Economic Development America

COMPETING GLOBALLY ★ GROWING REGIONAL ECONOMIES ★ CREATING JOBS

FALL 2006

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Economic Development America is a quarterly production brought to you as a benefit of a partnership among the Economic Development Administration (EDA), the International Economic Development Council (IEDC) and the National Association of Regional Councils (NARC). The partnership is designed to provide information about economic development practices and programs to economic development practitioners who serve distressed communities throughout the United States. It also provides six telecasts and a monthly e-newsletter, EDA Update. For more information, visit the EDA Web site at www.eda.gov.

Story ideas are invited and should be addressed to editor **Louise Anderson, telephone (828) 350-8855, email landerson@iedconline.org.**

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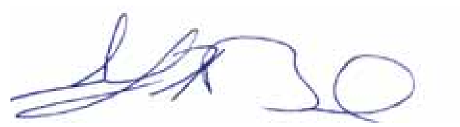
Welcome to the Fall 2006 edition of *Economic Development America.*

The economy of the 21st century presents important challenges and significant opportunities for America's communities and regions. At the national level, President Bush's economic policies have created an environment of job creation and economic growth in which all American regions can participate, provided that they build the right strategies to succeed.

As economic development professionals pursue their strategies, there are many resources and "tools" available to help them along the way. This issue of *Economic Development America* provides an overview of some of these resources in an "Economic Developer's Toolkit," featuring helpful articles on business retention, the Balanced Scorecard, tapping into community colleges, developing a Comprehensive Economic Development Strategy (CEDS) and more. I would like to thank the authors for sharing their knowledge with us in the following articles, which I trust you will find as insightful as I have.

This issue also pays tribute to two longtime members of the EDA family – Paul Hildebrandt and Bill Garfield. We will miss both of these dedicated professionals whose careers were devoted to the service of their country.



Sandy K. Baruah
Assistant Secretary of Commerce
for Economic Development

In Memoriam

Paul Hildebrandt served as EDA's Economic Development Representative (EDR) for Kansas and Missouri. Paul passed away on November 4, 2006.

Paul joined EDA in 1988 as program specialist in the Public Works Division of the Denver Regional Office. In 1995, Paul was named EDR for Missouri, then later the State of Kansas was added to his responsibilities.

He began his career in economic and community development in 1969 with the Interlakes Community Action Agency, serving a ten-county area in eastern South Dakota. He went on to become Assistant Director and then Executive Director of the Northeast Council of Governments located in Aberdeen, South Dakota.

A native of South Dakota, Paul was a 1966 graduate of South Dakota State University with a bachelor's degree in Economics. Paul served in the U.S. Army from 1966 to 1969 and was a veteran of the Vietnam War.

Bill Garfield served as EDA's Chicago Regional Environmental Officer. Bill passed away on August 1, 2006.

Bill joined EDA in May of 1993, just in time to help EDA respond to the Midwest floods. As a member of the American Institute of Certified Planners, Bill was passionate about the environment and balanced his passion with economic development principles.

When environmental challenges presented obstacles to economic development, Bill was unsurpassed in developing solutions that protected the environment and allowed EDA's projects to proceed. Thanks to Bill's efforts, EDA investments were made better.

Bill was highly regarded by his colleagues in the Chicago Regional Office as well as the entire economic development community in the Midwest. FEMA posthumously awarded him a Certificate of Appreciation for his outstanding contributions as a member of the Natural Hazards Mitigation Committee and the RISC Mitigation Committee.

Business Retention:

Helping Companies Compete in a Global Economy

By Erik Collins

Economic Development Manager, Montgomery County, Ohio

The American economy is changing rapidly and dramatically. Industries that once were the backbone of many communities are on the wane, and the opportunities for new paths to growth aren't always clear. In the face of such drastic change, where can elected officials and community leaders turn for the greatest positive impact?

The solution is readily at hand in every American community: It is the employers who are already located there. Studies have shown that up to 80 percent of job growth in any U.S. community comes from existing businesses, not from attraction prospects. It makes sense – and good use of limited economic development resources – to encourage local employers to stay, grow and add more workers.

Elected officials and economic development organizations in Montgomery County, Ohio, the city of Dayton and the greater Dayton region have taken this approach to heart. Together, they have developed a collaborative business retention program – Business*First*! For a Greater Dayton Region – that addresses retention and expansion opportunities of existing businesses, systematically and comprehensively.

SK Tech is a Japanese company that has tripled in size since locating its new building in the city of Englewood in Montgomery County, just over three years ago. The Business*First*! team worked with SK Tech throughout its growth.

Recognizing the need

In 1999, a core group of economic development professionals from the Montgomery County Economic Development Office, the city of Dayton, the Downtown Dayton Partnership, CityWide Development Corporation (the city's financing and development arm) and the Dayton Area Chamber of Commerce met to discuss how best to develop a systematic business retention and expansion (BR&E) program. The goal was to focus initially on the city of Dayton, with the idea of replicating it in the remaining Montgomery County communities.

For a number of years, staff from the city of Dayton's economic development office, the Downtown Dayton Partnership and CityWide Development Corporation have worked closely to conduct business retention and expansion visits with Dayton-area companies – sometimes jointly, other times individually. Over time, it became apparent that while the organizations were successful in meeting companies and identifying needs, there was an information gap among Dayton-based economic development organizations (EDOs). There was no way of knowing about – or ensuring the consistency of – the level of service that was being delivered to any given company during BR&E visits.

In some instances, staff from agency B would contact a company that had already been interviewed by agency A and received business development assistance. Inevitably, the CEO of the company would comment, "I have already answered questions like this." EDO staffers recognized that it was necessary to eliminate these embarrassing situations.

To begin developing a systematic, countywide retention and expansion program, members of the core group evaluated programs from different parts of the country. Some of the members had attended training courses about how to create an effective retention program. Others looked at off-the-shelf retention products and visited EDOs outside the region that were actively conducting BR&E programs. Other members of the group searched for consultants who had developed BR&E programs. From this research, the group concluded that:

- Some organizations were more interested in gathering data and generating reports than in establishing long-term relationships as a way of effectively assisting businesses. Our core group believed that relationship-building was a major attribute of an effective BR&E program.
- Off-the-shelf products were limited, and at the time of the research, the technology was not web-based or security protected. It would have been cost-prohibitive to customize programs and adapt the technology to a web-based system.
- There was a great disconnect between EDO staffers who met with the CEOs of companies (outreach specialists) and resource organizations. A team approach, linking the two parties to serve local businesses, was lacking.
- Outreach specialists – the staffers out on the front lines meeting with businesses – lacked training. Our core group felt that the economic development professionals who met with business owners needed a framework for conducting visits and improved sales skills to better interact with CEOs.
- Few qualified consultants existed who focused on economic development BR&E programs.

In November 1999, 14 Montgomery County jurisdictions jointly applied for an Economic Development Government Equity (ED/GE) grant, which was approved. The grant was was used as seed funding for Business*First*! For a Greater Dayton Region, the region's new BR&E program.

A new way to conduct business

The group chose the consulting firm Executive Pulse, Inc. to design and implement the new program because it offered a customized survey tool, provided regular skills training for outreach specialists and regional resource partners, and had a track record of implementing successful retention programs in other communities. The Business*First*! program was developed around the following key tenets:

1. A structured, systematic method of conducting a BR&E program, versus a fragmented, ad hoc approach. (Business owners commonly complained that their time was wasted when multiple organizations called on them separately.)
2. A relationship-based program that integrates regular training for outreach specialists and regional resource partners (those who deliver services in areas such as workforce development, international trade, import/export assistance, information technology, workers compensation, financing and more).
3. Each Business*First*! member community must have access to Dun and Bradstreet's I-Market data for companies located within its jurisdiction. This tool provides valuable data – including creditworthiness, number of employees, NAICS codes, ownership, and more – for outreach specialists to review before interviewing a company.

4. Each community will have direct access to aggregate information for the entire region, in addition to detailed information regarding companies in its jurisdiction. This will assist in developing various trend analyses over time.
5. Regional resource partners will be able to deliver information electronically to each community's database of company information. This allows communities to know when other organizations have spoken to local companies, so companies aren't bombarded by EDOs asking redundant questions.
6. Through its technology, the BR&E program must assist in identifying issues that are relevant to the development of local economic development policies, and provide insight into developing new programs that are relevant to the business community's needs.

Getting results

Upon receiving ED/GE funding for Business*First*!, Montgomery County communities agreed to allow Dayton to be the beta test for the new program. This enabled the partners to identify issues that were clear only after implementation – for example, when the technology worked well and when it didn't, or whether the questions should flow differently – and tweak the program before expanding it to the entire region.

Since its inception, Business*First*! has been refined to better serve regional businesses. Some highlights resulting from the effort include:

- Stronger relationships between business leaders and outreach specialists. The business community appreciates the coordinated manner in which Business*First*! team members are working to serve their companies.
- Between 2004 and October 2006, 317 referrals were made to Business*First*! regional resource partners to respond to company needs. To illustrate what happens after referrals are made, below is a breakdown of the results of those 317 referrals:
  1. 183 referrals have been closed (services were provided to companies and completed).
  2. 98 referrals remain open for various reasons (e.g., awaiting financing, ongoing workforce recruitment, etc.)

Monthly meetings provide a forum in which to discuss intra-regional company relocations, which have decreased over the last few years due to the Business*First!* protocol.

3. 36 referrals were unable to close (e.g., the company did not return phone calls).
4. 156 of the 317 referrals were information-driven (requesting more information on workforce recruitment, information technology services, marketing, etc.)
5. 39 referrals resulted in projects that involved assistance such as ED/GE funds or Enterprise Zones (tax abatements). In these projects, companies have pledged to create 1,900 jobs and retain approximately 3,068 jobs.
6. Collectively, all of the regional resource partners provided over 1,030 hours assisting businesses.

The Business*First*! Team has been instrumental in helping many companies stay and grow in the region, including Italy-based Eurand Pharmaceutical; British companies IMI Norgren and Smiths Aerospace; GE Consumer Finance; Japan-based SK Tech; Paxar; Dayton-Phoenix, Inc.; Moto Photo; ConSpan Bridge Systems; Appleton; and LORD Corporation, among others.

Regional resource partners have found participation in Business*First*! useful in other ways – specifically, using the information gathered to identify needs and create programs that better serve their constituents. Miami County, one of the program's newest members, used Business*First*! as a way to verify demand for advanced manufacturing positions, and more specifically the various skill gaps employers have identified among their employees. These data then were used to apply for a grant with the U.S. Department of Labor.

Business*First*! has grown in membership from 14 charter members to 44 jurisdictions in the greater Dayton region. The list of regional resource partners serving regional businesses has grown from 34 to approximately 80.

Fostering regional cooperation and trust

Effective communication between regional resource partners and member jurisdictions is one of the major components of Business*First*!. Communities meet on a monthly basis to discuss challenges and opportunities around the program, such as how global pressures are impacting a particular industry segment, or workforce issues and skills gaps.

In addition, one or two regional resource partners are spotlighted at each month's meeting, providing member communities with a more comprehensive understanding of the value that the partners bring to businesses. Through this process, the outreach specialists are able to make better-qualified referrals on behalf of the companies, yielding better results for the client.

