensed and accredited training in precision machining and metalworking. The institute also offers a pre-engineering curriculum that prepares students for advanced study in engineering at the Center for Advanced Technologies.

The Center is another Focus: Hope program that integrates education and on-the-job learning. Participants work with experienced professionals to meet manufacturing industry contracts. They also engaged in academic work guided by engineering mentors and instructors from partner universities. In addition to these programs, Focus: Hope operates the Information Technologies Center. This center seeks to bridge the digital divide by training individuals in network administration, network installation and desktop support. Focus Hope [online]. For more information: www.focushope.edu.

- Bidwell Training Center, Pittsburgh, Pa.

The Bidwell Training Center maintains a comprehensive selection of specialized training programs for residents looking to upgrade their skills. Vocational programs give instruction in five disciplinary fields: chemistry lab, business travel, culinary arts, information sciences and medical programs. The programs vary in length and breadth, depending on the vocation. Bidwell Training Center [online]. For more information: http://www.bidwell-training.org/.

School-to-Work Programs

School-to-Work programs are intended to prepare high school students for the labor market by integrating school-based learning with structured learning experiences at the workplace. Upon completion of a school-to-work program, young people should be qualified for skilled entry-level work, technical training or college. Many school-to-work programs include apprenticeships as an integral part of the program.

Examples:

- The Kalamazoo Valley Consortium Education for Employment Program, Kalamazoo, Mich.

The Kalamazoo Valley Consortium Education for Employment Program is an example of a school-to-work partnership of the community college, nine school districts and major businesses in the county. The partnership pools its resources to help staff and teachers bring job development services to students. A key feature of this program is the use of unpaid internships, which allows students to get early, first-hand knowledge of the demands of a real workplace.

This strategy also gives students high visibility with potential employers. It also creates a linkage between workplace and classroom instruction and paid employment at the same site or in a related industry. The partnership network of colleges, schools and businesses permits resource sharing and access to job development services that no one school or college could provide on its own.

The Kalamazoo program has been particularly effective in helping keep students from dropping out of school. Students who participated in the program were more encouraged to remain in school and had modified their career goals because of the program. Rogers, Anne M., Hubbard, S., Charner, I, Fraser, B.S., Horne, R. (1995). *Learning from Experience: A Cross Case Comparison of School to Work Transition Reform Initiatives.* National Institute for Work and Learning.

– The Baltimore Commonwealth, Baltimore, Md.

The Baltimore Commonwealth is a partnership that teams the city's business and education communities with government to provide employment training and placement services to the city's youth. The Commonwealth utilizes a "one-stop" approach by consolidating services from many agencies and businesses under one roof. Offices at each of Baltimore's high schools and community colleges, staffed by youth coordinators, recruit students, match them up with available services, and help with job development and placement.

A key strategy used by the Commonwealth is student "career clubs." These clubs offer career counseling and instruction on specific "job-getting" and "job-keeping" skills. Rogers, Anne M., Hubbard, S., Charner, I, Fraser, B.S., Horne, R. (1995). *Learning from Experience: A Cross Case Comparison of School to Work Transition Reform Initiatives*. National Institute for Work and Learning.

– Craftsmanship 2000, Tulsa, Okla.

Craftsmanship 2000 is a three-year program that combines general education, specialized training and on-the-job experience. Students enter the program in their high school junior year. They take classes at the Tulsa Technology Center where standard courses in English, history, math and physics are taught along with courses in the machine shop.

Students can acquire skills in machining, metal finishing, electronics, hydraulics and machine repair. Technical training continues one year beyond high school. Throughout the program students gain on-the-job experience while serving as apprentices with one of several participating metalworking companies. Tulsa Technology Center [online]. For more information: www.tulsatech.com/.

JOB MATCHING

Job matching programs work in the equilibrium between labor supply and labor demand. These programs seek to bridge the distance between potential employees and employers and shorten transition periods for both. Job matching programs are generally not highly occupation or industry specific, although some programs include a training curriculum that considers the types of industries present in the local economy.

Matching Existing Skills of the Local Labor force with the Needs of Industry

A strategy of some labor force development efforts has been to focus on matching the skills of unemployed or underemployed residents with the needs of local businesses. The focus is not on training workers, but on identifying and marketing the existing skills and experiences of the local labor force.

Examples:

- The South Austin Economic Development Corporation, Chicago, Ill.

The South Austin Economic Development Corporation (SAEDC) was created to address the development needs of the far west side of Chicago. Among the organization's central objectives were industrial retention and attraction and the employment of residents in manufacturing jobs. SAEDC enlisted the help of the Center for Urban Economic Development at the University of Illinois – Chicago (UICUED). UICUED conducted an analysis that determined the needs and experiences of workers in the neighborhood and identified the local industries most likely to offer residents suitable employment opportunities. They focused on those industries that were growing or stable and appeared to be willing to hire local residents.

After further review of the occupational needs of residents and the industrial outlook of the industries they had identified, UICUED recommended six industries for SAEDC to consider in setting its development priorities. SAEDC ultimately narrowed its focus to three industries and reached out to firms in those industries. SAEDC informed the firms about its activities and offering assistance identifying the firms' needs and securing the proper assistance. In exchange, SAEDC asked firms to hire area residents. Eventually, SAEDC conducted more detailed studies of the targeted industries and expanded its efforts to a broader area within a reasonable commuting distance for neighborhood residents. Ranney, D.C. and Betancur, J.J. (1999). "Labor-Force-Based Development: A Community Oriented Approach to Targeting Job Training and Industrial Development." In J.P. Blair & L.A. Reese (Eds.), *Approaches to Economic Development* (pp. 85-95). Thousand Oaks, Calif.: SAGE Publications.

Developing Job Training to Match Industry Needs

While some labor force development programs focus on matching the current skills of the work force with the needs of businesses, others have focused on creating job-training opportunities that are matched to those needs. After identifying the skills in greatest demand among local industry, these programs train workers to meet that demand.

Examples:

– The West Side Industrial Retention and Expansion Network (WIRE-Net), Cleveland, Ohio

The West Side Industrial Retention and Expansion Network (WIRE-Net) is a member-driven organization comprised of 150 manufacturing companies located on Cleveland's west side. Its goal: to help businesses and jobs stay in a community suffering frequent plant closings and downsizing. The organization found that neighborhood manufacturing companies had been overlooked and under-appreciated as tools for building stronger neighborhoods. These firms provided about 60 percent of the community's jobs and most had fewer than 100 employees.

The organization's structure allows it to bridge the gap between the needs of industry and the needs of area residents. WIRE-Net accomplishes its mission by: 1) working with area youth and adults to ensure that manufacturers have a seamless supply of well-trained, job-ready workers; 2) helping companies improve their operations and boost productivity through jointly designed manufacturing technology and sales and marketing programs; and 3) encouraging and supporting real estate investment in our neighborhoods through expansion and relocation projects that meet individual company needs and community investment and redevelopment. West Side Industrial Retention and Expansion Network [online]. For more information: www.wire-net.org.

– The World Class Training Center, Pendleton, S.C.

A partnership between Tri-County Technical College (Tech) and Jacobs Chuck Manufacturing Company in Pendleton, S.C. is an example of a program offering specialized training to current employers, rather than job seekers. Industry specific training is provided at what they call "The World Class Training Center." For over 10 years, Tech has trained Jacobs' employees; Tech, in turn, has benefited from the company's immense success and international growth. The development of the partnership is a lesson in how a highly specialized training program might succeed and grow.

The program developed by the college embraces internationally accepted standards for quality management, Just-in-Time production tools, and other state-of-the-art concepts that have helped participants sustain competitive positions in the global marketplace. The Tech and local industry's mission is to pool and leverage the resources of several autonomous organizations. In so doing it can maximize the impact of training on sustained improvement of quality and productivity.

The partnership has expanded to include several other organizations. The World Class Training Center board of directors extended associate membership to seven local public school districts and to the small business members of the local chamber of commerce. The partnership also established formal relationships with several professional organizations, including the American Production and Inventory Control Society, American Society for Quality Control, Society for Human Resource Management and the Upstate International Trade Association. Garrison, D.C. (n.d.). World-Class Training Center Helps South Carolina Companies Compete Globally. *Economic Development Review*, 15 (4), 40-42.

Employee Recruitment/Employee Assessment

Employee recruitment or employee assessment programs have become another strategy to bridge the gap that can exist between businesses and the labor force. These programs seek to directly address both labor shortages and unemployment by recruiting potential workers, assessing their skills and providing placement services.

