Building More Effective Delivery of Economic Development Projects

BY DANIEL BLISS
Economic development is a notoriously tough business. Most of all, it is expensive. Local and state governments have faced more than $300 billion in cumulative deficits since fall 2008, and the most recent comprehensive estimate indicates that they spent almost $65 billion in economic development subsidies in 2005 alone — almost $70 billion if accelerated depreciation writeoffs are included.¹ That figure compares to $12.9 billion in the equivalent Regional Aid spent in the European Union, where regulators in Brussels have the power to limit economic development subsidies by local, state, provincial, and even the 27 national governments.

At the same time, researchers in the United States have documented many situations in which heavy spending on economic development may have done little more than shift economic activity within a community, rather than generating new growth. Given the huge expense and the limited government resources to pay for it, elected and appointed government officials, business leaders, and citizens need to search for alternatives that will effectively deliver economic and community development at a lower cost.

**BETTER INSTITUTIONAL ARRANGEMENTS**

The question is whether more sensible rules and regulations, combined with better institutional organization, would allow local and state government to improve their ability to finance and mobilize economic development without putting a new burden on taxpayers. Would better institutional arrangements — community development corporations, ongoing cooperation with neighboring municipalities, better working relationships between local and state governments — allow jurisdictions to enhance their bargaining power with business, along with their ability to put good ideas into action? Doing so offers the possibility of reducing economic development costs and improving results.²

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Both circumstantial and research-based evidence increasingly indicate that better governance can make a big difference. Disorganized policy formulation decouples the all-important mechanisms of “steering” and “rowing.” For example, if one group, department, or entity does the brainstorming and planning, and another handles the financing, disagreements between them often lead to many good ideas being left by the wayside. And if those two groups cover geographical areas that overlap but are not contiguous, the risk of disagreement — and therefore failure — multiplies.

In contrast, a more coherent arrangement for governance can move economic development policies into action more effectively. The common themes for success include:

- Having institutions or coalitions of stakeholders that both steer policy and make it a reality.
- Using these common institutions or coalitions to build a widely shared, community-wide vision of the future.
- Thinking regionally and bringing neighboring communities together in some way.
- Gaining active support from the state to build networks among local leaders, spread information among leaders and businesses, and foster cooperation among communities to reduce wasteful competition in the form of escalating subsidies.

A 2010 survey confirms that economic development professionals support this kind of leadership.³ The survey, which interviewed people working on projects financed by the U.S. Economic Development Authority, indicates the need for a combination of regional coordination, organization, and leadership to maximize the effectiveness of policy implementation and delivery in economic development.

It is never too late for communities to implement interlocal or regional agreements between communities, and no start is too small. Simple transactions such as service agreements tend to trigger cost savings and lead to greater things in the future. A 2007 study of every Georgia municipality with populations of more than 2,500 found that formalized intercommunity service agreements are significantly more likely to occur in situations where transactions among municipalities, such as cooperation on street projects or mutual aid for emergency services, have already yielded savings.⁴

There is no one organizational or financial path to more successful economic development. A particularly good example, because of its politically charged nature, is annexa-
tion and consolidation of governments. The City of Hibbing, Minnesota, annexed more than 170 square miles of township territory in 1979 to create what is by far the state’s largest municipality, by land area. This brought the airport and large areas of potential commercial land under city jurisdiction, creating a single entity for economic development. Yet many small town municipalities in northern Minnesota that appear similar have repeatedly failed to enact far more modest annexation proposals because of opposition from the township governments.

Larger cities such as Louisville, Kentucky, have taken a different route and merged with their county governments to achieve significant economies of scale and improvements in tax base for many government functions, including economic development. But others, such as Des Moines, Iowa, have rejected this kind of consolidation, in part because of concerns that putting suburban politicians at least partly in charge of city resources would benefit the suburbs at the city’s expense. Indeed, the Louisville reform, passed in a referendum in 2000 and fully implemented by 2003, was followed by a significant redistribution of funding for public services away from much of the former city. This happened because suburban politicians now led an effective working majority on the new city county council, and they favored more fiscally conservative spending patterns. This loss of control can be difficult for central city communities, and shared services or joint powers agreements can achieve similar savings without the representational issues caused by consolidation.