Monthly meetings also have provided a forum in which to discuss intra-regional company relocations, which have decreased over the last few years due to the Business*First*! protocol. Prior to the inception of the program, jurisdictions in the greater Dayton region sometimes found themselves offering incentives to move a company from one community in the region to another, resulting in no net new jobs. But as part of the Business*First*! program, participating communities sign an interjurisdictional agreement which states that if they are approached by a company interested in moving to their community, they will not actively pursue that company with incentives. In addition, the community that is approached is obligated to notify both the company's current jurisdiction and the Montgomery County Economic Development Office about the potential relocation. Recognizing that companies will need to move to be competitive and that some requests for assistance are more necessary than others, Business*First*! helps better qualify the needs of a company before tax dollars may be used to assist in a relocation.

Twenty cases have been documented in which communities have notified one another about intra-regional locations. Montgomery County's role is to act as a facilitator, working with all of the communities' outreach specialists in the region and with the 80-plus regional resource partners.

All of the results achieved thus far by Business*First*! have come from focusing on the employers already located in Montgomery County and the greater Dayton region. In fact, Business*First*! recently won the Ohio Department of Development's Economic Development Achievement Award for the Most Effective Retention and Expansion Campaign in the state. Both the award and the program's results reinforce the region's belief that a systematic, sustainable business retention program is a cost-effective way to keep, grow or replace the jobs lost in a community through economic transition. ★★★

For more information, contact Erik Collins, Economic Development Manager for Montgomery County, Ohio at collinse@mcohio.org or 937-225-4642.

Predicting Corporate Behavior:

Why Companies Relocate or Expand

By Dean Whittaker

CEcD, President, Whittaker Associates, Inc.

What do Greenville, Michigan; Morganton, North Carolina; Tipton, Indiana; Dublin, Georgia; and Lawton, Oklahoma have in common? Through their leaders' vision and positive attitude, these communities are transforming their local economies after a significant economic dislocation by working to retain local companies that might otherwise move and by attracting outside companies willing to relocate to their areas.

How does one go about predicting what companies are going to do? A few core principles seem to apply. The first is that company leaders behave in a semi-logical manner and respond predictably to changes in their internal or external environments. By that, I mean that we human corporate decision-makers are creatures of habit and respond to certain stimuli in predictable ways.

The second core principle is that many business events are cyclical. If one knows the pattern, one can predict what will occur next. For example, we believe that the seasons will follow each other: summer into fall, fall into winter, winter into spring and spring into summer (unless of course you live in the tropics – then all bets are off).

The third core principle is that company leaders are event-driven. Their decisions are the product of their internal and external environments. The events taking place in their business environment and within their organizations shape their behavior.

Companies go through the same cycle as most living things. Each one sprouts as an early start-up, grows (expands/relocates), becomes mature, and eventually ceases to exist through acquisition, merger or bankruptcy. Products and services are also cyclical in nature. A new, innovative product captures our attention, gets adopted or applied, becomes a commodity (grows old), and eventually is replaced by new and better technology.

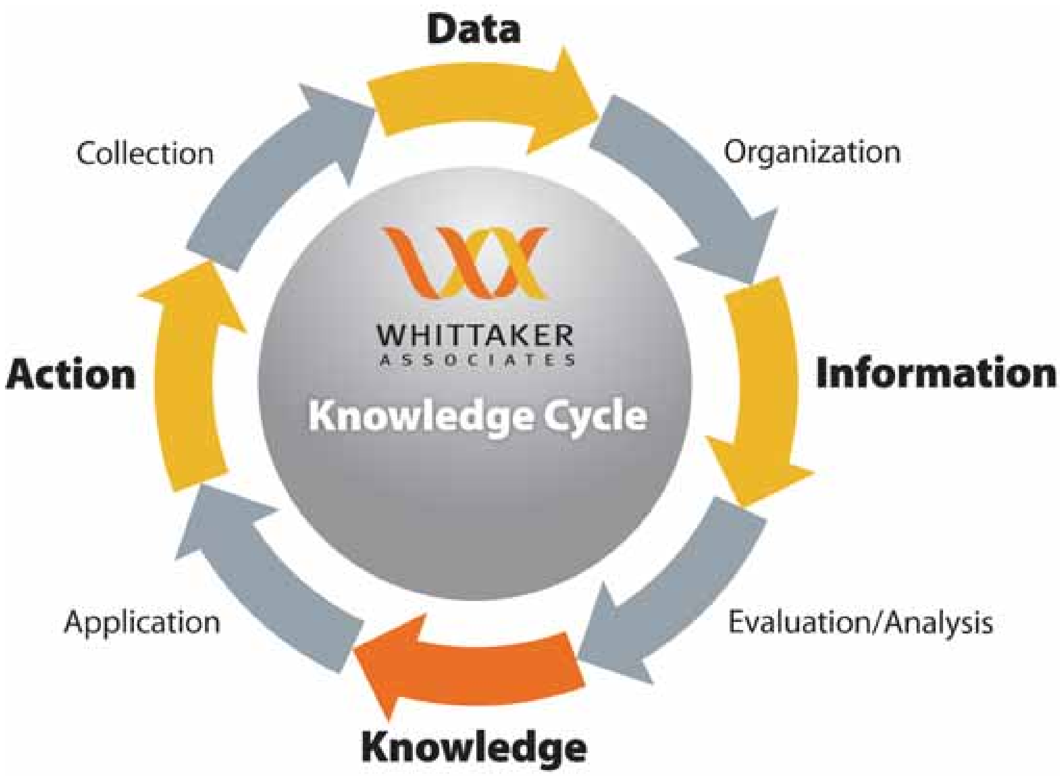
Predicting corporate behavior is about understanding where a company is operating within its cycle. It is important to look at both the company and its product or service. Companies can and do reinvent themselves and also create new products or services. In fact, the level and degree of innovation is one of the few sustainable competitive advantages companies have in the global marketplace.

Tools for research

What events lead up to a company's decision to relocate or expand? We can predict the answer by taking a look at companies that have already made that move. By analyzing the

events that have taken place in firms that have recently expanded or relocated, we find an interesting chain of events. All are based around the concept of change – some things have changed in a company's external business environment, and some within the company. External events include changes in regulations, actions by competitors, shifts in technology, movement of key customers or suppliers, new competitors appearing on the scene, and many others. Internal predictive events include changes in ownership (merger and acquisition) and changes in leadership, especially a new chief executive officer. Other internal events include changes in employment and changes in sales.

Assuming that you are interested in predicting corporate behavior, where do you go to find out what events are taking place in a company's business environment or inside the company? The answer depends to a degree on the company's ownership. Information on publicly traded companies is much more readily available. Some of the free places to look include http://finance.google.com/finance or http://finance.yahoo.com/.



The goal is to compile a database of companies undergoing changes that are likely to precipitate a need for them to relocate or expand. By anticipating this behavior, economic developers can begin a dialogue with these companies to determine their level of interest in expanding locally or relocating to another region.

The new site selection factors

What are these companies looking for when they consider relocating or expanding within a region? Paramount on their list of site selection factors is an overall question: Can this area meet my current and future needs to sustain and grow my business? There was a day when the factors of production were land, labor, and capital. Today, those factors have been augmented with talent, technology, transportation and communication.

I have found Google Alerts (www.google.com/alerts) to be a good tool to alert me when a company is undergoing a significant event. For example, I use the following search string to alert me to companies undergoing a change in leadership: *new "chief financial officer" merger, acquisition.* This algorithm can be modified to become increasingly accurate at generating the results I want by "notting out" the things I don't want, using a "-" in front of the words that are contained in the false hits. I can also improve my results using a "~" in front of keywords to have Google search their synonyms.

Using Google Alerts will help you monitor existing local firms and stay abreast of any changes taking place within these companies that might induce them to consider leaving your area. It is much easier to retain a company than to attract one.

Privately held companies are a little more problematic. A Google Financial search on privately held firms often produces a brief company profile extracted from http://hoovers.com and includes the company's address and officers. Interestingly, it also includes any mention of the company in blogs. Google Alerts also can be used to monitor events taking place in these companies. A Google search of the officers' names and one or two keyword business descriptions can provide additional insight.

A number of proprietary, fee-based databases also can be accessed. Dunn and Bradstreet is one well-known source of company profiles. (Dunn and Bradstreet recently acquired Hoovers.) The Nexis portion of Lexis/Nexis provides access to a wide range of publications.

In a knowledge-based economy in which innovation is the only sustainable competitive advantage, attracting and keeping talented workers is critical. Companies frequently look for talent pools from which they can draw to staff their firms with the best and brightest people. What does your talent pool look like? How deep, how broad, and who does it contain? What does your place know how to do? Inventorying your talent pool and marketing it to the world is as important, if not more important, than knowing what sites or buildings your area has to offer.

In addition to your talent pool, companies want to know what the technology base of your area has to offer. Many rural areas have a surprisingly high level of technological expertise arising from their agricultural base. Farming today is as advanced as the most technological industries, with the use of complex financial models, sophisticated machinery and genetically engineered crops.

Transportation is another important factor to consider due to the global nature of business today. How easy is it for me to get to and from my customers and suppliers? Can I get the raw materials I need and ship my finished goods economically and efficiently? It has been amazing to watch the reshaping of the global supply chain and the restructuring of the logistics associated with it. The new intermodal facilities in the middle of the corn and bean fields of the Midwest are just one example.

Paramount on a company's list of site selection factors is an overall question: Can this area meet my current and future needs to sustain and grow my business?

Communication, the movement of thoughts and ideas, has never been more important. Access to information, the development of new knowledge, and the application of this knowledge all depend upon our ability to communicate. How good is your area's communication infrastructure? Will my crucial cell phone calls be interrupted by poor coverage? Do I have the high-speed Internet services on which my finished database product can go out as an email attachment? Can my knowledge workers maintain their knowledge through distance learning? Can I collaborate with other firms around the world? These and other communication questions will be on the minds of prospective companies that consider relocating or expanding in your area.

The process by which you can inventory your area's strengths and compile a list of companies likely to relocate or expand is a complex one. But with leadership, vision, and action, you too can make a difference in your community, just as others are doing in theirs. ★★★

Whittaker Associates, Inc., is a business intelligence firm that predicts corporate behavior for companies, economic development organizations, and commercial/industrial real estate firms. For more information, visit www.whittakerassociates.com.

Catching and Keeping Smart Companies

Smart companies lead in their fields through innovation. They use technology and knowledge to stay competitive in a global economy. The benefit to attracting and keeping these companies is that they add more value per employee, and therefore pay a higher-than-average wage than other industries, creating more wealth in the community.

But economic development organizations have to be smart to catch and keep them.

First, you need to be aware that there is risk associated with focusing on these firms. They tend to be more volatile in their employment levels and easily impacted by newer technology. Success depends upon their continuous innovation – they must be quick and nimble to avoid falling behind in their fields. Their competitive advantage is often difficult to protect and their product or service often has a very short life cycle. Economic developers must recognize that these companies embrace innovation as a way of life.

You may think you need to live in Silicon Valley or Route 128 in Boston to attract and keep innovative companies. But the first place to look is your own backyard. Innovation occurs everywhere, and most companies grow where they are planted – often where the founder lives – if the climate and culture are right. Part of the issue is access to capital. Does your area provide a source of seed capital and venture funding, and does it support risk-taking…even after frequent failures? If innovative start-ups don't have the support they need to grow, they die on the vine.