Examples:

– Professional Recruitment Center, Southwest Brooklyn Industrial Development Corporation, Brooklyn, N.Y.

The Professional Employment Recruitment Center offers local businesses free pre-screening and direct placement services. It refers only those applicants who fit a company's specifications. The service saves money and time to businesses searching for qualified employees and helps individuals find suitable employment. Southwest Brooklyn Industrial Development Corporation [online]. For more information: www.swbidc.org.

CHAPTER THREE: CAPITAL

Capital is popularly thought of in terms of monetary assets or investment flows. However, capital is far more inclusive as a factor of production. Capital is an inventory of plant, equipment and other productive resources such as infrastructure and technology. While the ability to accumulate or attract funds for future investment in fixed capital is clearly important to the production process, finance is just one element of capital.

Private sector institutions arrange the bulk of development finance. Public sector intervention aims to lower the cost of finance either by providing access to sheltered pools of money, by passing on the favorable tax treatment of funds, or by accepting risks greater than private institutions are willing to bear. Development finance usually involves several tiers of debt and occasionally requires equity, or near-equity, investments. Public sector programs generally serve to fill gaps in the debt structure – they bear the extra risk or take a lower rate of return on a portion of the financing. The justification for public subsidy is the belief that the social benefits to be generated from the projects exceed the cost involved in the financing. (Hill and Shelley 1990).

Evidence suggests that the establishment of financial intermediaries was a politically motivated response to downturns in the business cycle and economic restructuring in the U.S. rather than a response to failures in capital markets (Hill and Shelly 1990). However, others have argued that capital market failure does exist and public intervention can correct for these failures. Bartik contends that private financial markets fail to achieve efficiency if socially profitable[2] loans or investments are not made (Bartik 1990).

He identifies three possible causes of financial market failure: 1) financial markets are regulated, and this may limit credit availability or restrict the ability of financial institutions to make risky loans or investments; 2) even without regulation, the absence of complete insurance markets, or the absence of secondary markets (where loans can be sold), may restrict the amount of risk that financial institutions are willing to take; 3) the costs of borrowing at private market interest rates may be too high to encourage investment, particularly long-term investment that will benefit society in the future (Bartik 1990).

These three factors may provide a rationale for economic development programs that directly supply capital to businesses or indirectly encourage greater private capital availability to business. If the rationale for these programs is excessive risk aversion by the private market, then intervention should focus on expanding credit availability to riskier ventures whose expected profitability yields a normal rate of return.

If the rationale for intervention in financial markets is that private interest rates are too high, public or nonprofit lending programs should target businesses that will generate enough profit to

[2] Socially profitable investments lead to benefits that extend beyond the firm itself and are therefore important for strategic reasons. For example the presence of a particular firm may attract other firms to the region and therefore justify public investment.

cover the opportunity costs[3] associated with investing, but would not generate enough profit to justify the cost of borrowing at private market interest rates. This will encourage long-term investing that will benefit future generations (Bartik 1990).

Often, economic development investments are intended to establish or demonstrate the viability of new markets. When this is done successfully, private sector investment should replace public investment as the product matures. This approach is taken with many lending programs, as they are often designed to absorb the initial risk of investing in new markets with the ultimate goal of attracting private investors.

Economic development strategies designed to impact financial markets are discussed in the following section.

FINANCE

Capital finance refers to the flow of investment dollars. Economic development programs that focus on finance issues generally seek to increase the flow of investment dollars by assigning public funds or providing incentives for private investment. Programs that grant or facilitate project financing, funding for start-up businesses, or other forms of revenue are included here.

Many capital finance programs are administered through community development financial institutions (CDFIs) or other intermediaries. CDFIs are organizations with the specific purpose of granting loans and other forms of financial assistance to ventures that might be considered high risk by the conventional banking industry. Intermediaries often take the form of nonprofit organizations or government agencies that administer state or federal programs.

Bonds

The issuance of bonds is a form of debt finance commonly used to raise the capital necessary for large development projects. The debt and the terms of the debt are dependent on the credit of the issuing government or institution.

General Obligation Bonds

General obligation bonds are legally backed by the full faith and credit of the issuing government. In other words, the government is obligated to use its taxing power, if necessary, to repay the debt. Voters must approve a bond referendum before the debt can be issued.

Revenue Bonds

Revenue bonds, also referred to as limited obligation bonds, are legally secured only by a specified revenue source. If that specified revenue source is insufficient to make debt service

[3] Opportunity costs refer to the lost opportunities associated with not spending in the present in order to invest in the future.

payments, the state is not legally obligated to appropriate other revenues for debt repayment. Revenue bonds are not subject to the state constitutional prohibition against debt and therefore do not require a constitutional amendment to be approved by voters. Interest rates are often higher than those for general obligation bonds, because the risk is greater. Administrative fees may also be higher since revenue bonds are generally more complex than general obligation bonds.

Examples:

– Industrial Revenue Bond Program, Wash.

Tax-exempt bond financing for industrial facilities is available in Washington state through the Industrial Revenue Bond (IRB) program. Administered by the Washington State Business Assistance Center, a division of the Department of Community, Trade and Economic Development, the IRB program permits public corporations to issue federal tax-exempt bonds on behalf of private companies. This means that interest payments to IRB bond buyers are not subject to U.S. income tax. As a result, bond buyers are willing to accept lower rates of interest on these bonds, thus reducing project-financing costs for the participating companies.

A wide range of project costs may be financed with bond proceeds, including land acquisition, construction and/or improvement of manufacturing or processing facilities, new machinery and equipment, architectural designs, engineering work, feasibility studies, consulting, accounting and legal fees, and financing arrangements and interest accrued during construction. Up to $10 million in bonds may be issued to finance one project. Washington State Department of Community, Trade & Economic Development [online]. For more information: http://www.owt.com/tri-cities/business/irb.html.

– Industrial Revenue Bond Program, Wis.

The Wisconsin Department of Commerce grants municipalities the authority to issue bonds on behalf of a business. Bonds offer businesses long-term, low-interest financing and can be used to finance an entire project, including land acquisition, building construction and new equipment. Municipalities that issue bonds expect to create or retain jobs and expand their tax base.

In a two-year period (1999 and 2000), 97 manufacturing expansion projects received bond financing totaling over $170 million. These projects are expected to create more than 5,800 jobs and help maintain over 10,000 jobs. While the bonds issued equaled approximately $170 million, the total investment by the companies receiving assistance was more than $740 million. Wisconsin Department of Commerce, Bureau of Enterprise Development [online], 1999/2000 Report on Industrial Bond Activity. For more information: www.commerce.state.wi.us/CD/CD-bed-irb-99-00percent20report.pdf.

Loans

Special loan programs are tools commonly used by agencies with economic development interests. Such loan programs seek to address gaps in the financial market by offering more affordable rates or by lending to companies that, for a number of reasons, may not qualify for standard commercial loans.

Revolving Loan Funds

In a revolving loan fund (RLF) the capital base is replenished by the periodic return of principal and interest from past loans. While local governments or intermediaries often administer RLFs, many types of organizations may have revolving loan programs for a number of purposes. The initial capitalization of RLFs can come from various sources. Federal funds (from a variety of agencies) are a common source of capitalization, but state and local governments or private donors may also provide funds. RLF loans are generally smaller or riskier than those issued by conventional lending institutions or are part of unconventional deals. However, conventional lending institutions sometimes become involved as a partner if a RLF loan is issued. Such institutions often will get first claim on any collateral should the loan default, reducing the amount of risk incurred.

RLFs are intended to create jobs and spur economic development, and thus may offer flexible financing responsive to the unique needs of local businesses. Because the primary goal of RLFs is job creation (rather than profit), loans can be made at interest rates lower than banks offer. This makes the loan more affordable to businesses. In some cases, the lower interest rate makes the difference between a business' success and failure. RLFs enable many job-creating businesses to get the financing needed to start up or expand operations. Because of their ability to replenish themselves, RLFs have the potential to create long-term economic self-sufficiency for state or local government projects.

Example:

– Northeast Council of Governments, Aberdeen, S.D.

