Understanding State Economic Development: From the Perspective of Economic Developers

Economic Development Academy

Working Poor Families Project and EARN

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How do you define “economic development”?

- Enhancing the quality of life for citizens
- Improving the standard of living
- Creating new community and business wealth

- Process…not an event
How do economic developers go about trying to accomplish economic development?

1. Help regional economies grow, diversify, remain stable
2. Create “multiplier” impacts for the economy
3. Capitalize on location
4. Strengthen innovation, entrepreneurship, competitiveness
5. Make productive use of community or firm assets
6. Enhance infrastructure to support growth
7. Facilitate corporate investments
8. Broaden tax base to support local government.
9. Minimize poverty, maximize opportunities
Classic Tensions in Economic Development

- Who benefits? *People or place*
- Balancing benefits: *Equity or efficiency*
- Timeframe: *Short-term or long-term*
- Managing risk: *Economic specialization or economic diversity*
Economic development as a “federal system”

- Invests in both places & people
- Focus on equitable growth
- Modest/minor investments in businesses

- Closest to “people;” often focused on “place”
- Seeks “rateables” (retail sales or property taxes)

- Tap businesses and communities to achieve “people” goals
- Invests in “competitive economies” & “foundations”

- Emphasizes identity and marketing
- Collaboration in areas of infrastructure and workforce development
Key State Economic Development “Players”

- “The agency” 
  (whatever its name)
  - Functions driven by customer need
    (see slides 6 & 14)
  - Differs by state

- Other agencies 
  (part of a “Cabinet”?)
  - Transportation, housing, agriculture, community dev., etc.
    - Finance authorities
    - Infrastructure banks
  - State universities
  - Community colleges

- Other key statewide actors (independent?)
  - State-chartered or “quasi-state” groups
  - Business assistance providers
    - Small business development centers
    - Industrial extension (Manufacturing Extension Partnership)
    - Technology transfer (commercialization and/or translation)
Economic Development Customers

- Communities/Regions
- Firms/Industries
- Workers/Labor Force
Communities & Regions as Customers: Key Trends Affecting Economic Dev

- Balancing interests of efficient economic growth and equitable distribution of economic opportunity
- Climate of fiscal crisis
- More private sector responsibility for economic development
- Increased competition for public sector resources
- Greater demand for accountability
- Increased grassroots participation, investment in community-based efforts
- Increased experimentation in new strategies
- Push toward cross-border cooperation
Most Common State Economic Dev Activities

Targeted to Communities

- Community Marketing/Tourism
- Infrastructure Development/Planning
- Project Development/Redevelopment
- Downtown Revitalization
- Organizing & Capacity Building
- Workforce Training & Development

Source: ACCRA; 2004 Survey of Economic Development Organization
Companies as Customers:
The “Three-legged stool” of Job Growth
Factors Affecting Businesses: Most Important Location Factors

- Tax exemptions
- Environmental regulations
- State and Local Incentives
- Corporate tax rates
- Available land
- Occupancy or construction costs
- Availability of skilled labor
- Energy availability and costs
- Labor costs
- Highway accessibility

Source: Area Development Corporate Survey, 2007
Companies & Industries as Customers: Key Trends Affecting Economic Dev

- **Better, faster, cheaper**
  - Globalization of markets and supply chains
  - Increased demand for quality from markets and suppliers
  - Demand for continuous cost reductions
  - Demand for increasingly complex products and services, real time delivery to customers
Impact of Trends: Changes in the Organization of Firms

• Reduce costs (e.g., subcontracting, strategic alliances)

• Implement capital-intensive (high skill) production strategies

• Differentiate product through service

• Demand more capable workers who will provide service and continuously innovate process
Most Common State Economic Dev Activities

**Targeted to Firms**

- Strategic Planning, Research, Policy Development & Info Sharing
- Facilities & Location
- Business Management
- Regulatory Climate
- Workforce Prep & Development
- Marketing & Sales
- Professional Network
- Infrastructure
- Capital
- Tech & Product Development
- Product & Process Improvement

Center for Regional Economic Competitiveness
Economic Dev. Metrics:
Current Status

- Use rather traditional metrics, in general
- Use metrics in scattered, uneven fashion across jurisdictions
- Face increasing pressure to become more sophisticated because of tight budgets
Most Common Ways to Define Economic Development Success

- Jobs created and retained
- Public investments made
- Private investments leveraged
- Tax revenues generated

Firm centric measures
Community centric measure
Trends in Metrics

- From inputs and activities to outputs and outcomes
- Better assessment of program outcomes (e.g., Maine economic development evaluation study)
- Explore day-to-day operations and program management to “benchmarking” economic performance
Examples of Outcome Metrics Useful in Measuring Prosperity

- Growth & specialization in traded clusters
- Job growth or retention in targeted occupations
- Underemployment rate

- What other alternatives can you offer?