Smart companies also need a supply of smart people. Attracting and keeping talent is paramount to the future of any community, and keeping local talent is easier than recruiting outsiders. While you may argue that keeping young people in small communities is not likely to happen, time may be on your side. When those same graduates get married and begin to have families, the security, safety, and proximity to family that hometowns offer are strong motivators to come back. Staying in touch over the years, through community newsletters and recruiting beginning at ten-year class reunions, can begin the process.

Quality of life and environment are also tickets to attracting innovators. Right-brained innovators enjoy cultural variety and proximity to nature. Innovative thoughts often appear when we are engaged in doing something else, especially when we are close to nature or in a "creative" space. What make a place creative? A quiet walk along the beach or river can allow our brains to slip into the "gap" where these ideas lurk. Seeing other innovators – artists, musicians, writers – at work can spark our own creative ideas.

What else do smart companies need to succeed and prosper? A strong infrastructure of communication, travel and available capital are important assets. But your real task is to create your own center of excellence based upon an inventory of what your area produces, what it offers, and the smarts required to help it succeed.

Economic Development Targeting:

Laying a Sound Foundation for Your Strategy Plan

EDR Group By Lisa Petraglia, Glen Weisbrod and Brett Piercy

It's a rare day when economic developers aren't thinking about ways to facilitate economic growth in their areas. Even successful areas are not guaranteed perpetual economic health – not amidst the forces of globalization, intraregional shifts of industries within the U.S., or the inevitable life cycle exhibited by specific business activities.

Successful economic development targeting is about prospectively spotting where the best opportunities exist to accomplish your area's particular economic development objective. How you think about the process of targeting growth affects your analysis of target industries. Both are pivotal factors in all subsequent economic development efforts to meet your objectives.

Targeting growth along a path

There are five economic conditions in which strategic targeting may be particularly useful. In each type of situation, the nature of the economic performance problem and potential corrective policy actions may differ. These situations are:

- High unemployment and low wages;
- Seasonal fluctuations in employment;
- Isolation and lack of local opportunities;
- Over-dependence on a particular industry or a few large employers; and
- Competition for business locations.

What all successful targeting efforts have in common is that they build upon local assets. Combining an inventory of those assets with an understanding of the area's economic performance and competitive characteristics are the initial analysis steps to formulating an economic development strategy.

Economic growth or transition for an area can occur along one path, possibly more. The key step in the targeting analysis process is *making an informed decision about the growth orientation that is appropriate for your area.* This process is represented in Figure 1. It basically requires the planner to consider what markets are feasible (or could be feasible) given the diagnosis of local economic conditions. Is it tourism development, possibly retirement destination development, or niche manufacturing? Could the area serve the demand of neighboring counties for additional types of services, or could it be a strategic location in an evolving supply-chain?

These paths are briefly defined as:

- *Trade-center economy* – community grows by serving as the nucleus of goods and services for accessible outlying areas with sparse economic activity and limited market access, due to topography or the transportation network.
- *Agglomeration economy* – commonly known as cluster formation.
- *Learning-based economy* – community leverages its educational institutions, community development organizations and business associations to promote human capital development and foster innovation and entrepreneurial development.
- *Asset-based economy* – community develops from its endowed assets, e.g., natural, scenic, historic, cultural, recreational or climatic resources.
- *Supply-chain economy* – community develops as a functional node (e.g. warehousing, assembly, manufacturing, logistics) in a larger chain of economic activity, typically extending across several states.

In the past three decades, the core analysis procedures have been repackaged under the newer techniques (eco-

Figure 1. Growth Paths for Economic Development

nomic base analysis, SWOT analysis, economic cluster mapping). A recent article published in *Economic Development Journal* discussed how location quotients and shift share techniques – the core of economic base analysis back in the 1970s – are still a critical foundation of the more recently promoted concept of industry cluster analysis.[1]

New considerations in target analysis

Understanding your area's current employment composition, as well as the growth performance of each sector relative to U.S. industry movements, are integral aspects to assessing your economy. Diagnosing the relative competitiveness of your region in the context of specific industries for retention or attraction activities requires bringing more data into the assessment. There is now a strong consensus on the key business location factors, which represent local competitiveness factors for economic developers. Those factors are shown in Table 1.

Table 1. Business Site Location Factors[2]

- Suitability of business parks, land and buildings
- Scale and skills of the labor market/workforce
- Scale and socioeconomic characteristics of the consumer base
- Availability and quality of infrastructure – roads, power, water/sewer, broadband telecom, inter-modal transportation terminals and connections
- Access to markets, as well as to airports, marine ports and intermodal rail terminals
- Business support services and business climate – job training, regulations, business organizations
- Quality of life – including climate, arts and culture, recreation, and school quality
- Cost of doing business – including labor, utilities, infrastructure and taxes

A notable characteristic of this list is that many of the factors relate to availability, quality and scale of local resources, in addition to the cost of living and cost of doing business locally. While early economic models attempted to evaluate business attractiveness based primarily on cost differences, it is now widely recognized by economic developers that availability, quality and scale factors are equally important site location factors. These same factors are important in re-evaluating whether the growth orientation of your area is working.

Therefore, a successful economic development strategy must first determine the nature of the above factors in its own community relative to other competitor communities, and improve non-competitive factors to the extent possible. Once competitive factors have been determined and shortcomings have been improved upon, a marketing campaign can be targeted to inform the relevant business and investment interests about local advantages.

The components of assembling an economic base analysis for your area and for comparison areas – combined with evaluating relative competitiveness attributes and diagnosing which of your area's attributes are obstacles to growth but fixable – may be out of reach for agency staff in smaller jurisdictions. New analysis tools, such as the Local Economic Assessment Package (LEAP), are now available to make the evaluation of these additional considerations possible. Pioneered by the Appalachian Regional Commission, LEAP coordinates many of the otherwise time-consuming techniques in the economic development process to produce a target list of appropriate opportunities for economic growth and business attraction.[3]

The right knowledge

Defining and implementing a successful targeting strategy plan must start from a realistic self-evaluation and decision-making process. The process must first identify a suitable growth orientation (path) for your area and then set priorities that cater to the area's strengths. Knowing your local economic conditions is the first step to solidly articulating what is working well in your area, what could be growing better, and what are the barriers to growth that policy intervention can alleviate. An analysis that assists in answering these questions should build from core techniques that persist in the regional economics field, and evolve to also identify the influence of your area's relative cost factors, market access conditions, and the quality of infrastructure and workforce on business growth prospects. ★★★

Economic Development Research Group, Inc. (EDR Group) provides advisory services and conducts research studies for government agencies, private firms and other consulting firms. For more information, visit www.edrgroup.com.

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[1] *Heike Mayer, "Cluster Monitor," Economic Development Journal, Fall 2005, p. 45.*

[2] *These same factors are cited in numerous sources on business location decisions, including: (1) Sloagett, Gordon and Mike Woods. "Critical Factors in Attracting New Business and Industry in Oklahoma." Oklahoma Cooperative Extension Service; (2) Kotler, Philip et al. Marketing Places. The Free Press, 1993; (3) Lyne, Jack, "Quality of Life Factors Dominate Many Facility Location Decisions," Site Selection Handbook, August 1988; (4) Finkle, Jeffrey. "Developing Strategies for Economic Stability and Growth", National Council for Urban Economic Development, 1987; and (5) Portland 2002: Strategy for Economic Vitality, Appendix 2-3: "Location Factors," 2002. For quality of life, also see (6) Segedy, James. "How Important is Quality of Life in Location Decisions and Local Economic Development" in R. Bingham and R. Mier (Eds.) Dilemmas of Urban Economic Development, Thousand Oaks, Sage.*

[3] *EDR-LEAP is now available in a web-based version. For more information, see www.edrgroup.com/leap*

A City's Tools for Downtown Development: *Much More Than Money*

Economic Development Director, City of Greenville, S.C.

By Nancy Whitworth

Cities must constantly reinvent themselves in order to continue to grow and prosper. Focusing on unique attributes can help differentiate one community from another, and in the marketplace, the differentiated product can command a premium.

Cities use many tools in their quest to encourage and facilitate private development. Greenville, South Carolina, has taken a very proactive role in making strategic investments and working collaboratively with the private sector to ensure quality development that is consistent with the community's plan for downtown. This article covers the evolution of Greenville's downtown from a run-down business district to the vibrant area it is today, and the gamut of tools and partnerships that made that change possible.

The historic Poinsett Hotel was renovated in conjunction with several other projects, resulting in a 204-room hotel, a new 220,000-square-foot office building with residential penthouses, a parking garage, and the renovation of a vacant educational wing of a church into 44 condo units.

Greenville's transformation

Walking down Main Street in the heart of Greenville, one would never believe that this tree-lined street, bustling with activity, was once mostly vacant. Today, downtown Greenville is home to over 80 unique restaurants, specialty retail, a residential neighborhood and hundreds of thousands of visitors attending concerts, museums, theaters, festivals, sporting events and more.

Thirty years ago, Main Street looked quite different. As was the case throughout the country, suburban retail centers had eroded Main Street's role as the major retail hub in the region. Even though Greenville, nestled in the foothills of the Appalachian Mountains midway between Atlanta and Charlotte, was thriving, its downtown was not participating in that growth.

To meet the challenge, Greenville embraced the new industry of downtown redevelopment, making the city one of the early pioneers in reclaiming downtown's prominence. Greenville set out to remake Main Street and create an atmosphere that would be conducive to office, residential, specialty retail, entertainment and the arts. Downtown's renaissance has been an evolutionary process marked with significant achievements over the past 30 years.

The approach

In 1977, Greenville assessed what it had and realized that something dramatic needed to happen. Downtown had to be repositioned to provide a distinctive environment. In fact, it was the focus on differentiating Greenville that led to a very systematic and deliberate approach. The master plan initially focused on the design elements of downtown, later detailing specific actions. But the major components of downtown Greenville's revitalization focused on *changing downtown's image* and *creating mixed-use anchors through public-private partnerships.*

The Main Street streetscape design, completed in 1979, marked the first physical improvement in downtown and began the transformation. Main Street was reduced from four lanes to two and sidewalks were widened for easier walking and outdoor dining. Street trees were planted to fur-

The major components of downtown Greenville's revitalization focused on changing downtown's image and creating mixed-use anchors through public-private partnerships.

ther enhance the pedestrian experience. Parallel parking was replaced with diagonal parking, interspersed with seasonal plantings.

What then moved Greenville ahead was its successful alliance of public and private investment. Thinking of the city as the spark plug and the private sector as the engine, Greenville stepped forward to provide the impetus for private investment to occur and the environment for it to continue.

Public-private partnerships made possible the development of strong anchors, which signal rallying points for the community and serve as catalysts for future development. These partnerships were, and still are, critical to the success of downtown – not just for the financial participation, but also for validation by the private sector.

Greenville Commons

The first successful partnership anchor for Greenville was the Greenville Commons, a mixed-use facility that incorporated a Hyatt Regency hotel, convention center, office, retail, parking and public plaza/atrium. The city, utilizing mostly federal grants, purchased the land; built the convention center, parking garage and public space; then leased air rights for the hotel and office building. The plaza is considered a city park. A group of local business people partnered with the city to provide the initial capital and assume the risk. In this partnership, the first of many throughout the years, the city's financial participation was almost one-third of the entire project cost.