The Northeast Council of Governments administers a revolving loan fund in a 10-county region in South Dakota. Loan funds may be used for business start-up, business expansion or business purchase. The loan fund is capitalized with money from the U.S. Economic Development Administration, U.S. Department of Agriculture and local matches. A number of eligibility criteria have been established for businesses seeking funding, including demonstration of job creation and $2 of private investment for every $1 of public investment. Northeast Council of Governments [online]. For more information: http://home.midco.net/~necog/.

Microloans

Microloan programs provide credit to small businesses with difficult access to credit. Microloan funds differ from revolving loan funds in that they generally are very small, short-term unsecured loans that help address immediate needs. They are usually issued to new entrepreneurs having trouble obtaining conventional loans for lacking credit history and/or collateral.

Examples:

– ACCION New York, Brooklyn, N.Y.

ACCION partners with microfinance organizations throughout Latin America, Africa and the United States. ACCION New York is a Brooklyn-based organization that provides credit and other support services to "micro" entrepreneurs who cannot get needed business credit because they lack credit history or their businesses are too small or informal.

ACCION New York practices "stepped" lending, which means that clients begin with smaller loan amounts and graduate to larger amounts as their businesses grow. Loans, ranging from $500 to $25,000, are available as either individual or group loans. Loan applicants who lack collateral or a cosigner can team up in a group of three to five entrepreneurs to take out a loan. "Solidarity group lending" allows members to cross-guarantee one another's loans in lieu of collateral. Group loans are a unique option for entrepreneurs committed to working together and providing each other with mutual assistance and support. ACCION [online]. For more information: http://www.accionnewyork.org.

– Northern California Reinvestment Consortium, Sacramento, Calif.

The Northern California Reinvestment Consortium's microloan fund (the EnterFund) is designed to meet the financing needs of very small businesses – those with fewer than 10 full-time employees and a gross revenue of less than $500,000 in the year prior to receiving the loan. Loan amounts range from as little as $250 to as much as $25,000. The EnterFund micro loan program's mission is "to empower under-served individuals of the Sacramento region to achieve economic independence by facilitating the creation, growth and vitality of micro and small businesses." Northern California Reinvestment Consortium [online]. For more information: www.ncrc.as/.

Loan Guarantees

Loan programs can be designed to reduce the risk level lending institutions assume when providing financing. Thus banks may approve loans for riskier ventures and increase opportunities for business development. Public funds can be used to guarantee private sector debt or loans may be structured to provide reserve funds that protect lending institutions from losses.

Examples:

– Small Business Administration, national

As one of the Small Business Administration's (SBA) primary lending programs, the 7(A) Loan Guarantee Program is one of the better-known examples of a loan guarantee program. It grants loans to small businesses unable to secure financing on reasonable terms through normal lending channels. The program operates through private-sector lenders that offer loans, which are, in turn, guaranteed by the SBA.

The agency does not provide funds for direct lending or grants. Loans can be used for most business purposes, including the purchase of real estate to house the business operations;

construction, renovation or leasehold improvements; acquisition of furniture, fixtures, machinery and equipment; purchase of inventory, and working capital. Small Business Administration [online]. For more information: http://www.sba.gov/financing/fr7aloan.html.

– Michigan Capital Access Program, Michigan

Capitals Access Programs (CAP) exist in many states. They are designed to reduce risks to lending institutions and expand business development opportunities. The Michigan program utilizes a special loss reserve to assist banks in covering losses from a portfolio of loans that a bank makes under the program. The program is very broad-based and can be used to finance most types of Michigan businesses. Because these loans carry a premium payment ranging from three to 7 percent of the amount borrowed (to help fund the special loss reserve), they are generally more expensive than conventional bank loans.

The key point is that, through the program, banks can provide access to bank financing for many businesses that otherwise might not qualify. Over 8,800 businesses have received loans under this program since it began in 1986. Although there are no loan size limits, the average loan is approximately $53,000. James D. Laughlin, J.D. & Digirolamo, V.A. (1994). A Market-Based Approach to Development Finance: Case Study of the Capital Access Program. *Economic Development Quarterly*, 8 (4), 315-324.

Debt/Equity Investments

Equity capital is an investment that does not require a firm to repay the debt. Instead, investors assume partial ownership of the business. Debt financing involves the provision of long-term loans to small business concerns in exchange for debt securities or a note.

Venture Capital Funds

Venture capital funds are usually invested in dynamic, growing and developing enterprises; however, some firms will invest in start-ups. Venture capital firms are pools of capital typically organized as a limited partnership to invest in a number of companies. Substantial returns on the investment are possible-- as much as 40 percent within a short period-- but the capital is subject to considerable risk and uncertainty.

Examples:

– African-American Venture Capital Fund, Louisville, Ky.

The African-American Venture Capital Fund, LLC (AAVCF) is a nonprofit corporation established in 1993 to bring equity capital investment to African-American-owned businesses in the greater Louisville area. The fund offers equity capital for entrepreneurs who plan to own their business, expand an existing business, acquiring a business, or need capital for other business reasons. Several major Louisville corporations are shareholders of AAVCF. The Venture

Capital Fund invests $1.5 million annually in new deals. African-American Venture Capital Fund [online]. For more information: www.aavcf.org.

– River Cities Capital Funds, Cincinnati, Ohio

River Cities Capital Funds consists of three venture capital funds that invest primarily in early-to middle-stage businesses in information technology, healthcare/biotech/life sciences, business services, telecommunications, and high- tech manufacturing located in the Midwest and Southeast. Their stated mission is "to help exceptional entrepreneurs build leading companies for the New Economy in the Old Economy heartland, through investing our intellectual, organizational and financial capital." River Cities has invested approximately $300 million over a three-year period. River Cities Capital Funds [online]. For more information: www.rccf.com/.

Angel Finance

Business angels are anonymous, private investors who invest in start-up companies that need capital. Angel investors are individuals who supply capital; they are unlike venture capital funds that generally are pools of capital invested by an organization. In addition, angel investors will often mentor a company, providing expertise to help the business develop. A number of mechanisms have been created to match angel investors with investment opportunities.

Examples:

– Angel Capital Electronic Network (ACE-Net), national

Capital Electronic Network (ACE-Net) seeks to help individual accredited investors, Small Business Investment Companies (SBICs) and institutional venture capitalists find small, growing companies through a secure Internet database. It also offers ongoing training and research to enhance the business skills of entrepreneurs and small investors. In addition, ACE-Net seeks to be the premiere clearinghouse of such information through its network connections to expanded capital opportunities. The Angel Capital Electronic Network [online]. For more information: https://ace-net.sr.unh.edu./pub/.

– UniversityAngels.com international

UniversityAngels.com is an online angel investor network where alumni from the world's top universities can come together to launch, invest in and grow viable business concepts into industry-leading organizations. Angel investors can register for free and review a steady stream of high quality start-ups at their convenience. Companies founded or led by alumni of the world's top universities can register by filling out the entrepreneur application. Entrepreneurs pay only a small listing fee unless they are successful in raising capital. UniversityAngels.com [online]. For more information: www.universityangels.com.

Mezzanine Finance

Mezzanine lenders have capital available for private-company acquirers that have exhausted financial resources available through traditional lenders. Mezzanine finance is a hybrid of debt and equity and is especially useful to a company whose bank borrowings have exceeded its bank's comfort zone yet still has sufficient cash flow to service more debt.

Loans are unsecured and are secondary to the capital of secured creditors in the event of bankruptcy. The borrower must pay interest and use stock warrants (a financial instrument with specified conditions) or another mechanism to give the lender a stake in the company's upside potential. When the lender exercises the warrants, the borrower is required to buy back the stock and cash the lender out of the deal.

Examples:

– Darby Overseas Investments, Ltd. Latin American Mezzanine Finance, Washington, D.C.

Darby Overseas Investments, Ltd. is a leading private investment firm that invests its own and client capital in emerging markets. In 1999, it launched the Darby Latin American Mezzanine Fund, L.P. (DLAMF). Investment activities are concentrated primarily, but not exclusively, in traditional infrastructure sectors, including power, telecommunications, transportation and water.

In its first two years of operation, DLAMF made five investments, aggregating more than $85 million of commitments to companies located in Mexico, Argentina, Brazil and Colombia. Borrowers have relied on the mezzanine instrument to play a crucial role in filling the gaps in financing plans between the amounts of senior debt and equity that are available from traditional sources. Darby Overseas Investments [online]. For more information: www.darbyoverseas.com/mezzanine_finance.html.

– Alliance Mezzanine Investors, L.P., Verona, N.J.