Strong leadership can cover for deficiencies in the process of making and delivering policy, at least temporarily. Mayors’ offices in large U.S. cities have long dominated other institutions and organizations in those municipal governments, an arrangement that has enabled big-city mayors to make great achievements — often followed by significant disruption on their retirement or death. In smaller communities, where governmental plans range from weak mayor-council systems to a council-manager plan, governments often struggle to strike a balance between the continuity of a city manager and a stable bureaucracy, and the implications of direct management by the city council, which means greater direct electoral accountability.

But no matter the form of government, effective leadership is a prerequisite for success in economic development policy. Even the best-organized community needs a common sense of purpose and clarity from its leaders, and there is clear evidence that even cash-strapped municipalities can outperform much wealthier communities in the delivery of economic development projects if their leaders buy into a shared vision of their hometown. Outside assistance — for example, from state legislators, a member of Congress, or a U.S. Senator — is also valuable, but may not be possible if there are strong internal divisions within a community over a development project. These patterns of assistance also tend to follow federal funding, and federal support for economic and community development — both in the form of direct grants to municipalities and block grants to the states — has been cut much farther over the past 30 years than funding for transportation and infrastructure. So, while the provision of infrastructure and public services often gets a boost from outside leadership that has a vested political interest in a city’s health, economic development often stands or falls on the jurisdiction’s existing leadership.

WAYS OF IMPLEMENTING POLICY

For these and other reasons, local governments might want to consider a process of institutional reform and reorganization. This requires sensitivity and creativity, and particular attention to the customized needs of a particular community. One size does not fit all when it comes to improving the process of brainstorming, developing, financing, and implementing economic development projects. Several distinct forms of policy delivery emerge just among the Minnesota and Illinois communities studied for this research; these are explained below.

Private Development Corporations Operating with a Public Subsidy. The public sector subsidizes staff positions and operations, and private capital — including investment from local banks and individuals — and rents from existing projects provide the funding for new business investment. A
variation on this format is to use public-private partnerships such as a community development corporation (CDC), in which the government or governments involved in supporting operations are represented on the board and exercise significant influence over policy. Both formats enable a large proportion of negotiating and deal making to take place within the development corporation, and therefore outside of state open meetings laws, although the CDC-style format involves greater coordination between the municipality and the private-sector side than a private corporation does. This level of privacy is often a key consideration for both local and outside businesses.

Regional Joint Powers Agreements. In areas where municipal governance is fragmented, building the economies of scale necessary to effectively manage economic development often requires coordination of planning, policy, and resources. Whether a region of 50,000 people is covered by one municipality or ten, an economic development department or agency is unlikely to need more than three or four staff members. Therefore, fragmented governance cannot operate as efficiently as a unified organization can. Coordinating such an agency with the statutory powers a municipality has to engage in economic development can be a challenge, however, as these entities have significant powers in finance and land management. Those powers must be effectively coordinated with a joint powers authority if the joint powers arrangement is to be effective.

Statutory Authorities. The boards of statutory authorities such as economic development associations and development councils typically include both city council members and private citizens, and jurisdictions use them in a number of ways. These entities might have no active role, or they might work with staff to manage assets such as incubator buildings and revolving loan funds that help businesses make down payments. Statutory authorities establish a firewall between general fund money and economic development funds, protecting taxpayers and ensuring economic development continuity.