Since the Commons was completed in 1982, private investors, public philanthropists and city government have united to successfully develop other important mixed-use anchors throughout the downtown, assuming many forms and levels of participation. Common denominators, however, have been the strategically focused location and mixed-use nature of the projects. Federal grants have long since gone, forcing the city to seek other funding sources such as tax increment financing, accommodation and hospitality taxes, and parking revenue bonds.

Peace Center for the Performing Arts

A languishing industrial area was redeveloped into a performing arts complex that incorporated historically significant buildings with dramatic new architecture and landscap-

A vehicular bridge that once obstructed this waterfall was replaced by this pedestrian bridge. The project was part of a park renovation that took place when the Peace Center for the Performing Arts was developed.

The Bookends is a mixed-use project (primarily residential) with a city parking garage attached behind.

After Greenville's Main Street was reduced from four lanes to two, widened sidewalks provided encroachments for outdoor dining.

ing. The complex stabilized a less than desirable area, and linked downtown to a hidden asset – a river, waterfall and park. The performing arts center includes major, newly constructed performing venues and renovated historic structures housing restaurants, offices, and retail space. The Peace Center gave people a reason to come downtown on nights and weekends. A local family provided a $10 million commitment to kick off the project, with the city acquiring the property (through tax increment financing) and providing the landscaping and amenities. Eminent domain, used sparingly in Greenville, was necessary to secure some of the property.

Westend Market

To continue the vision, another anchor, the Westend Market, was conceived. With a private donation of neglected, historic buildings, the city developed a major 45,000-square-foot destination for residents and tourists alike. Recognizing that private investments would not be forthcoming without a major spark, the city assumed the developer role to create a market with office, retail, restaurants, artisans and a traditional farmers' market, all in a festive and park-like setting.

The financing structure required the pooling of myriad sources: Tax increment financing, a HUD Section 108 loan, grants, city general fund dollars, and even the sale of personalized bricks were used. The city took on a significant risk, but learned first-hand the private side of the equation. The Westend Market was sold in 2005, yielding a net profit to invest in other city projects.

Poinsett Plaza/Hotel

Sometimes, mixed-use development includes multiple buildings and developers all within the same project. The city was working with the owner of a vacant historic hotel when it realized that the parking structure required to support the hotel should be sized to accommodate other potential developments. The city approached a local bank, then housed in an historic building on the block, which had expressed interest in additional space. A developer was identified and the result was a renovated 204-room hotel, a new 220,000-square-foot office building with residential penthouses, and the renovation of a vacant educational wing of a church into 44 condominium units.

Tax increment financing was used to construct a parking garage with a design that incorporated the architectural elements of each development. Even though the city's financial participation was necessary, perhaps more important was its role in bringing the various private partners together. Due to the confines of the space and the need to maintain tight schedules, the city became the facilitator, construction coordinator and mediator, holding weekly meetings with the multiple developers and contractors to keep the project on track.

Westend Baseball Stadium

After a 20-plus-year stand in a dated municipal stadium located on the outskirts of the city, the Greenville Braves demanded a new stadium in a more prominent location. The city, seeing an opportunity in its downtown, assembled a vacant tract of land and began negotiations with the Braves. It didn't work out with the Braves, but what first seemed to be a terrible loss to the community ended in an award-winning stadium surrounded by offices, restaurants and residential condominiums.

The city provided development-ready land and leased the property to the owners of a new team, the Greenville Drive (an affiliate of the Boston Red Sox). Funding for the project came primarily from tax increment financing, sale proceeds of the Westend market, hospitality funds, and stormwater and sewer funds. The team owners constructed the stadium using all stadium and ticket revenues. The Greenville Drive now play in a neo-traditional designed stadium with a left-field wall reminiscent of Fenway Park's 37-foot tall Green Monster. The stadium is surrounded by 40 residential condos and 51,000 square feet of offices and restaurant space. Now, even when the lights are dark in the stadium, the project is still alive with people.

Lessons learned

As Greenville's downtown has blossomed over the past 30 years, the city learned many lessons along the way. Some of those include:

- *Be an entrepreneur.* Think and act entrepreneurially; understand and appreciate the inherent risks of private development. City leaders need to understand and be willing to take risks.
- *Bring value to the private development.* Actively pursue mixed-use developments as part of public-private partnerships. Although the public participation is often

Don't assume that public participation has to be monetary – there are many ways to provide value to a project.

The Poinsett Plaza office building (right) was built in conjunction with a parking structure that was originally planned to accommodate the renovation of the historic Poinsett Hotel (left).

through investment in parking, public spaces, landscaping and other basic infrastructure, don't just assume that the need is monetary. There are many ways to provide value to the project:

- → Ensure that city ordinances encourage mixed uses and provide flexible parking requirements.
- → Provide expedited review and approval of permits – time is money.
- → Provide a single point of contact within the city organization that can shepherd the private project and seek timely resolution of problems that inevitably will arise.
- → Utilize the building codes and inspection team to perform feasibility analyses and reduce surprises.
- → Make appropriate city staff part of the development team – mixed uses have challenging logistics such as garbage pickup, noise, odors and security. City staff can be great resources and should be involved in the very early stages of planning.
- → Facilitate the staging of construction with flexibility in the use of public streets and rights of way for construction trailers, deliveries, etc.
- → Provide encroachments for outdoor dining – to activate the street and also add revenue to the project. In Greenville, encroachments are regulated to ensure insurance and maintenance, but no fees are charged.

- *Seek creative financing options.* Be willing to explore all financing opportunities – tax increment financing, hospitality and accommodation taxes, parking revenue bonds, New Market tax credits, Section 108 loans, grants, and even contributions.
- *Commit to writing.* Good agreements are essential. Clearly define expectations and responsibilities of each partner and commit everything to writing. Educate the private sector in the transparency of the public process and patience required. Be realistic about time commitments and do what you say you are going to do.
- *Set the design standard.* In downtowns, the city sets the standard for the public realm.
- *Integrate with the existing environment.* Through design requirements, ensure that the mixed-use development becomes integrated and linked with downtown, and not just a stand-alone project.
- *Little things matter.* Attractive landscaping, seating, lighting, and sculpture alone will not make things happen, but they do provide a backdrop, sense of place and identity to set the stage for private developments.
- *Plan for people.* The physical environment should first and foremost be designed and programmed to encourage its use by people. While the architecture is important, it shouldn't overshadow the ultimate goal of comfort and interest for the people who will be the most important part of the development. ★★★

For more information, visit the City of Greenville's Web site at www.greatergreenville.com, or contact Nancy Whitworth at whitwon@greatergreenville.com.

Building the Ideal Financing Toolbox

By Toby Rittner

Executive Director, Council of Development Finance Agencies

Economic developers require a comprehensive set of financing tools to support their work. From debt tools such as industrial development bonds, tax increment financing and loan programs to tax credits, small business lending and seed and venture capital funds, a community must be proactive in providing financing for the range of its economy's needs.

Whether the goal is brownfields redevelopment or assistance to manufacturing, technology or service industries, the financing options should be tailored and specific. What works for one industry sector (such as tax-exempt industrial development bonds for manufacturing) may not work for another (technology companies are more likely to require venture capital tax credits).

Ideally, agencies can provide targeted financing tools for special purposes and geographic areas while maintaining an overall financing toolbox that serves broader needs. Cities such as Minneapolis, Washington, D.C., and St. Louis, and states such as New Jersey, California and Ohio have been successful using this formula for their financing programs.

Yet many communities do not take advantage of all the financing tools available to them. This article outlines a menu of options available for communities looking to build the ideal financing toolbox – programs that can be replicated nearly everywhere. While this article is not an exhaustive review of every available financing tool, it provides an overview of the importance of a comprehensive approach to finance.

Broad-based financing tools

Bond finance is the cornerstone of development finance. The Tax Reform Act of 1986 distinguishes between two types of municipal bonds, general obligation (GO) bonds and private activity bonds (PABs), and outlines the requirements for each. Interest on GO bonds is exempt from federal taxation, while interest on PABs is exempt only for "qualified" bonds.

The federal interest exemption on GO and PABs is a significant asset in making bond finance attractive. Investors, either institutional or individual, gain a federal tax exemption by purchasing tax-exempt bonds, thus reducing the cost of lending on those bonds. This allows the bond financing to be more affordable to borrowers by providing a lower interest rate and more flexible payment terms. Compared to traditional lending techniques such as bank loans, tax-exempt bonds can save borrowers millions in interest and fees.

GO bonds work as the name implies, to finance the development of facilities that serve an "essential government function." Nearly all communities employ GO bonds to maintain their general infrastructure and provide necessary capital improvements. PABs, however, serve secondary purposes and are a key source of financing often overlooked by economic developers.

PABs are broken down into seven categories, of which four kinds – exempt facilities, redevelopment, 501(c)(3) and qualified small issue bonds – are the most useful in the development finance industry.

- **Exempt facilities bonds** are available to finance a number critical needs, including airports, docks, commuting facilities, sewage facilities and a host of energy, water, gas and power projects.
- **Qualified redevelopment bonds** are for infrastructure projects that do not meet GO bond requirements. These may qualify for a tax exemption if they meet several tests, such as the proceeds being used for redevelopment of a designated blighted area.
- **501(c)(3) bonds** have gained considerable popularity over the past decade for projects owned and used by

nonprofit organizations (such as religious, charitable, scientific, and educational entities). Many economic development departments have established 501(c)(3) Revenue Bonds and Bank Qualified Bank Direct loan programs to capitalize on the availability of this financing option.

The City of Minneapolis's Bank Qualified Bank Direct Loan Program provides tax-exempt financing for capital projects for smaller 501(c)(3) organizations. This program is almost unique in the country as a source for financing through the community's wide network of 501(c)(3) providers.

- **Qualified small issue bonds**, also referred to as industrial revenue bonds (IRBs), industrial development bonds (IDBs) and manufacturing bonds, have been the primary source of affordable lending for the manufacturing industry for the past 50 years.

Today, most IDBs support expansions of existing manufacturing facilities, although many states and localities market IDBs for business attraction purposes. IDBs can be used to finance a variety of manufacturing activities, and the portion dedicated to "core manufacturing" (i.e., the production line where the product is made or processed) may be financed with bond proceeds without limitation.

However, the rules governing the use of IDBs are extensive. Communities with quality IDB programs work tirelessly to understand the possible tax-exempt transactions, and often combine IDBs with other debt financing options to provide additional support.

St. Louis County, Missouri, employs a diverse and comprehensive bond finance strategy. Through the St. Louis County Economic Council, the county provides several fixed-asset loans, including tax-exempt bonds and mini-bonds for both manufacturers and 501(c)(3) organizations, bank qualified bonds, and taxable bonds. St. Louis County has been recognized for these programs and has used its full issuing authority as a catalyst for industry investment. To learn more about the county's programs, go to http://www.slcec.com.

So if tax-exempt bond programs are so useful, why doesn't every community have one? The answer is that they are not easy to run. They require due diligence, open books and a great deal of oversight – the price of doing business in the tax-exempt world. But for entities that have figured out how to do it, fees can pay for the entire cost of the running the program.