Alliance Mezzanine Investors, L.P. (AMI) provides mezzanine capital to successful small and mid-sized businesses located principally in New Jersey, Pennsylvania, New York and Connecticut. Funds may be used to finance growth, new product development, acquisitions, recapitalizations, ownership transitions or management buyouts. AMI will provide funding to companies in manufacturing, service or distribution industries and restricts lending to establishments that have been in business at least five years with at least three years of prior financial statements. Alliance Mezzanine Investors [online]. For more information: www.mezcap.com/.

Tax Policy

Economic development strategies may seek to affect tax policy at the federal, state and local levels in an effort to provide project financing or as an incentive for others to provide capital to businesses.

New Market Tax Credit

The New Market Tax Credit is included in the Community Renewal Tax Relief Act of 2000, signed into law in December 2000. By making an equity investment in an eligible community development entity, individual and corporate investors can receive a tax credit worth more than 30 percent of the amount invested over the life of the credit. The goal is to increase the capital base of community development entities and allow them to lend and invest more, to attract additional outside capital, and to attract more private sector investment.

Tax Increment Financing (TIF)

Tax Increment Financing (TIF) allows governments to use property tax receipts from new development or property improvements in a defined area for that same area's future needs. A city formally designates a specific geographic area for improvement and designates it as a TIF district. Any future growth in property tax revenues is used to pay for initial and ongoing economic development.

Once the district has been formally designated, the initial assessed property valuation is held constant for a specified period, typically 20-plus years. The city, or a separate TIF authority, depending on the state, uses its power of land assembly and sale, site clearance, relocation, utility installation and street construction and repair to improve the district and offers subsidized financing to businesses and developers. As private investment is attracted to the area, the assessed value of property and its taxes are expected to rise.

The difference between the taxes on the base value (property when the TIF district was established) and new assessed value is the "tax increment." Instead of the increment tax revenues going into the city's general fund and to other taxing bodies with jurisdictions over the area (e.g., school district, county), the increments go back into the TIF to pay for the bonds that were issued to finance the improvements. In other words, the increase in property tax revenue generated by redevelopment of an area is dedicated to financing development-related costs. Each taxing body keeps taxes on the pre-development value of the tax base, while the taxes from the property's increased value due to the redevelopment are deposited in a tax increment fund, which is used to pay off bonds issued to purchase and prepare sites for development.

Examples:

- Stockyard Area, Chicago, Ill.

The Chicago's Stockyard was once home to packing and butchering industries. By 1980, that industry was gone, leaving large numbers of parcels of vacant land and blighted buildings. Large-scale redevelopment was not possible because the land was divided into small lots, many roads were privately owned and the soil was unstable. The city of Chicago partnered with the Back of the Yards Council to redevelop the area. The creation of commercial and industrial TIF districts structured the funding to clean up the stockyards and prepare the land for redevelopment. Today, the Stockyard Industrial Park is a location for up-to-date industrial facilities and a retail center. City of Chicago, Department of Planning & Development [online].

For more information: www.ci.chi.il.us/PlanAndDevelop/Programs/TIF/Stockyards.html.

– The Central Loop, Chicago, Ill.

In the early 1980s, the Loop area was losing businesses to new office development in outlying areas. Although buildings in the Loop had beautiful architecture, they were aging and could not compete with new facilities. Chicago created the North Loop TIF in 1984. In 1997, the city expanded the area under TIF and renamed it Central Loop TIF. Seven taxing entities, including schools and parks, are affected by the TIF. The TIF helped with the restoration of landmark buildings, construction of new office buildings and parking structures, and the creation of a new downtown theater district. City of Chicago, Department of Planning & Development [online]. For more information: www.ci.chi.il.us/PlanAndDevelop/Programs/TIF/CentralLoop.html.

– Station Square, Pittsburgh, Pa.

Station Square is located in downtown Pittsburgh's South Shore. The owner of Station Square, Forrest City Enterprises, Inc., was planning major improvements to its existing property, including a festival center with new restaurants, a historic riverfront trail, a public marina, an entertainment amphitheater and an expanded hotel. This continued development of Station Square was the result of a comprehensive planning process that included Forest City, various city departments, community groups and other nonprofits.

Once Station Square TIF District was designated, the Urban Redevelopment Authority of Pittsburgh issued taxable bonds that generated proceeds of about $7.3 million, of which $6.5 million was available for direct project costs. The total development costs were estimated to be $71 million. The TIF was expected to contribute $6.5 million, or 9.2 percent of the costs. Forest City Enterprises was expected to contribute almost $51 million.

The bonds are being repaid by 60 percent of the real estate tax increments realized by the School District of Pittsburgh, by the city and by the county from the new development. In addition, 75 percent of the parking tax increments from the increased parking capacity within the TIF district were promised by the city toward the repayment of the bonds. Austrian, A. & Bingham, R. (2002). *The Devolution/Evolution of Urban Economic Development.* Working Paper. Maxine Goodman Levin College of Urban Affairs, Cleveland State University.

Business Improvement Districts (BIDs)

BIDs are referred to in many ways, depending on the state or city. Terms used include special improvement districts, special assessment districts, business assistance districts, business improvement zones and special services district. BIDs are areas (generally in central cities) defined by state and local legislation in which the businesses and/or property owners pay a special tax or assessment to cover the cost of providing additional services to the district.

While BIDs may be formed from the perception of opportunity, many result from the perception of threat or decline. Examples can be cited where BIDs were formed to address gradual decline in a central business district or to respond to plans for competing development. BID revenues may be used to finance costs associated with urban design services, marketing, research and planning, sidewalk improvements, façade improvements, special signage, pedestrian lights or additional maintenance or security services, among other things.

Examples:

– Alliance for Downtown New York Inc., New York, N.Y.

The Alliance for Downtown New York, Inc. manages the Downtown-Lower Manhattan Business Improvement District (BID). It provides supplemental sanitation and security, economic development, streetscape and transportation improvements, marketing and enhanced tourist services. The Alliance's mission is to create and promote a safe, clean, residential, commerce-friendly, totally wired community that showcases the historic neighborhood that houses the nation's financial capital. Alliance for Downtown New York [online]. For more information: www.downtownny.newyork.citysearch.com/1.html.

– Business Improvement District Program, San Diego, Calif.

The city of San Diego has created 18 separate BIDs since 1970. These 18 districts include more than 11,000 small businesses and raise more than $1 million annually. The San Diego BIDs channel resources to develop marketing campaigns, increase awareness and lobbying efforts, secure additional funding, and enhance public improvement and beautification projects in partnership with the city. The BIDs work closely with elected officials and city staff to voice collective concerns, monitor business regulations, and obtains funding and support for their business development projects. City of San Diego, Office of Small Business [online]. For more information: www.sannet.gov/economic-development/business-assistance/small-business/bids.shtml.

– Cleveland Theatre District Development Corporation, Cleveland, Ohio

The Cleveland Theatre District Development Corporation (CTDDC) was created in 1995 to keep the theater district clean, safe and well marketed. The organization was an outgrowth of the Committee for the Improvement of Playhouse Square, a group that had been meeting since 1990 to address concerns about the condition of the theater district. In 1998, CTDDC received authorization from the city to operate as a BID. The ability to collect revenue from area property owners has helped CTDDC meet its key objects, which are to develop a collective marketing strategy, provide planning and design services and contract for additional maintenance and security services. Fact sheet provided by Cleveland Theatre District Development Corporation.

Grants/Direct Subsidies

Numerous programs provide dollars in the form of grants or direct subsidies. Funds may be available through various sources, including government agencies, foundations and corporations.

Examples:

– Public Works Program, Economic Development Administration, National

The Economic Development Administration (EDA) of the U.S. Department of Commerce administers several grant programs. The Public Works Program is intended to assist distressed communities in revitalizing, expanding and upgrading their physical infrastructure to attract new industry, encourage business expansion, diversify their economy and generate long-term private sector jobs and investment.

Examples of infrastructure improvement projects funded through this program include water and sewer facilities, industrial access roads, rail spurs, port improvements, skill-training facilities, and technology-related infrastructure. Economic Development Administration, U.S. Department of Commerce [online]. Interim Investments Guide. For more information: www.osec.doc.gov/eda/pdf/GPO26198.PDF.

– Appalachian Regional Commission, Appalachian Region

Since 1965, the Appalachian Regional Commission (ARC) has funded infrastructure improvements in the Appalachian mountain region. Projects include highway corridors, access roads and water and sewer projects, among others. The funding program's goal is to stimulate business investment in the predominately rural region. Appalachian Regional Commission [online]. For more information: www.arc.gov/programs/progmain.htm.