- Median entry level wages
- Median household income
- Per capita income
- Poverty rate
- Income growth by socioeconomic group
Managing State Economic Development Governance Models

• Public agency with director (most common model)
• “Privatization” hybrids
  – “At will” agencies
    (e.g., WV Development Office, AZ Commerce)
  – Quasi-state programs
    (e.g., Rhode Island EDC)
  – Nonprofit intermediaries
    (e.g., Enterprise Florida, Wyoming Business Council, Indiana EDC)
• The governor’s office (e.g., Texas)
• No agency
  – California – unit of Business, Transportation & Housing
State Economic Development Boards

• 3 Basic Models
  (½ states studied in 2005 had boards)
  – Governing
  – Program Oversight & Management
  – Advisory

• Key Issues
  – Appointments (governor, agency director, legislature, self-appointing, etc.)
  – Terms of office (staggered or coinciding with political terms)
  – Participation (including attendance) of private sector leaders
  – Role in hiring or firing agency head
State Economic Development Expenditures: Trends

- 2005: $5,478
- 2006: $6,142
- 2007: $9,138
- 2008: $9,547
State Expenditures by Functional Activity Area

- Technology Transfer: $1,087 (2008), $810 (2007)
- Workforce Prep and Dev: $1,051 (2008), $1,029 (2007)
- Tourism/Film: $937 (2008), $945 (2007)
Tax Policy & Incentives

- **Tax rates**
  - Balance low business rates with perceived need for incentives
  - “Budgeting” for incentives

- **Tax incentives**
  - Credits, abatements, & deferrals

- **Management and monitoring systems**
  - Who does it?
  - What resources do they have?
  - What are their public policy priorities?
The Role of Incentives: Closing the Deal

• State business incentives
  (1,619 programs in C2ER database)
  – Tax incentives (653 programs)
  – Direct business assistance (731 programs)
  – Indirect business assistance (235 programs)

• Budgeting challenges
  – How to measure “foregone revenues” from tax incentives?
  – How to distinguish “operating” from “capital” costs?
  – How to treat “foregivable loans”?

• Many incentive deals are “packages”
  (created from patchwork of available programs)
Key Challenges in Effectively Managing Incentives
- Most tax incentive programs are not “managed”
- Most business assistance programs are not “to scale”
- Data on impacts or investment is both sparse & ad hoc

Clawbacks
- Becoming accepted standard operating principle for new programs, but not incorporated in all
- Which provisions best balance desire for public benefit with protection of public investment?
To Plan or Not to Plan…what is the “incentive”?  

- Can you really budget for a “signature” project?  
  - “Big ticket” incentive deals often…  
    - Reactions to unbudgeted opportunity in a competitive environment  
    - Frequently require state legislative appropriation for a specific company investment or project  

- Some states try…  
  - Several have created “Deal Closing” or “Strategic Investment” funds  
    - Provide flexible funds to meet unique strategic opportunities  
    - Invest in “signature projects” for cluster forming, broadening or deepening activities  
    - Need not be firm specific, sometimes targeted to industry groups or nonprofit/public research activities
Examples of Deal Closing & Other Incentive Programs (2008)

- **Technology Transfer**
  - FL’s $250M “Innovation Incentives” fund
  - OH’s $94M Third Frontier R&D Projects fund and $50 “Innovations Ohio” fund
  - PA’s $105M Ben Franklin Tech Dev Assistance fund
  - TX’s $116M Emerging Technologies fund

- **Business Assistance**
  - NJ’s $152M Business Employment Incentive program
  - IA’s $130M Grow Iowa Values Fund

- **Special Industry Initiatives**
  - AK’s $25M Aerospace Dev. Corp. & $18M Seafood Marketing Institute
  - OH -- $268M for energy-related investments
  - ND – $43M for NDSU Ag main research center
  - MO -- $36M for life sciences

- **Business Finance – business lending**
  - WV -- $154M
  - NY -- $75M
  - PA -- $31M machinery/equip loan fund
  - OR -- $30M business lending program
Emerging Policy Priorities

• Role of National Governors’ Assn. in policy diffusion
  – Cluster-based initiatives
  – Innovation (Gov. Napolitano 2007)
  – Clean technologies (Gov. Pawlenty 2008)

• Other Key State Initiatives
  – Targeting investment to key industries or technologies
    • Stem cells, biotech, advanced mfg., renewable energy, etc.
  – Entrepreneurship
  – Rural development
  – Trade and competitiveness
  – Arts, culture, and tourism
  – Workforce development
Policy Priority: Community Assistance

- Rural development – state efforts to focus on equity (…and “politics”)
  - Capacity building – working with local community and econ development leaders
  - Water/sewer & local public facilities – for areas in which infrastructure does not exist or it is deteriorating (e.g., clean drinking water)
- Housing rehab and affordable housing
- Environmental remediation
Policy Priority: Entrepreneurship

- Risk capital
- Incubation
- Technology commercialization

- “Ideation” – new product development
- Formation vs. second-stage firms
- Business management, planning, and related skills
Policy Priority: Innovation & Tech Development

• 12 new governors elected in 2006, 8 talked Tech-based Economic Development (TBED)
  – AR, CO, FL, IA, MA, MD, NY, and OH
• 24 governors quoted of 42 in State of the State
  – Down from 36 of 50 in 2007
• State legislatures appropriated more than $1.5B in new spending on TBED-related activities for FY08 and FY09
Key Discussion Questions

• What challenges have you had in helping to integrate your concerns for low-skilled workers into state priorities?

• How do your concerns related to the key state priorities?