City Governments. No matter what form the government takes — city council, commission, mayor, administrator, and/or city manager, in any combination — city governments are an important entity in economic development. Although long-standing legal precedent enables states to significantly restrict municipal activities such as borrowing and spending, city governments remain leading players in the financing and provision of economic development, using their taxing, borrowing, and land-use management powers to make things happen. The committee structure of a city government is a significant part of this process, as it often filters projects long before they are considered by the city council. A fragmented structure can block new projects and enable “venue-shopping” — the process by which the people who are best at gaming the system choose the committee, board, or commission most receptive to their plans. Too many overlapping committees provide more venues to shop. Instead, city governments should aim to create a system that, through its simplicity and clarity, promotes the best project for the community instead of the project whose backers have the best knowledge of the government’s inner workings.

A stable governing arrangement that is sufficiently empowered to achieve city goals is a potent asset in economic development. Take the case of Sterling, Illinois, where the 2001 bankruptcy of a steel mill left 1,500 people out of jobs and hundreds of acres of disused industrial land and buildings in a prime riverfront location. Through two city managers and three mayors, the city shepherded a ten-year process of getting the newest part of the plant reopened, older buildings reclaimed, and derelict structures removed as part of a brownfield project. But Sterling had the organizational tools — expertise in the city manager’s office, consensus on the council, the legal authority through an industrial development commission — to handle complex land use problems. It also had continuity of leadership operating within this structure; the current city manager had been the assistant city
manager, and the two most recent mayors had both served on the council under their predecessor, who was mayor at the time of the steel mill’s bankruptcy.

**Regional Governing Arrangements.** At the state level, regional governing arrangements such as Portland Metro in Oregon and the Iron Range Resources and Rehabilitation Board in Minnesota provide a critical coordinating function for economic development policy in the areas under their jurisdiction. While the policies these agencies produce or promote might not be effectively customized to individual communities, they provide a forum for cooperation, reducing or eliminating wasteful and expensive competition for economic development among neighboring municipalities. Cities under such jurisdictions have a ready source for technical expertise, grant and loan funding, and in some cases, tax privileges, but they must form a close working relationship to ensure that these agencies remain responsive to particular community needs that might differ from agency goals as a whole. Without the coordinated decision making of regional agencies, communities have a strong incentive to compete with one another for the same pool of potential businesses.

**Enterprise Zone Legislation.** Most states offer standing benefits that individual municipalities or groups of municipalities may take up through enterprise zone legislation. A long-standing example is the Illinois Enterprise Zones Act. Passed in 1982, this legislation enables municipalities to coordinate with one another — or in the case of Chicago, subdivide — into enterprise zone boards that manage select parcels of land within their jurisdictions. In southern Illinois, municipalities across a four-county region have formed a single enterprise zone board. The advantage? Further coordination of decision making, along with a forum for the elected officials and other community leaders who typically form such boards to get to know each other better. These boards also provide municipalities with direct representation via local officials who are likely to be more immediately aware of their communities’ specific needs than state elected and appointed officials would be. The disadvantage? The existence of these boards is time-limited, and extensions must be approved by the state legislature. In Minnesota, the Job Opportunity Building Zone (Job-Z) program adopted by the legislature in 2003 does not give communities the opportunity to build cooperative arrangements; rather, they must apply directly to the state to designate specific sites for Job-Z benefits — a similar array of exemptions and abatements on sales and property taxes to those found in Illinois.

**Outside Grant Finance.** The importance of outside grant finance is shown in the example of Rock Falls and Sterling, Illinois, where a series of bankruptcies and mergers in the 2001-03 recession left the areas on the banks of the Rock River, which runs between the two cities, blighted and derelict. Between 2005 and 2010, Rock Falls secured $4 million in outside grant funding for the recovery of a single factory site that was severely contaminated. Now completed, the project is attracting interest from developers for a variety of uses, according to the city’s mayor. Neighboring Sterling was able to use existing institutions, including its city manager’s office, industrial development commission, and the Greater Sterling Development Corporation to mount a large-scale rapid response to its own factory closures, but Rock Falls had to start almost from scratch with building an organization. The first challenge was creating a community development corporation. The next step was getting the appropriate combination of local business leaders on the CDC board. An annual $100,000 city subsidy ensured both strong staff support and strong input for the city’s elected officials.