CHAPTER FOUR: OPERATING COSTS

Strategies intended to reduce operating costs for local business have become a large part of the economic development portfolio. Efforts to affect operating costs can represent attempts to address various forms of market failure. It has been argued that an efficient tax system would collect taxes equal to the cost of services provided. Because tax systems are interested in equity as well as efficiency, this does not occur.

The differential between the taxes businesses pay and the cost of services they receive allows political jurisdictions to compete with one another by offering deals. Some argue that this ultimately promotes economic efficiency by reducing taxes to a level that more closely matches the cost of service delivery. This provides a justification for issuing tax breaks or other cost subsidies. Others believe that subsidies are often too generous and cannot be justified on the grounds of economic efficiency.[4]

Supporting research and development can also be justified as a response to market failure. A firm's research and development activities can provide spillover benefits to other firms if these activities lead to new products or the adoption of new technologies. However, when making investment decisions, a firm will consider its own gains – not the spillover benefits. This could lead to underinvestment and a rationale for public-sector support. A similar argument can be made to justify public sector investment to increase agglomeration benefits.

Agglomeration economies provide cost savings to firms in particular industries in larger regions. A dense market leads to lower transaction costs because buyers and sellers can more easily find one another. Agglomeration economies also provide human capital externalities, as the exchange of information and ideas is more likely when firms and workers are in close proximity to one another. In both cases, individual firms will not consider the external benefits and private investment will fail to produce the potential social benefits (Bartik 1990).

Providing business assistance as a means of offsetting costs can also be a response to private market failure. When economic development programs take the shape of business assistance-- for instance, export development or process innovation-- they are essentially providing a service the private sector is failing to provide. This failure may occur because the value of such services is difficult to evaluate before they have been received. Again, the failure of the market to provide needed business assistance is a justification for intervention (Bartik 1990).

Strategies designed to impact operating costs are discussed in terms of those that provide indirect subsidy and those that provide business assistance. Subsidies and incentives refer to direct payments to firms or reductions in taxes or fees. Business assistance refers to programs that reduce company costs by providing needed technical assistance or information services.

SUBSIDIES AND INCENTIVES

[4] This issue has been thoughtfully explored in a series of essays and reports issued by the Federal Reserve Bank of Minneapolis. See http://www.minneapolisfed.org/research/studies/econwar/ for further information.

In an effort to sustain or increase economic activity in a region, local officials often offer companies a number of inducements to persuade them to locate in an area. Enticing employers to choose one location over another commonly includes a package of incentives that provides various forms of assistance. Earlier efforts at economic development usually entailed direct monetary assistance. Such incentives came in the form of tax breaks, land grants, job training programs, low-interest loans and other government subsidies.

Industrial incentives quickly became accepted as effective tools for attracting firms and are still considered an integral element of economic development. When first employed, they offered a real financial advantage to relocating firms. However, as incentives were increasingly proposed elsewhere, the playing field was leveled across locations, rendering a package of incentives as an expected and essential aspect of location bidding. Today, most localities have in place a number of programs or incentives that designate certain areas of development as eligible for financial assistance or exemption from tax levies.

Property Tax Subsidy/Abatement

Property tax abatement has become a widely used economic development incentive. Municipalities across the country often will award property tax discounts or complete property tax relief for a specified time period to businesses willing to locate within their borders.

Examples:

– Industrial Property Tax Abatements, Michigan statewide

Industrial property tax abatements are intended to spur renovation and expansion of aging manufacturing plants and new plant construction. They have been extended to high-tech companies. Abatements must be approved by the local units of government and issued by the state. Property taxes on buildings, machinery and equipment are reduced by roughly 50 percent for new facilities and 100 percent for renovation projects and are available for up to 12 years.

Employee Training/Retraining Tax Credits

Job training tax credits seek to offset the costs associated with providing employees the skills needed to ensure stability and facilitate growth in the private sector. They are intended to provide companies with an incentive to invest in the local labor force.

Examples:

– Retraining Tax Credit, Georgia statewide

The retraining tax credit allows eligible employers to claim some costs of retraining employees to use new equipment, new technology or new operating systems. The credit can be worth 50 percent of the direct costs of retraining full-time employees for up to $500 per employee per approved retraining program per year. The credit cannot be more than 50 percent of the taxpayer's total state income tax liability for a tax year. Michigan Economic Development Corporation [online]. For more information: http://medc.michigan.org/miadvantage/incentives/.

Job Creation Tax Credits

Job creation tax credits spur job growth and business development by rewarding businesses for creating new employment opportunities. The tax credits provide financial incentives to companies considering start-up, relocation or expansion in a particular area.

Examples:

– High-Tech Job Creation Tax Credits, Michigan statewide

The Michigan Economic Growth Authority (MEGA) offers tax credits to businesses in electronics, communications, medical science and other high technology fields that devote at least 25 percent of operating expenses to research and development. Each credit may be awarded for up to 20 years and for up to 100 percent of the tax related to the project. These tax credits are designed to attract new, innovative and cutting-edge companies that specialize in new technologies.

They are available to firms doing advanced computing, biotechnology, electronic device technology, engineering and laboratory testing related to product development, medical device technology, product research and development, advanced vehicle technology, or technology that assists in the assessment or prevention of threats or damage to human health or the environment. Michigan Economic Growth Authority [online]. For more information: www.growthalliance.com/incmega.html.

– Economic Development through a Growing Economy (EDGE), Indiana statewide

Economic Development through a Growing Economy is a corporate tax-credit program for businesses that create new jobs by expanding or relocating in the state. The credit may be equal to the percentage of the individual income tax withholding generated by new jobs created. Credits can last up to 10 years; if the credits claimed by a company are higher than the company's tax liability, it will receive a state refund. Regional Economic Development Corporation [online]. For more information: http://www.redco.org/data/edge.html.

– Job Tax Credit, Georgia statewide

The Georgia Job Tax Credit Program grants a tax credit to any business in manufacturing, warehousing and distribution, processing, telecommunications, tourism or research and development industries (retail establishments are not included). Counties and certain census tracts in the state are ranked and placed in economic tiers according to their unemployment rate, per capita income and percentage of residents with incomes below the poverty level. A business' ranking determines the amount of the tax credit it may receive.

Credits are potentially available to companies in certain "less developed" census tracts in the metropolitan areas of the state. At least 30 percent of new jobs created in these census tracts must be held by residents of the eligible census tracts or a county that ranks within the top tier, according to the three criteria. The average wages for the new jobs must be above the average wage of the county with the lowest average wage of any county in the state. Health insurance must be available to employees filling the new full-time jobs, but employers are not required to pay the cost of insurance unless this benefit is provided to existing employees. Georgia Department of Community Affairs [online]. For more information: www.dca.state.ga.us/economic/taxcredit.html.

Research and Development Tax Credits

Research and development tax credits act as incentives for businesses to devote resources to activities that will lead to new, improved or technologically advanced products or processes. This is generally perceived as a key to ensure future economic growth.

Examples:

– Research Expense Tax Credit Program, Missouri statewide

The Research Expense Tax Credit Program seeks to induce existing businesses to increase their research efforts in Missouri by offering a tax credit. Any individual, partnership or corporation may claim a tax credit of up to 6.5 percent of qualified research expenses incurred in the state. The research expenses for the current year must exceed the average amount of qualified research expenses incurred in Missouri during the preceding three taxable periods. The total of the tax credits authorized in a single year cannot exceed $10 million. Missouri Department of Economic Development [online]. For more information: www.ded.state.mo.us/communities/communitydevelopment/finance/links.html.

Free Port Laws

Free port laws have been adopted to reduce costs for business involved in interstate commerce. Such laws may encourage local companies to expand their markets and to compete outside the region.

Examples:

– Free Port Law of Arkansas, Arkansas statewide

Arkansas' Free Port Law eliminates tangible personal property taxes on finished goods manufactured within the state and stored for shipment outside of Arkansas. Goods moving through the state and stored in a warehouse, dock, etc., in transit to a destination outside of

Arkansas are also exempt from the tax. Little Rock Chamber of Commerce [online]. For more information: http://littlerock.dina.org/business/taxes.html#fpla.