Bond finance is not the only source of broad-based financing. Other programs such as loan guarantees, infrastructure pools, grants and direct loans also are important. These programs can be tailored to meet the needs of designated industry sectors such as small business, manufacturing or innovation ventures.

Targeted financing

Area-based: Tax increment finance and special assessment districts

Tax increment finance (TIF) and special assessment district financing have become the primary funding mechanisms for the development of defined geographic areas. TIF captures the future increases in property or sales taxes that new development generates in order to finance the present cost of improvements (such as infrastructure, land acquisition, demolition, utilities, planning costs and more) in economically sluggish or blighted areas.

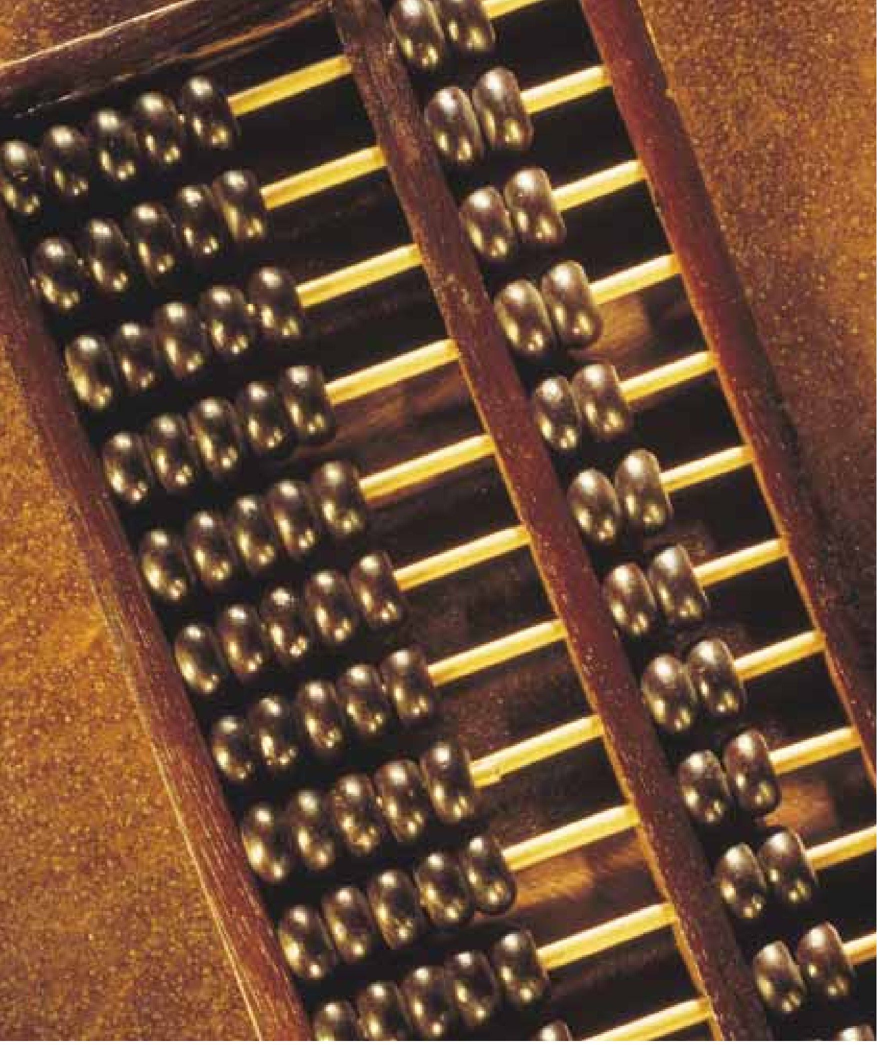
TIF provides local governments with a mechanism that does not rely on federal funds, escapes state limits on revenue and expenditures and does not apply new taxes on municipal taxpayers. States authorize local governments to designate TIF districts, and city, county or nonprofit redevelopment entities usually administer them.

The use of TIF by local governments varies widely around the country. Some communities have become experts, some are just starting to understand its use and others possess the authority but haven't used it. A total of 49 states and the District of Columbia have TIF legislation, with North Carolina, New Jersey, Delaware, and Massachusetts recently adopting laws. Arizona is the only state without TIF enabling legislation.

There are some key tenets to using TIF successfully. A community that plans to use TIF needs to have a thorough understanding of the enabling legislation – the capacity and guidelines under which they are allowed to use it. That's important not just for economic developers, but also for the local elected officials who will be approving the districts and projects. TIFs require outside expertise, so communities should hire highly competent bond counsel and financial advisors – professionals who understand the law and the community's objectives for the project or district.

Community buy-in also is critical to using TIF successfully. Local governments should be as open and inclusive as possible in the process of putting a district in place, holding meetings and charrettes with property and business owners, affected school systems and the community at large. Communities also should have policies in place for processing the project and the bond sales, thus ensuring consistency, disclosure and transparency in how initial and future districts are implemented.

Special assessment districts such as community development districts (CDDs), community facilities districts (CFDs), business improvement districts (BIDs) and special improvement districts (SIDs) also are important programs. These



districts allow for either a special tax assessment or dedicated revenue stream for improvements and development of targeted areas. In many cases, assessments provide sufficient funding for issuance of bonds or acceptance of debt services payments on loans for projects.

Cities such as New York, Baltimore and Philadelphia have maximized the capabilities of SIDs and BIDs. Over time and with practice, economic developers in these communities have developed a full understanding of the enabling legislation and the process for implementing the districts; used them to leverage other resources; and taken a comprehensive approach to the capabilities of these tools. They have used them to coalesce business and property owners for everything from public safety and cleanliness to public art, issuing debt for infrastructure projects, providing assistance to the homeless, and marketing.

Business-based: Revolving loan funds and mezzanine, seed, venture and angel capital

Smaller, sometimes overlooked industry niches can have a great impact. According to a new study from the Center for Women's Business Research, the number of women-owned firms jumped 18 percent between 1997 and 2004, twice the overall national growth rate of 9 percent. The success of women-owned businesses demonstrates the importance of targeting niche industries, unique business sectors and potential high-growth ventures.

Revolving loan funds (RLF) are used primarily for developing and expanding small businesses. RLFs are a self-replenishing pool of money, using interest and principal payments on old loans to issue new ones. Some RLFs are targeted to specific uses such as healthcare, environmental cleanup, minority business development or microenterprise development (business with five or fewer employees that require $35,000 or less in startup capital).

Often, the RLF is a bridge between the amount the borrower can obtain on the private market and the amount needed to start or sustain a business. With low interest rates and flexible terms, an RLF reduces total expenses for the borrower while lowering overall risk for participating institutional lenders. The Cascadia Loan Fund, for example, provides loans to small businesses and nonprofit organizations in Washington and Oregon. This fund has been extremely successful in providing assistance to borrowers who are unable to access traditional sources.[1]

Mezzanine funds are a gap financing measure for growth-oriented small businesses that may not qualify for traditional lending. Just as the mezzanine is the mid-level of a theater or auditorium, mezzanine funds occupy the middle of the business finance scale – less risky than equity or venture capital, yet riskier than senior bank debt. The Texas Mezzanine Fund is one of the most widely acclaimed funds in the country and a good example of this type of lending tool.[2]

Traditionally concentrated on the coasts, seed, venture and angel investment financing has become very popular throughout the country. State finance agencies have built programs serving innovation, technology and early-stage ventures. Most programs are geared towards tax credits and incentives for individual or institutional seed, venture and angel investment. Communities must raise awareness of these programs in their entrepreneurial sectors. One option is designating state agencies as conduits for seed and venture capital investments.

Tax credits

Tax credits are playing a greater role in the financing landscape as the availability of debt resources becomes scarcer. Tax credits can help in a variety of ways, from capitalizing new business ventures to solidifying financing for major real estate developments.

There are four main federal tax credit programs:

- Historic Preservation Tax Incentive for rehabbing and renovating old structures
- Federal Brownfield Expensing Tax Incentive for environmental cleanup[3]
- New Markets Tax Credits to provide capital for business and economic development ventures in low-income communities
- Low-Income Housing Tax Credits to promote construction and rehabilitation of housing for low-income persons

In addition, every state and the District of Columbia has its own tax credit programs to address areas such as venture capital investment, low-income housing, job creation, machinery and equipment, targeted area redevelopment, wage adjustment credits and industry-specific credits. Philadelphia, San Antonio and Baltimore implement some of the most effective tax credit programs in the country.

Unlike other financing tools, tax credits don't disappear during economic downturns. On the contrary, tax credit programs are very dependable and politically popular. They also encourage private-sector resource leveraging and act as a catalyst for public-private partnerships.

Many tax credit programs are underutilized. There is a general lack of understanding of how tax credits can be used, and a central body of knowledge or resource base for using these programs simply does not exist. For local communities, getting the word out about available federal and state tax credit programs is critical to increased utilization. The most successful communities have researched the available federal and state programs, secured the applications and paperwork, trained staffers to understand the programs, and marketed them. For example, Baltimore has done a good job of marketing specific run-down properties as eligible for historic rehabilitation tax credits. New Markets tax credits are more complicated, but the most proactive communities are identifying eligible projects, approaching community development entities (CDEs) that have received the credits and partnering with them to finance projects.

Special-focus tools

Traditional methods may fail to address non-traditional needs such as technology development, import/export assistance and riskier endeavors such as brownfield development. Identifying these gaps and opportunities is key to developing a truly comprehensive toolkit. For example, in areas where technology growth is an opportunity, local agencies can align financing for technology development with private seed and venture funds, state tax credit programs and local technology assistance funds.

Additionally, financing resources for brownfields are at an all-time high. Agencies such as the Cuyahoga County (Ohio) Department of Development and cities such as Salt Lake City and Lowell, Massachusetts, have established effective programs that can be replicated.

The importance of federal funding

Federal funding continues to play an important role in many financing packages. A quality finance agency should have a sound understanding of the available federal resources. Traditional sources of federal funding include the Department of Housing and Urban Development, the Small Business Administration, the Department of Agriculture and the Economic Development Administration.

For example, SBA's 504 Loan Guarantee program, which provides loans to new or expanding small businesses, is highly effective and should be implemented in every community interested in supporting small business development. EDA's public works, planning and other grants programs are another solid financing option. Local economic development organizations should be well versed in the options available from these sources and also should work on innovative strategies that combine federal funding with local resources.

There is a general lack of understanding about how tax credits can be used. For local communities, getting the word out about available federal and state tax credit programs is critical to increased utilization.

The future of financing

The changing economy has placed an even greater burden on local finance agencies in providing assistance to job-creating entities. Resources available 10 years ago at the state and federal level do not exist today, requiring economic developers to become more innovative and forward-thinking in developing the ideal financial toolbox. The key to this innovation is to provide a comprehensive set of options that addresses broad-based and targeted financing needs and is closely aligned with local economic development strategies. ★★★

The Council of Development Finance Agencies is a national association of economic development finance agencies dedicated to the advocacy, education, research and advancement of the development finance industry. To learn more about these and other programs, visit CDFA's Online Resource Database at www.cdfa.net.