**Grant Assistance from States and Federal Agencies.** No amount of institutional reorganization at the local level will really compare with the impact state and federal govern-
ments have on the projects local leaders are able to fund. Of course, specific cases vary. A 2007 research report comparing Kansas with five other Midwestern states showed total economic development expenditures (not counting tax breaks) ranging from less than $10 per capita per year to a high of $75, in the state of Iowa. While subsidies for particular businesses often take place on an ad-hoc basis, with political connections and the level of public interest playing a role, there are substantial standing programs for subsidizing highways, utility infrastructure, and brownfield reclamation. Better local organization is valuable to economic development because it provides a forum for a common vision and a consensus in the community to emerge — something that granting agencies take very seriously when deciding where to place their funds. That’s because a shared vision increases the chances that a policy will be implemented successfully, even in cities where a weak tax base and local economy would normally be expected to hinder new projects.

THE IMPORTANCE OF STRATEGY

Even with institutions and organizations in place to deliver a strategy effectively, and good leaders taking key positions in those organizations, more is needed: an effective strategy. And evidence indicates that effective, representative institutions working within a simplified, streamlined, and cooperative process generally tend to help such strategies emerge. In this regard, even the largest metropolitan areas sometimes have much to learn, as the City of New York demonstrates. This notoriously politically and institutionally fragmented metropolitan area often provides unproductive and expensive economic development subsidies to the financial services industry as the city and its suburbs fight over where these businesses will locate their offices. The problem is that despite New York’s reputation for financial services, this industry can relocate easily. In contrast, New York’s media and other creative industries are captive in Manhattan because in this sector, proximity to other professionals and individual businesses is a major advantage. The implication is that if New York wants to fund economic development, it would do better to focus its attention on areas such as media and publishing that cannot easily leave the city.

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The lesson of building upon the businesses and resources your community already has is increasingly taken to heart by economic development professionals across the country, although it is sometimes neglected by political leaders. “Build it and they will come” is not necessarily a successful strategy, especially when officials pin their hopes heavily on recruiting large, headline-grabbing developments without keeping up the flow of smaller improvements. Whiteside County, Illinois — the home of Sterling and Rock Falls — has stayed close to the national average of unemployment despite massive job losses in large manufacturing employers. It has done so by pursuing a pattern of development defined by small-scale but frequent business expansions. Ogle County, Illinois — just 40 minutes away — has an unemployment rate that is three percentage points higher, despite having a major rail crossing and its associated massive warehousing and logistics investments.

One final point is that, under U.S. and Canadian law, even the most talented, heavily financed, and well-resourced local officials depend on a favorable operating structure from the state or province. This means that keeping state governments attuned to a community’s particular needs is an ongoing challenge. State officials typically focus on the big projects rather than the small businesses that tend to provide the economic engine for communities.

Another challenge for local officials is keeping their states focused on the opportunities and pitfalls of economic competition within a state, rather than across state lines. Given the temptation to compete with other communities, state governments tend to loosen limits on local economic development subsidies, which can be expensive for local taxpayers. For example, Illinois recently passed an amendment to the state’s municipal code that enables a municipality to rebate potentially all sales taxes generated from a retail development. Previous law limited the rebate to the actual value of improvements to the property. This change provides flexibility for border communities to compete across state lines, but it runs the risk of conceding a bargaining point to developers, which might make more aggressive demands for subsidies.
CONCLUSIONS

Laxer rules on subsidies almost always result in an expensive competition among local governments for economic development. This emphasizes the importance of participating in interconnected networks of policymakers, including institutions that bring officials from different groups together. With no one policy entirely under a jurisdiction’s control, the standing it has with others is a crucial asset. That, as much as anything, is why institution and organization building is such an important part of economic development.

Notes


7. Pagano and Bowman.


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