Sales Tax Credits

Sales tax credits provide an incentive, rather than disincentive, for companies to upgrade and expand their machinery and equipment. This can be important to a company's ability to gain or maintain competitive advantage in a given industry.

Examples:

– Manufacturing Machinery and Computer Sales Tax Exemptions, Georgia statewide

Georgia's manufacturing machinery and computer sales tax exemption eliminates the tangible personal property tax on manufacturing machinery that is purchased to replace or upgrade existing machinery or machinery that is being incorporated into the manufacturing process. The exemption may also apply to the sale or lease of computer equipment to be used at facilities of any high-technology company classified under certain NAICS codes if certain conditions are met. Georgia Department of Community Affairs [online]. For more information: www.dca.state.ga.us/economic/summary.html.

Utility discounts

Utility discount programs have entered the array of incentives aimed at attracting business through cost reduction. They aim to reduce the operating costs of businesses and therefore provide a state or region with an edge in retaining or attracting companies.

Examples:

– Power for Jobs Program, New York statewide

New York initiated a low-cost power program for businesses that agree to retain or create jobs in the state. It makes available 450 megawatts of power provided from the New York Power Authority or purchased by the New York Power Authority through a competitive bid process.

The program is designed to assist businesses that are at risk of closing or downsizing their operations or moving out of the state and have a minimum monthly electricity demand of more than 400 kilowatts. Businesses that anticipate expanding operations, increasing electrical usage and creating new jobs may also qualify. Small businesses with an electrical demand of less than 400 kilowatts and nonprofit corporations may also be eligible to participate. New York Power Authority [online]. For more information: www.nypa.gov/powerforjobs/index.html.

Foreign Trade/Free Trade Zones

Foreign trade zones (FTZ) are established to attract and promote international trade and commerce. They are commerce sites located in or near customs ports of entry at industrial parks or terminal warehouse facilities. Trade zones can be used to store foreign or domestic goods, repackage materials, assemble products, or manufacture or re-export goods without paying customs duties. Merchandise can be held indefinitely within an FTZ without any payment of customs duty. Business can use FTZs to reduce duty payments and streamline supply-chain costs to improve their competitive position in domestic and foreign markets.

Examples:

– Greater Metropolitan Area Foreign Trade Zone, Minneapolis/St. Paul region, Minn.

There are six foreign trade zones in the Minneapolis/St. Paul area. As general-purpose zone sites, they allow for zone users to store, distribute, test, repackage and repair items, often in a reduced or no-duty situation. In addition, processing or re-manufacturing can be done within a general-purpose zone, with the permission of the Foreign Trade Zones board. Greater Metropolitan Area Foreign Trade Zone [online]. For more information: http://www.mnftz.com.

Enterprise Zones

Enterprise zones are designated geographic areas suitable to receive financial and non-financial incentives that will attract private investment. Enterprise zones are generally high-poverty areas that have suffered from years of disinvestment. The incentives available through zone programs vary significantly, but most offer various forms of tax relief or refunds, certain regulatory relief to new or expanding zone businesses, infrastructure improvements in the zone and increased or improved city services to the zone.

Other terms may be used to refer to these areas, including empowerment zones, economic development zones and renaissance zones. There have been several attempts to evaluate the effectiveness of these geographically targeted incentive programs.

Examples:

– Louisville/Jefferson County Enterprise Zone, Louisville Ky.

The Louisville/Jefferson County Enterprise Zone was established to revitalize the area's industrial base and create jobs for its residents. It offers special state and local tax incentives and regulatory relief to new and expanding businesses located within its boundaries.

Certified companies in the Louisville/Jefferson County Enterprise Zone are exempt from the Commonwealth of Kentucky sales tax for purchases of new and used equipment and machinery; motor vehicles for business use; and building materials for remodeling, rehabilitation or new construction. They may also take advantage of a corporate income tax credit allowed for hiring unemployed workers or individuals who have been on public assistance for 90 days or more.

Firms may also receive waivers or reductions of fees associated with new construction, renovation, demolition and signage. An existing business must making capital investments of at least 20 percent of the net fixed assets or increase its work force by at least 20 percent (and 25 percent must come from the targeted work force) to qualify for the enterprise zone incentives.

Businesses that are new to the enterprise zone must draw at least 25 percent of their work force from residents of the zone, unemployed individuals or individuals receiving public assistance. City of Louisville, Office of Business Services [online]. For more information: www.louky.org/obs/enterprisezone.htm.

– Lackawanna Empire Zone, Lackawanna, N.Y.

A one square-mile area within the First Ward of the city of Lackawanna was designated by New York state as an Economic Development Zone. The Lackawanna Economic Development Zone offers various incentives to businesses that expand into or start up in the designated area in order to create jobs and advance or spur community growth and investment.

Incentives include low interest loans, investment tax credit, wage tax credit, utility rate discounts, subsidized job training activities, 10-year property tax abatement, sales tax credit on building materials, and a duty-free foreign trade zone. A company can take advantage of these incentives during the 10 years it is classified as a Zone Certified business by the State Department of Labor and State Department of Economic Development. Lackawanna Empire Zone and Renewal Community [online]. For more information: www.lackawannany.com.

Business Assistance

The provision of subsidies and incentives has attracted the most attention in the field of economic development, but states and localities have also devoted a considerable amount of resources to establishing business assistance programs. Rather than granting subsidies or incentives to the private sector, business assistance programs reduce operating costs by using public resources to provide useful services to companies.

The nature of these programs varies considerably – some simply provide general information while others offer intensive technical assistance. Regardless of the program focus, there is a common goal – to foster business development. This may be achieved by promoting the area to start-up companies or companies considering relocation, or by providing services to existing companies with the objective of increasing their competitive advantage.

Small Business Development/Entrepreneurial Development

Small business development programs afford entrepreneurs the technical assistance needed to start, operate and grow businesses. These programs supplement capital provisions and networking opportunities with logistical information related to running a business.

Entrepreneurial training is geared toward facilitating a change in the culture of the regional labor force. Instead of trying to channel people into the mainstream economy, these programs teach those with an interest in and inclination for self-employment how to strengthen their entrepreneurial skills and start and stabilize their businesses. Entrepreneurial training programs come in several fashions, sometimes managed by nonprofit organizations, other times coordinated by governmental entities. The programs traditionally employ a mix of practical training and help in acquiring capital.

Examples:

– Colorado Small Business Development Network, Colorado statewide

The Colorado Small Business Development Center (SBDC) Network is dedicated to helping small businesses throughout the state achieve their goals of growth, expansion, innovation, increased productivity, management improvement and success. The SBDC combines information and resources from federal, state and local governments with those of the educational system and the private sector to meet the specialized and complex needs of the small business community.

Regulatory, management, financial and marketing experts work in partnership with entrepreneurs. This partnership includes the state of Colorado, the U.S. Small Business Administration, Colorado's institutions of higher education, local economic development organizations and local chambers of commerce. Twenty community-based SBDC service-centers provide free one-on-one counseling services in the areas of business research and marketing, new business feasibility analysis, business plan preparation, finance packaging and other small business topics. Colorado Office of Economic Development and International Trade, [online]. For more information: www.state.co.us/oed/sbdc/.

– The Northeast Entrepreneur Fund, Northeastern Minnesota

The Northeast Entrepreneur Fund, Inc. is a private nonprofit organization that helps people develop their ideas for starting or expanding a small business in Northeastern Minnesota. Technical assistance services include classroom training and individual consulting in the areas of business planning, targeting markets, determining financial feasibility, managing cash flow and setting personal and business goals. They have offices in Duluth, Grand Rapids and Virginia, Minnesota. The Northeast Entrepreneur Fund [online]. For more information: http://neefund.org/.

Incubators

A business incubator is an organization of services designed to nurture young businesses. A wide range of services can be offered within an incubator, including management assistance, access to financing, business or technical support services, and shared office services such as access to equipment, flexible and affordable leases, and expandable space. Incubator tenants benefit not only from business and technical assistance. They also benefit from an official affiliation with the incubator; a supportive community with an entrepreneurial atmosphere; direct access to entrepreneurs; group rates for health and life insurance plans; and immediate networking and commercial opportunities with other tenant firms.

Examples:

– Tennessee Valley Authority, Tennessee Valley Region

Tennessee Valley Authority (TVA) incubators provide management, marketing, accounting and financial and legal assistance to its tenants. A manager is available at most sites to help the tenants with their business planning. Firms housed in TVA-assisted business incubators can apply for money from TVA's Business Incubator Loan Fund, a revolving fund capitalized at $500,000 designed to help young businesses meet their short-term needs for cash flow and operating capital. The largest loan amount available is $25,000 for a maximum one-year term.