[1] *For more information, see www.cascadiafund.org.*

[2] *For more information, see http://www.tmfund.com/.*

[3] *Currently inactive; awaiting reauthorization.*

Clawbacks in Economic Development: *Policies and Practices*

Principal, Intelligent Incentives By Karin Richmond

The term "clawbacks" conjures up a grisly picture at best. Skeleton fingers slowly creeping out of an ancient grave. "Freddy" and his vicious finger-nails, drawing near a hapless victim. X-Man Wolverine slashing the latest, greatest villain.

Clawbacks in economic development are not nearly that dire, but there does seem to be some ambiguity surrounding the term. Clawbacks are more than just the payback of incentives for performance measures not achieved: They are the contractual elements that stand between the drive for economic and community development and the slippery slope of corporate welfare.

The role of clawbacks

Clawbacks have been used primarily in securing tax incentives, abatements, refunds and grants. They are distinguished from repayments or refunds as they involve a penalty in addition to a repayment.

The use of tax incentives for attracting jobs and capital investment has grown over the past twenty-odd years to include performance measures from which to gauge a company's growth. Typical measures are 1) number of created jobs over five or 10 years; 2) annual payroll; 3) amount of capital investment over a similar time frame; and 4) amount of depreciated value in a given time. Other, more unusual measures include retaining a headquarters at a specific site for a period of time; amount of production increase or production cost decrease per unit; or the requirement to bring a given technology to market.

If a recipient fails to meet one or more performance measures defined in an executed incentive contract within a given time, a clawback may be initiated by the granting authority. The recipient is then required to return the monetary value of the incentive plus a penalty and/or interest to the grantor of the incentive, usually a local or state taxing authority. As the use of incentives mature over time, the triggering of clawbacks for non-performance will likely become ubiquitous.

Clawbacks comprising repayment and penalties insert an inherent cost of money to the private company receiving the incentives. If interest and penalties are not assessed when performance measures are not met, and the recipient is required only to repay the grant, then there is no cost to the company for the use of the incentive dollars over the years the monies were in use. The downside would not be measured in internal rates of return or interest cost, but a more subjective cost of bad company press or the likelihood of significant negative publicity in the out years should the company not meet its contractual obligations.

Clawbacks are not an all-or-nothing proposition. They may be executed in part or in full when jobs are not created, inventions not commercialized, or when property tax values dip below a stated minimum. A percentage refund, based on the number of jobs created compared to the number projected in the tax abatement agreement, is common.

Outdoor retailer Cabela's had to repay the state of Texas $28,552 when the company fell short of hiring predictions for its Buda store. Cabela's received $400,000 from the state's Enterprise Fund for stores it opened last year in Buda and in Forth Worth, and the company could have earned $200,000 more if it met hiring targets.[1] Cabela's is not protesting the clawback, according to a company spokesman.[2]

Texas Governor Rick Perry's Office of Economic Development remains committed to insuring rigorous compliance by companies that have been awarded Enterprise Fund Grants or Emerging Technology Grants. "We have brought on board a full-time compliance officer and more closely tied economic development policy with activities of our office," noted Mike Chrobak, director of the Texas Economic Development Bank. "The Governor has instituted an 11-step due diligence test every grant applicant must pass before any monies are awarded." Clearly, the state of Texas finds that clawbacks can be useful in furthering economic development policy.

Clawbacks are the contractual elements that stand between the drive for economic and community development and the slippery slope of corporate welfare.

Minnesota bars companies subjected to clawbacks from receiving any incentives for five years or until the incentive is repaid. Another technique is to distribute the incentive monies after interim projections have been met and support documents have been verified.

Trends in clawbacks

At the International Economic Development Council's (IEDC) 2006 annual conference, held in September, a panel was dedicated to the discussion of clawbacks. Panelists included Samuel Lee, Senior Manager, KPMG Strategic Relocation & Expansion; John Sternlicht, General Counsel and Legislative Director for the Virginia Economic Development Partnership; and this author. The panel discussed trends in the use of clawbacks around the country, some of the performance measures they are based on, and principles for the wise use of clawbacks and incentives.

Panelists noted that the clawback option is not exercised consistently across the regions in the United States. According to Samuel Lee, recent research suggests that cities and regions with formal economic development plans were more likely to include performance measures. In addition, municipalities in northern, central and western states appear to integrate performance measures more often than southern states. ("Maybe southern states are more polite," quipped Sternlicht, while noting that Virginia has required enforceable performance agreements, open to public scrutiny, since 1996. Sternlicht also stated that Virginia has recouped about 99 percent of the funds it sought in cases of underperformance.)

A recent study on incentives and clawbacks, conducted by the Tax Advantage Group in Greenville, South Carolina, looked at the incentive and compliance processes from both the public and corporate sector perspectives. In all, the survey included 76 web-based interviews of senior corporate and economic development professionals. The survey found that:

- 73 percent of the corporate sector determined that clawback language is getting stronger, while only 48 percent of the economic development community thought so.
- 72 percent of the economic development community imposes strict clawback language, but only 49 percent of the corporate sector agrees to it.[3]

All things equal, corporate sector legal advisors will often ask or even insist on a *force majeure* or good faith clause, which in essence can provide a safe harbor should market conditions swing beyond forecasts, or unforeseen cost elements threaten an acceptable return on investment. All too often in the past, public sector negotiators have acquiesced to these demands, but the trend is beginning to turn toward transparency and accountability.

Companies are finding that auditors increasingly require disclosure of clawbacks and their potential downside values in the ever-evolving Sarbanes-Oxley accounting environment. When clawbacks are clearly defined, with pro-rata formulas or timelines that specify all-or-nothing paybacks, the risk of non-performance is clear and can be calculated. Both parties can leave the negotiation confident that the basics have been articulated and understood.

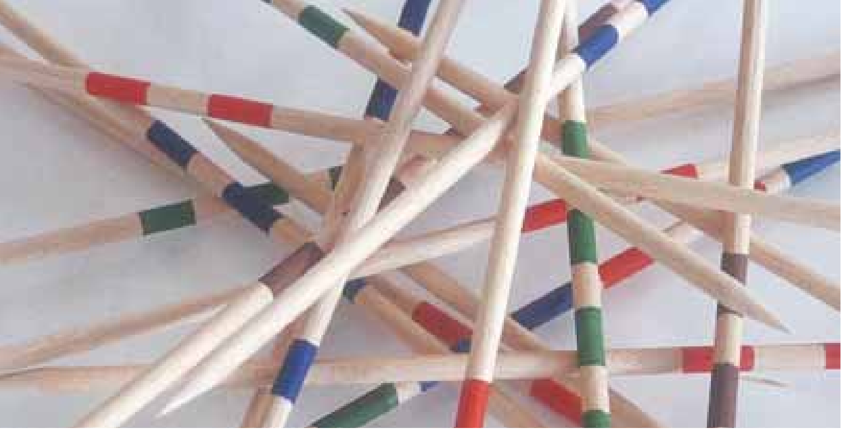
It's just good policy, for both the public and private sectors. Governments must be accountable to taxpayers, who want a fair deal from the companies they subsidize. When mishaps occur – and they will – it is important for all parties to communicate well in advance of contractual deadlines, so that issues may be resolved in an amicable way. No economic development staff wants to have a reputation as "unreasonable" in the site selection market. Companies do not want to be tagged as poor community citizens, especially when a simple Google search can turn up deals gone wrong in a heartbeat.

Accountability as state policy: Illinois

Illinois has adopted the Illinois Corporate Responsibility Act to prevent mishaps and encourage good practices for both public and private interests. Illinois' governor outlines the state's policy as follows:

> *We are guided by three principles when making economic investments – analysis, accountability and transparency. Before any of these investments are completed, and before any commitment is made, they are extensively analyzed to ensure the state is getting a good return.*
>
> *Along these lines, we also imposed new strict accountability requirements on those companies that receive state investments. If a company doesn't meet its commitments to create or retain jobs or make private investments, we aggressively pursue that money to make sure state tax dollars are not wasted. In addition, the public will be able to examine these investments through this web site and an annual report to the General Assembly.*[4]

In 2003, Illinois began requiring incentive recipients to submit an annual progress report by June 1 of each year, beginning in 2005. Some of its most popular incentive programs have the following recapture provisions:



- High Impact Businesses: Required to repay the full amount of the state tax exemption received.
- Large Business Development Program, Business Development Public Infrastructure Program, Employer Training Investment Program: Required to repay a pro rata amount of the grant reflecting the percentage deficiency of a defined performance measure, depending on the program.
- EDGE tax credits: Suspended until the number of new and retained employees equals or exceeds the requisite number in the development assistance agreement.

In addition to the recapture provisions, Illinois now requires the Department of Commerce and Economic Opportunity to report annually on companies' progress report data, as well as the outcomes and effectiveness of all of its recapture provisions by program.

Twenty other states include clawback or other recapture provisions as part of their incentive contracts. Dozens of cities do the same.[5] Other states, economic development professionals and trade groups, including IEDC, have long called for implementation of best practices and transparency in the field of incentives.

"The economic development profession is seeing more and more outcome-driven tax incentive packages," said Jeff Finkle, CEcD, IEDC's president and CEO. "These are packages that include contractually identified goals and performance targets that a company is required to achieve in exchange for a receipt of an incentive. IEDC thinks this is a positive trend."[6]

Tenets of effective clawbacks

Greg LeRoy, executive director of Good Jobs First, is no fan of incentives, but does offer some constructive advice on the use of clawbacks:

> Since state legislation that applies to all subsidies awarded at both the state and local level has the greatest impact, we advocate such laws as the best practice model. The strongest clawback laws:
>
> - Apply to all business subsidies at both the state and local level.
> - Prorate subsidies in the event of partial non-compliance, ensuring that companies are subsidized only for what they actually deliver.
> - Require complete repayment, plus interest, of a subsidy in the event that a company ceases operations or moves subsidized equipment or jobs out of state.
> - Hold companies accountable for meeting wage requirements and other commitments, in addition to investment and job creation.[7]

During the clawback panel discussion at the IEDC conference, Sternlicht offered the following policy direction to promote good practices and prevent the occurrence of clawbacks:

- Perform a return-on-investment analysis before an incentive is granted.
- Execute enforceable performance agreements when providing incentives, to protect state investment.
- Be flexible; adapt to meet client needs.
- Be creative in measuring performance.
- Don't be afraid to enforce agreements.
- Be transparent; disclose records and tell your story well.

As a 20-plus-year veteran of legislative development, community negotiation and compliance reporting, my suggestions are these:

1. **Be creative** when designing your performance measures, so they fit your community. For example, if a land grant is part of an incentive offered in your community, wait until your prospect meets all the performance objectives before title is turned over. Lease the land for a trivial amount – for example, $1 a year – until all reports confirm compliance with the incentive contract provisions.
2. **Be flexible** but firm when enforcing performance measures in your incentive contracts. Include a waiver provision that allows a higher public authority (who is accountable to voters and taxpayers) to carefully weigh the pros and cons of enforcing clawbacks for unmet obligations. Situations will crop up in which there are very good reasons for not being able to meet expectations. Provide a timetable that will help allow the company to meet its obligations, and then enforce it.
3. **Ensure** that at least annual monitoring is in place and that reports can be supported by third party evidence, such as checking company-reported payroll against public employment commission data.
4. If a performance measure cannot or will not be met by the recipient, **enforce the clawback and trumpet the payback and penalty far and wide**. This will help ensure that others – both in business and politics – will take heed and work to avoid being the next victim of grisly clawbacks. ★★★

Karin Richmond is principal of Austin-based Intelligent Incentives. She can be reached at karinrichmond@austin.rr.com.