On the basis of experience in developing small business incubators, TVA considers the following factors necessary for success: a community consensus supporting incubator development; local leaders with an understanding of entrepreneurship; local support and financial backing; economic growth factors that are conducive to start-ups; and availability of accountants, attorneys and related professionals.

TVA typically requires a feasibility study before considering investment in an incubator. A feasibility study consists, in part, of a local business profile, including information on retail sales trends, banking assets, employment trends and educational opportunities. These factors are analyzed to determine if the community will make a good home for an incubator. Aside from the initial operating capital provided by funding sources, a business incubator should be financially self-sufficient within three to five years. Tennessee Valley Authority [online]. For more information: www.tva.com/econdev/smallbiz.htm.

Technology Transfer Programs

Economic development specialists are giving greater attention to technology transfer as a means of ensuring the future competitiveness of a state or regional economy. Technology transfer programs are intended to facilitate the transfer of knowledge obtained through research activities (often in public universities) to the private sector.

Examples:

– Technology Transfer Incentive Program, New York statewide

The Technology Transfer Incentive Program, administered by the New York State Office of Science, Technology and Academic Research, is designed to help business transfer new ideas and new technology from the research lab to the marketplace. The program supports the efforts of the state's colleges and universities to commercialize high-tech innovations and funds projects at public and private research institutions. The Technology Transfer Incentive Program supports activities that bring new technologies to the marketplace, such as creation of business and marketing plans, obtaining venture capital, filing patent applications and product evaluation and assistance. New York State Office of Science, Technology and Academic Research [online]. For more information: www.nystar.state.ny.us/techtrans.htm.

Product or Process Innovation

A key to maintaining competitive advantage in established industries is to continually seek product and process innovation. Industries evolve and companies will be unable to sustain themselves without keeping pace or staying at the forefront of industry trends. Many programs have been developed with the purpose of assisting businesses in reaching this goal.

Examples:

– CAMP Inc., Cleveland, Ohio

CAMP Inc. is one of several Edison Technology Centers established throughout Ohio to define and address needs of manufacturing and technology-based businesses. CAMP offers hands-on, technical, business and training services to help manufacturing and emerging technology-based companies excel and grow through understanding, adopting and implementing innovative methods and technologies.

Their specific consulting services include product design and development, lean manufacturing techniques, e-business strategies, quality improvement, advanced manufacturing technology, innovation and commercialization, and work force and organizational development. Camp Inc. [online]. For more information: www.camp.org.

– Industrial Resource Center Program, Pennsylvania statewide
Pennsylvania's Industrial Resource Center (IRC) program was developed to help small and medium-sized companies identify, learn about and adopt modern manufacturing techniques, technologies and philosophies. The program goals are to help clients increase their profitability, actualize their growth opportunities and enhance their economic value. Seven IRC centers are located throughout the state.

The IRC program provides manufacturers with customized, on-site assistance to improve manufacturing systems, processes, inventory planning, inventory turnover, cost control and quality management processes. In addition, IRC's innovative ideas regarding manufacturing systems and processes allow significant opportunities to improve customer service with improved product delivery and quality. Pennsylvania Industrial Resource Centers [online]. For more information: www.gallagher-gallagher.com/pairc/.

Export/Trade Development

Export/trade development and promotion enables firms to expand their market area and possibly extend the life cycle of products or services that have exhausted their existing markets. Typically, firms do not have the resources to explore or develop an export-marketing plan. Exporting can contribute to a firm's sales volume and create new jobs for the local economy.

Businesses often need information about the export process, potential opportunities such as agents and distributors, patent copyright and intellectual property right regulations, technical assistance and financing programs, and country-specific information related to exporting.

Examples:

- Delaware Exporter Assistance Program, statewide

In 1986, the Delaware Exporter Assistance Program was initiated by the Delaware Department of Development to assist small- and medium-sized businesses with counseling and educational programs focused on international trade. The program consists of many different services, including one-on-one counseling; exporter education; identification of overseas distributors and representatives; international marketing support; trade leads; export trade financing, and a state-sponsored export trading company. The Department of Development also started an Exporter Visitation Program. A program trade specialist assisted exporters in developing export sales. Users view multiple services packaged and offered through a single contact point as an important element of the program. Wilson, C.D. (1990). Delaware Exporter Assistance Program for Small and Medium Sized Companies. *Economic Development Review,* 8(3), 54-56.

Site Location Assistance/Relocation Assistance

Many states and localities offer site location assistance to start-up companies or companies considering relocation or expansion. By marketing their available business sites and the potential advantages of each site, state and local governments hope to gain an edge in the competition for new business.

Examples:

- Empire State Development, New York statewide

New York has developed several site location assistance programs to aid start-up companies or established companies interested in relocating to the state. The Build Now-NY program identifies sites that are ready for immediate development. Sites are designated for different types of industries and meet detailed specifications with regard to acreage and infrastructure. The state also has an online database that allows users to enter very specific criteria to search for buildings or developable sites for their businesses. Empire State Development [online]. For more information:
www.empire.state.ny.us/text/services/location/servpercent5Flocationpercent5Fbuild.html.

Information Services

The provision of more basic information services has been recognized as an important part of a broader economic development strategy. Given the vast array of programs offered at all levels of government, it can be difficult for businesses to understand what advantages one location has over another. By making this information readily available, state and local governments hope to highlight what their region has to offer. Economic development strategies may also include helping companies sort through the red tape associated with applying for government programs or obtaining permits or licenses in an effort to provide a friendlier environment for business.

Examples:

- Economic Development Financing Packet, Georgia statewide

Georgia has compiled an information packet on various federal, state and local financing programs that directly or indirectly benefit Georgia businesses or those businesses interested in locating in the state. The packet also includes information for those who are considering starting a new business or who need information on where to obtain licensing and permits. The packet can be downloaded directly from the state's website. Georgia Department of Community Affairs [online]. For more information: www.dca.state.ga.us/economic/ecodevpak.html.

SUMMARY

Economic development strategies and tools are described in terms of their ability to affect land, labor and capital markets or to lower operating costs for firms. Policymakers must understand what drives an economy if they are to formulate reasonable strategies for growth. Therefore, they must take into account the building blocks of economic development in order to adopt sound policy. While operating-cost reduction does not fit neatly into this structure, it represents a key element of development policy because practitioners commonly rely upon this factor.

The importance of understanding the factors that drive an economy justifies organizing strategies and tools within this framework; however, it is also important to acknowledge that, in practice, economic development programs often address multiple strategies.

Sound policy will recognize that several factors must fall into place for strategies to be effective. For example, industrial recruitment will have limited success without a qualified regional labor force. Physical development will not occur without the needed financial mechanisms. As a result, economic development policy generally encompasses a wide range of strategies and tools.

LOGIC MODEL

LOGIC MODEL: STRATEGIES AND TOOLS IN ECONOMIC DEVELOPMENT PRACTICE

Areas of Intervention	ED Programs	Short-Term Outcomes	Long-Term Outcomes	Elements for Success
LAND				
Market-Rate Housing	New Construction	Increase supply of market-rate housing.	*Attract middle and high-income households.* Improve housing stock. Increase tax base. Improve neighborhood image.	In older neighborhoods, a whole development, or several new houses are needed.
	Rehab/Adaptive Use	Eliminate blight. Increase high- quality housing stock.	*Attract middle-income households.* Improve housing stock. Increase tax base. Improve neighborhood image.	Housing redevelopment should be in line with neighborhood character.
Business Site Locations	New Construction (industrial, commercial, research parks)	Create opportunities for companies to move into the area. Attract light industry or high-tech companies. Promote interaction between industry and universities.	Attract new companies from outside the region. Retain companies that would have otherwise moved. Increase number of jobs and the area's economic base.	Providing infrastructure required for type of companies being recruited. Proximity to university.
	Conversion/Adaptive Reuse	Revive old structures and reuse historic buildings.	Turn vacant properties into productive uses. Retain the neighborhood's historic appearance. Create new economic opportunities in older areas. Increase neighborhood's wealth.	Redevelopment of old properties is one element in a neighborhood's revitalization. Works when conversions and rehabs meet the needs of local industry mix
	Brownfield Redevelopment	Reuse of abandoned or underutilized industrial sites. Eliminate "eyesores."	Turn contaminated sites into economically productive sites. Increase number of jobs. Create incentives for further development. Improve neighborhood's image.	Brownfield cleanup works only as part of a comprehensive development plan for the site.
	Land Assembly	Assemble and prepare land for redevelopment when financial risk deters private sector investment.	Build foundation for private investment. Enable development of new industrial or commercial facilities.	Intervention of a public or non-profit organization with financing authority is required.
Physical Amenities	Natural Resources Arts and Culture Sports and Recreation	Attract local, regional, national, and international visitors.	Serve as a catalyst for additional development. If located downtown, catalyst for downtown revitalization and restore downtown image as a regional center.	Private-public-nonprofit partnerships. Significant funding for renovations. Persistence and long-term planning. A specific project is part of a recreation and tourism strategy.