[1] *Austin American Statesman, staff writer, August 15, 2006.*

[2] *Tax Incentives Alert, September 2006, Volume 5, Number 9.*

[3] *Tammy Propst, "Understanding the Incentives Process," National Association of Industrial and Office Properties, 2006.*

[4] *Governor Rod Blagojevich, Corporate Accountability web site: http://www.corpacctportal.illinois.gov/*

[5] *Greg LeRoy, "Accountable Development, Key Reform #2," July 2006.*

[6] *Karin Richmond, "Tax Breaks Riding on High Court Ruling," Illinois Real Estate Journal, Volume 9, Number 5, May 2006.*

[7] *LeRoy 2006.*

Community Colleges:

The Economic Developer's Workforce Partner

By Dale F. Campbell and Ellen M. Long

Professor and Director, Community College Leadership Consortium & Futures Assembly, University of Florida; President, National Council for Continuing Education and Training, and Principal, Long & Associates

The nation's 1,100-plus community colleges are well known to economic developers as partners already in place to meet their region's workforce needs.

Yet even economic developers may be unaware of the wide-reaching impact of community colleges. Some fast facts:

- 50 percent of new nurses and the majority of health care workers are educated at community colleges.
- Close to 80 percent of firefighters, law enforcement officers, and EMTs are credentialed at community colleges.
- 95 percent of the businesses and organizations that employ community college graduates recommend community college workforce and training programs.

This article highlights a few innovative initiatives and partnerships that community colleges and economic developers have embarked upon to ensure that their communities have the necessary skills to retain, attract or grow desired industries. Three of the five programs are national award winners, having won the Community College Futures Assembly Bellwether Award in Workforce Development or the National Council of Continuing Education & Training (NCCET) Exemplary Program Award.[1] Both awards emphasize demonstrated results and provide lessons learned for those interested in replicating the initiatives at their local community colleges.

Responding to the need for a technologically advanced workforce

In the late 1990s, the American Forest and Paper Association (AF&PA) created the Agenda 2020 Technology Alliance to develop strategies to transform the American pulp and paper industry for global competitiveness by the year 2020. After the alliance identified five strategies based on research and technological innovation, the industry then needed a technologically advanced workforce to implement them.

An existing technical program and industry alliance at Alabama Southern Community College (ASCC) was selected as a workforce development model. The Alabama Southern Industry Alliance for a Technologically Advanced Workforce now includes eight advanced technology manufacturers in six rural counties. These companies collectively sponsor over 60 ASCC scholarships and provide internships in order to recruit top students into a pipeline to the region's best jobs.

As part of Alabama Southern Community College's Industry Alliance for a Technologically Advanced Workforce, students gain skills that help meet the workforce needs of the region's key employers.

The scholarships and internships are for four advanced technology programs, depending upon industry needs: paper and chemical technology; instrumentation and electronics; industrial maintenance and electrical technology; and machine technology millwright. The 60 scholarships, valued at a total of $300,000, lead first to internships and then to jobs that typically start at over $35,000 a year.

[1] *The Bellwether Awards annually recognize outstanding and innovative programs and practices that are leading community colleges into the future. The Workforce Development category recognizes public and/or private strategic alliances and partnerships that promote community and economic development. The awards are sponsored by the University of Florida Institute of Higher Education and presented annually at the Community College Futures Assembly in Orlando. Each year, NCCET recognizes both outstanding leadership by individuals and exemplary programs from around the nation.*

This scholarships-internships-jobs partnership was pioneered in 1995 between Alabama Southern and CIBA Specialty Chemicals. In 1999, when the partner companies had grown to include Boise, Alabama River Pulp and Temple Inland in addition to CIBA, the American Chemical Society cited Alabama Southern as having one of the top industry/education alliances in the United States. With the expansion to eight companies, the industry alliance has become one of the strongest in the nation.

The National Science Foundation awarded Alabama Southern a $5 million grant to become the National Center for Pulp and Paper Technology Training and promote similar partnerships nationwide. AF&PA has since asked Alabama Southern and its partner, Auburn University, to lead its national Technologically Advanced Workforce Initiative.

Responding to the loss of local industry

Springfield Technical Community College (STCC) in Massachusetts was selected as the 2004 recipient of the national Bellwether Award in Workforce Development for creating the STCC Technology Park and Springfield Enterprise Center (SEC). The STCC Technology Park was created in the 15.3-acre former Digital Equipment Corporation facility adjacent to the STCC campus. When the company left, the land and buildings could have become a vacant site in the center of the city, with an accompanying loss of nearly 1,000 jobs. Yet over the past decade, this vibrant complex has created 1,000 new jobs with an estimated total payroll of more than $20 million.

Challenges that the college had to overcome in bringing the vision of the technology park to reality were numerous, according to former STCC president Andrew Scibelli. For one thing, there were no role models to emulate – no other community college in the country had attempted to establish and manage a technology park. Also, legislation at that time prevented state agencies from charging and retaining tenant rents to sustain operations of a park. (Hence new legislation was written, creating the STCC Assistance Corporation to own and operate the park.) Further, there was civic concern that state ownership would remove the site from city tax rolls; however, the STCC Technology Park contributes more than $200,000 in annual property tax revenue to the city.

The SEC building houses a business incubator/accelerator, providing networked office space, office support services and pro-bono guidance from a 35-member advisory board of local business professionals. The service is designed to assist young businesses during their critical first years. Additional tenants include SCORE, the SBA, and venture capital/loan fund corporations. The offices support new companies as well as existing small business owners throughout greater Springfield.

Successes to date include several new businesses that have graduated from the SEC incubator into the technology park or surrounding communities, including one that was recently purchased by a national firm; eight student ventures that are now operating in the incubator; and 26 that have moved out into the city or on to other opportunities.

At a celebration of the tenth anniversary of the STCC Entrepreneurial Institute, Cynthia Bailey, owner of Event Massage (a student business that graduated out of STCC's incubator), hands her business card to Andrew Jensen, a current student business owner.

Responding to community healthcare needs

Portland Community College (PCC) in Portland, Oregon, doesn't want patients to be denied adequate healthcare due to a language barrier, and it has implemented a statewide healthcare interpreter training program to prove it.

During the fall of 2006, Oregon enacted a new law that helps healthcare interpreters earn official certification, just the fourth of its kind in the nation. The Healthcare Interpreter program, part of the college's Institute for Health Professionals, already has the required 70 hours of instruction and 30 hours of local clinical practice in place throughout the state. A network of community colleges, hospitals and agencies helps fulfill state mandates and prepares participants for the certification exams.

The distance-learning program is offered via interactive television at multiple locations around the state, reaching from small rural clinics to metropolitan Portland and many venues in between. Students learn about medical terminology, anatomy and physiology, and medical interpreting concepts, roles and responsibilities. They can see, hear and interact with their instructors and participate in real-time class discussions. Clinical practice is set up at local sites and is supervised by trained interpreters.

"Through PCC's program, hundreds of interpreters have received training, not just to communicate with Spanish-speaking patients, but also in languages such as Russian, Farsi, Vietnamese, and Japanese," said Maria Michalczyk, founder and director of PCC's program. "People are waiting for something to officially demonstrate their qualifications, and businesses want to hire people with credentials."

The healthcare interpreting students, many of whom are new immigrants with excellent English as a Second Language skills, get not only an entry-level position in the healthcare field but also the chance to hone these skills into a lasting profession or to use as a gateway to other healthcare careers. The Oregon Labor Market Information System projects interpreters as a growing job category, with an annual statewide salary of approximately $37,826 in 2006.

The Healthcare Interpreter program is an innovative model, in demand throughout the United States and other countries such as Japan and Canada.

Responding to English language and workplace skill needs

Words for Work is a multimedia-based instructional program designed to provide "quick-start" English language and workplace skills to limited-English-proficient Latino youth and adults. Words for Work, first offered in 2004 in the Baltimore/Annapolis area, leads to job placement and career ladder opportunities in healthcare and construction. Close working relationships with Latino and faith-based centers (plus other advocates and partners) undergird the process for recruiting and retaining students in Words for Work classes. Classes are offered at convenient times and in community settings where the Latino population resides, providing a high level of access to participants.

A highly interactive, Web-based curriculum was developed by Anne Arundel Community College in Maryland in collaboration with employers, Latino community leaders, faith-based groups and the Digital Learning Group, a company that develops technology-enhanced educational products. The program is delivered to learners under the direction of bilingual instructors.

The curriculum includes general workplace and job-specific skills, in addition to English language skills, safety practices and procedures, basic computer knowledge, and cross-cultural barrier issues. All of this is offered in a dynamic classroom environment that incorporates a myriad of both online and offline activities and simulations.

Words for Work is currently addressing the needs of the healthcare and construction sectors, but the instructional model is scalable to incorporate additional occupations and to serve speakers of languages other than Spanish.

Since the initial Words for Work class, six more classes have been delivered. The program has become a national model, with additional pilots in California (Los Angeles Unified School District), Iowa (Western Iowa Community College), Mississippi (Gulf Coast Community College) and Pennsylvania (Lancaster County Workforce Investment Board).

Responding to retail industry needs

Community and technical colleges are collaborating with the National Retail Federation Foundation (NRFF) to build academic and work experience pathways for careers in which customer service and sales skills are key. As a national effort, 14 colleges have partnered with NRFF to deliver training and national certifications based on industry standards, and to open Customer Service and Sales Skills Centers. In addition, 35 community and technical colleges serve as certification sites for the national exam.

Best practices for economic development and community college partnerships

- **Use community colleges as an important piece of your 'economic development toolkit.'** Colleges have the ability to develop customized training and degrees that are critically important in local and regional economic development initiatives. Industry-driven program design is a hallmark of these collaborative efforts.
- **Be sure to include scholarships, internships, and on-site clinical practice** that will assist industry in preparing future workers while monitoring their progress in college training and degrees programs. Colleges see these partnerships as in their interest as well as that of the students.
- **Use industry as a co-recruiter of program students, as well as a committed partner** to evaluate curricula, skill sets and knowledge needed for continuous progress. Working together in this manner generates high credibility and attracts quality students who can become valued employees, while also providing an avenue for current employees to gain new skills.
- **Use the example of investment in training** by existing industry – and its return on investment – to attract additional industry. Invite your community college to be an integral part of all new business recruitment and enhancement teams.
- **Benchmark against the best.** Search for solutions among sources that already have a record of success.