LOGIC MODEL: STRATEGIES AND TOOLS IN ECONOMIC DEVELOPMENT PRACTICE

Areas of Intervention	ED Programs	Short-Term Outcomes	Long-Term Outcomes	Elements for Success
LABOR				
General Education	Remedial Education	Improve basic skills in reading, writing, arithmetic and computer literacy.	Build the basic skills of the local work force. Increase number of workers with GEDs Prepare workers for more advanced education.	Educational services provided at no cost to students. Employ teachers who are experts in adult education.
	Soft Skills Training	Improve general skills (interviewing, interpersonal relations, accepting supervision and positive attitude).	Increase probability of finding and maintaining jobs. Provide opportunities for life-long learning.	Use a well-tested training curriculum.
Occupation/Industry Specific Training	Apprenticeships	Train for skilled trade.	Increase supply of workers with specific skills required by local industry.	On-the-job training is key. Partnerships between educational institutions and industry are critical.
	Specialized/Vocational Training	Train workers in specific skills (ex: machining, metal finishing, electronics, medical technicians and culinary arts).	Increase supply of workers with specific skills required by local industry. Place individuals along a career path.	Strong partnership with industry. Include instructors from industry. A good match with skills needed by local industry. Provide accredited training.
	School-to-Work Programs	Prepare high-school graduates for skilled entry-level work.	Increase number of high school graduates ready for local labor markets. Help prevent students from dropping out of school.	High schools need to partner with a local community college and major businesses. Use unpaid internships. Offer career counseling to students.
Job Matching	Matching Existing Skills of Local Workers with Industry Needs	Identify and market the existing skills of local workers.	Bridge the distance between potential employees and employers. Shorten job search time.	Identify target population and businesses. Work at a neighborhood level.
	Developing Job Training to Match Industry Needs	Train workers in skills needed in the local economy.	Increase supply of well-trained and job-ready workers.	Partnership between industry and nonprofit engaged in training. Strong nonprofits with knowledge of industry needs, training programs, and ability to identify workers to train.
	Employee Recruitment and Assessment	Recruit potential workers, assess their skills and provide placement services.	Match local workers with available jobs. Save time and resources to businesses searching for qualified employees.	Develop information flows on supply of and demand for employees.

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Areas of Intervention	ED Programs	Short-Term Outcomes	Long-Term Outcomes	Elements for Success
CAPITAL				
Finance	Tax-Exempt Bonds	When a public authority issues bonds on behalf of private corporations, it lowers its project's financing costs.	Stimulates private investment to enhance an area's economic development.	Conditions are right for private investment as a result of public support.
	Special Loan Programs Revolving Loan Funds Microloans	Provides financing when not available in private market. Flexible funding. Loans at a lower interest rate. Provides small loans to new entrepreneurs.	Enable business startups and expansions. Foster job creation.	Availability of entrepreneurial climate and good business plans. Revolving Loan Fund's capitalization from the public sector (federal, state, or local) or private donors.
	Loan Guarantees	Reduce risk assumed by the private lender. Enable small businesses to secure financing.	Stimulate economic growth.	Coordination between the institution providing loan guarantees and private financial institutions (works well between the Small Business Administration and banks).
	Debt/Equity Investments Venture Capital Angel Financing Mezzanine Financing	Provides access to capital not available through traditional financial institutions.	Stimulate growth of small and medium-sized businesses engaged in riskier endeavors, such as product innovation, technology transfer and research and development.	Availability of local venture capital funds, although they invest throughout the country. Matching angel investors with entrepreneurs in need of financing.
	Tax Policy New Markets Tax Credit Tax Increment Financing Business Improvement Districts	Increase capital base of community development entities. Lower development costs and begin new development. Improve facades, sidewalks, special signage, marketing and security services.	Attract private sector investment to engage in large development projects. Reverse gradual decline in a business district, or respond to competing development.	Involvement of public agencies at the federal, state, or local levels. Businesses organizing and assessing themselves (in BIDS). Availability of private developers with interest in new initiatives.
	Grants/Direct Subsidies	Public works grants help communities upgrade physical infrastructure.	Improved infrastructure may help attract new businesses and encourage business expansion.	

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Areas of Intervention	ED Programs	Short-Term Outcomes	Long-Term Outcomes	Elements for Success
OPERATING COSTS				
Subsidies and Incentives	Property Tax Abatement	Lower businesses' operating costs.	Stimulate construction of new facilities. Stimulate renovation and expansion of older facilities.	Tie incentives to performance. Provide abatement for new facilities and companies that are part of the region's competitive industries (clusters). Provide abatement to businesses that build on existing strengths.
	Employee Training Tax Credit	Offset company's costs associated with training their employees.	Improve local work force skills resulting in a more competitive industry and build a local asset that would attract new businesses.	Target credits to competitive companies. Target credits to companies in competitive or growing industries. Target credits for training in skills with high local demand.
	Job Creation Tax Credit	Create new jobs.	Encourage relocation, expansion and start-ups. Could be used to target specific industries and/or specific communities.	Target credits to companies that are part of a local cluster. Cost to public sector smaller than expected future public sector revenues.
	Research and Development Tax Credit	Lower business cost of R&D.	More resources may be devoted to R&D, leading to new or improved products and processes.	Have local academic institutions engaged in research. Have local small and large companies engaged in R&D.
	Freeport Laws	Reduce costs for businesses involved in interstate commerce.	Local companies may expand their markets outside their state.	
	Sales Tax Credit	Reduce purchasing costs of new machinery and equipment.	With new and upgraded equipment companies may retain or increase their competitive advantage.	
	Utility Discounts	Reduce utility costs for local businesses.	Provide the region with competitive edge in attracting or retaining companies with high electric utilization rates.	Important for companies with high intensity of electric utilization. Could make a difference for such companies that are at risk or relocation, closing or downsizing.
	Foreign Trade/Free Trade Zones	Reduce duty payments and streamline supply chains.	Expand international trade.	
	Enterprise Zones	Provide businesses located with a designated area with several incentives and subsidies.	Revitalization of neighborhood businesses.	

LOGIC MODEL: STRATEGIES AND TOOLS IN ECONOMIC DEVELOPMENT PRACTICE

Areas of Intervention	ED Programs	Short-Term Outcomes	Long-Term Outcomes	Elements for Success
Business Assistance	Small Business Development	Improve entrepreneur's knowledge on how to start, operate and grow a business.	Develop an entrepreneurial environment and culture.	Strong nonprofits engaged; Small Business Development Centers are beneficial. Partnerships, including the state, US Small Business Administration, higher education and local economic development organizations and chambers of commerce.
	Incubators	Provide young companies with space and assistance in marketing, management, legal and financial services.	Nurture young companies and increase their probability to remain in business and grow.	Incubator as a part of a supportive environment for entrepreneurs, local support and financial backing.
	Technology Transfer Programs	Facilitate transfer of knowledge from research activities to industry.	Transfer ideas and technologies from the research lab to the market place.	Institutions of higher education need to create incentives and mechanisms for faculty and research staff to get engaged in technology transfer.
	Product or Process Innovation	Develop local training for manufacturing and other technology-based companies with training on product development and design.	Maintain competitive advantage in established industries. Attract start-ups.	Need an entrepreneurial culture focused on innovations.
	Export/Trade Development	Assist small and medium- sized companies to develop an export-marketing plan. Provide information on exports process, agents and distributors, and financing programs.	Enable firms to expand their market area. Increase sales volume for local companies. Create new jobs.	Multiple export-related services available in one place.
	Site Location/ Relocation Assistance	Market available business sites.	Gain an edge in the competition for new business.	

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