Your community college can convene a network of local expertise – and use national connections to other programs with proven track records – to help meet training needs. Whether the college, industry and workforce development partnerships are hands-on, one-on-one, or involve the latest in high-technology training, community colleges can be the glue that binds the effort in place. ★★★

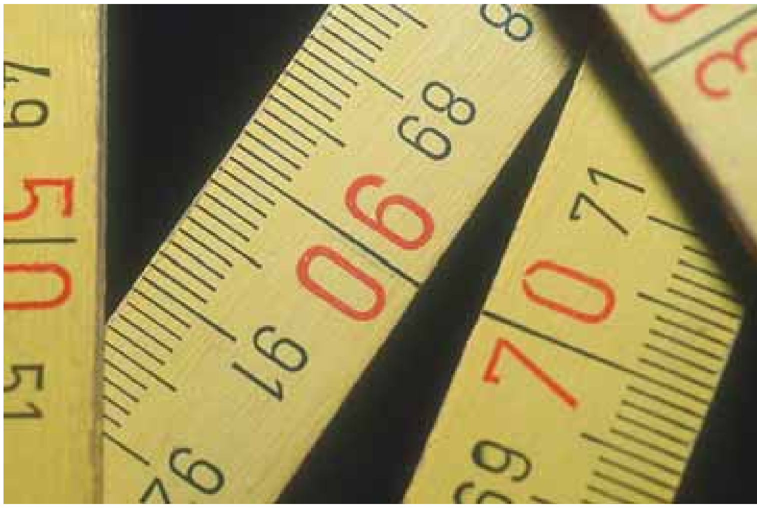
For more information on the Community College Leadership Consortium & Futures Assembly at the University of Florida, visit www.coe.ufl.edu/futures, or contact Dale Campbell at dfc@coe.ufl.edu. The National Council for Continuing Education and Training (NCCET), an affiliate council of the American Association of Community Colleges, advances the goals of member colleges and professionals in workforce development, continuing education, community services and learning technologies. For additional information, consult www.nccet.org, or contact Ellen Long at ellenlong@starband.net.

Using a Balanced Scorecard to Measure Your Economic Development Strategy

By Athar Osama, Ph.D.
Senior Executive, ANGLE Technology Group

A common adage goes: "What gets measured, gets done." Finding actionable and meaningful measures for assessing economic development performance has long been a particularly challenging puzzle. Much of what happens in our regional economies is a result of complex interactions among numerous actors that are not understood comprehensively enough to permit well-informed strategic planning. Our inability to measure the success or failure of our economic development strategies further denies us the possibility to fine-tune, adapt and learn from them.

Yet we must not only engage in regional economic development planning but also follow through with implementation of our plans, often at great expense to taxpayers. We must also continually evaluate our efforts and justify them by demonstrating value to our communities. A well-functioning performance measurement system that could provide credible, meaningful and actionable insights into the success of our economic development strategies (or lack thereof) would be a welcome addition to the economic development professional's toolkit.



The measurement problem

The issues in performance measurement hover around two key elements: namely, the performance metrics themselves and the overall framework that holds them together. While the choice of the right set of metrics is important – and is partly determined by a host of technical and political factors – the difficulty of constructing an overall framework in which these metrics must be organized to present a coherent story about a region's economic development strategy is vastly under appreciated.

Setting up such a framework requires answering questions such as:

- What constitutes success in economic development, and how should it be measured?
- Do simple metrics suffice, or should composite measures be developed?
- How should these metrics be organized into a system of measurement that provides actionable guidance to key stakeholders?
- How should the information gleaned from such a performance measurement system be used?
- How should various kinds of metrics (e.g., leading indicators vs. lagging indicators, qualitative measures vs. quantitative measures, hard financial measures vs. soft measures and tangibles vs. intangibles) be balanced?

Such choices continue to challenge the profession, and thus undermine the successful implementation of even the most carefully constructed strategies.

In a 2004 survey of economic development organizations (EDOs) conducted by Brigham Young University, 93 percent of respondents indicated that they were likely to increase their use of performance measures in decision-making, yet only 20 percent thought that performance measures were effective in increasing awareness of program results, setting strategies and improving programs. It is worth noting here that we are not yet introducing the performance measurement framework, only the performance measures themselves!

This lack of perceived utility of performance measurement may be explained partly by the absence of an organizing framework that transforms a bundle of performance metrics (data) into insightful and actionable guidance (information), and leads to learning about the region's economy and the multi-faceted relationships among various actors in the economy (knowledge).

Practitioners often do not understand many of the intricate relationships among various political, social and economic actors that intervene between their actions (causes) and the results (effects). Performance evaluation must, therefore, generate knowledge as it consumes information and iteratively improves our understanding of how our economies respond to our actions.

The good news is that there is a strategic planning and performance measurement approach that provides coverage for most of the critical ingredients of a comprehensive performance measurement system.

Introducing the Balanced Scorecard

The Balanced Scorecard originated in a 1992 *Harvard Business Review* article by a Harvard professor, Dr. Robert S. Kaplan, and a consultant, David P. Norton, titled "The Balanced Scorecard – Measures That Drive Performance." The problem that these individuals were trying to address was the predominance of financial metrics in measuring organizational performance. Organizational performance, the authors argued, must be measured in a balanced manner that takes into account the additional dimensions of performance critical to an organization's success. The original Balanced Scorecard used four dimensions (referred to as performance perspectives) to assess an organization's performance: financial, customer, internal business process, and learning and growth.

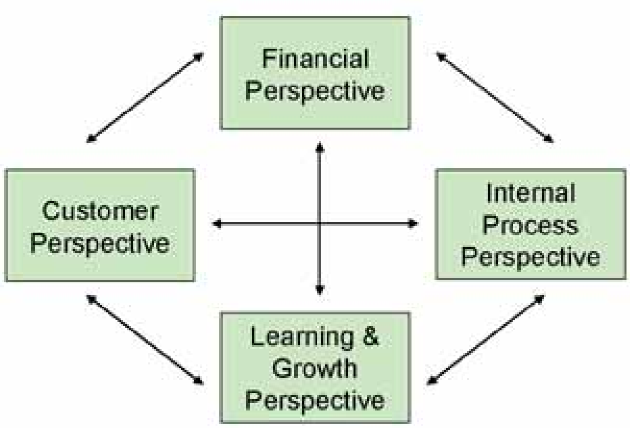


Figure: A Traditional Balanced Scorecard

What must a performance measurement system do?

- It must produce knowledge, not just consume information
- It must be collaborative, in that it allows ownership of economic development strategy
- It must lead to collective learning and action, and hence empowerment
- It must communicate with internal and external stakeholders
- It must be scalable to provide multi-level evaluation
- It must support iterative learning and fine-tuning of the economic development strategy

Source: Author's compilation

The Balanced Scorecard itself has undergone major transformations through customer-driven innovation. Over the last decade, it has evolved from a system of key performance indicators to a communication system that provides strategy awareness and focus throughout an organization, to becoming the focal point of an organization's strategic planning and performance measurement activities.

In the process, the Balanced Scorecard has become a new management paradigm in the corporate world. According to one estimate, over 50 percent of all Fortune 500 companies have implemented a Balanced Scorecard. A Balanced Scorecard "Hall of Fame" has been established by Kaplan and Norton to recognize those organizations that have implemented the Balanced Scorecard in its true spirit and have achieved breakthrough results. In addition to its use in corporate settings, the Balanced Scorecard has been used across the entire spectrum of organizational types, including government, non-profit, healthcare, academia, research and development, and education sectors.

Creating an Economic Development Balanced Scorecard

The process of creating a Balanced Scorecard begins with understanding the key dimensions of organizational performance. As Balanced Scorecards have been implemented across different organizational types, they have been modified to incorporate the reality of those organizations. For example, while the financial perspective may represent the bottom line for corporate entities, it does not represent the objective of organizational performance in mission-driven public sector agencies. Consequently, proponents have introduced organizational mission as the overarching goal in these circumstances. EDOs fit this model.

While the precise structure of each EDO's Balanced Scorecard may vary, a generic architecture could comprise the following dimensions of performance

- **Organizational Mission** – An EDO's mission, rather than financial profitability, represents the bottom line for its performance. EDOs differ in terms of what they are expected to achieve. Some are charged with creating jobs and attracting businesses to a particular region, others are tasked with making investments in human capital, and still others have multi-dimensional missions. Whatever the mission of an EDO is, it must be adequately defined and measured in the organization's Balanced Scorecard. Everything else that an organization does – and measures – must directly support its overall mission.

- **Customer (Stakeholders') Perspective** – While it may be possible to objectively measure how well an organization is achieving its mission, customer satisfaction is often a leading indicator of how well an organization is performing. An EDO must deal with a number of different kinds of customers, ranging from the general population to businesses in the region to the governments that provide legitimacy to its work. Each of these types of customers – or stakeholders – must be satisfied if the organization is to adequately achieve its mission and continue to exist.
- **Financial Perspective** – While non-financial measures may represent an EDO's overall success (e.g., number of jobs created, rather than profitability achieved), financial performance is still important to an EDO's ability to carry out its task. For one, it must raise money against competing demands, complete its projects within budget and bring money into the economy. Many of these factors are both a cause and an effect of an EDO's ability to satisfy its customers, but they must also be measured independently within the financial perspective.
- **Internal Process Perspective** – In order to achieve its mission and deliver on its customer and financial goals, an EDO must execute a set of internal processes. They may include prospecting for potential corporate candidates, running training programs for its own staff, making calls on corporate leaders to understand their issues, and managing a "one-stop-shop" for business support. These processes are important ingredients of the cause-and-effect chains that link organizational inputs (investments and activities) with outputs and outcomes.
- **Learning and Growth Perspective** – The learning and growth perspective represents the foundation on which an EDO's performance is built. It includes staffing, infrastructure and technology that go into executing internal processes. For example, an EDO might hire new staff or create an internship program to develop its capability to carry out an initiative that may in turn enhance its ability to carry out its mission. Alternatively, it might make an investment in its staff by providing new technology (such as a mobile communications device) to improve their productivity, which may in turn lead to better performance. In essence, it is making investments in certain inputs which are then consumed in the internal process in order to generate results for the organization. These inputs form the foundation on which an organization's performance is built, and must be measured in the learning and growth perspective.

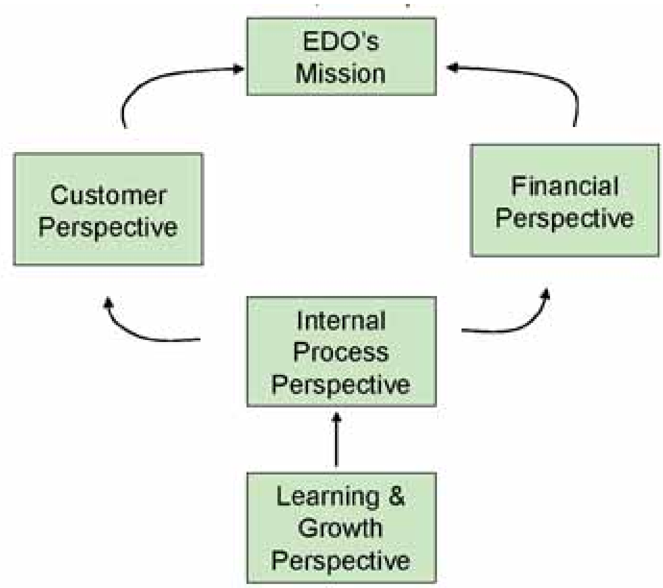


Figure: Balanced Scorecard for an EDO

The Balanced Scorecard's perspectives provide a lens through which the leadership looks at objectives, strategy, processes, and capabilities. It relies on a participatory process to identify and discuss strategic objectives; identify relevant stakeholder segments and develop specialized strategies for each segment; review and implement organizational processes to implement these strategies; and develop the various capabilities, skills, equipment, and infrastructure to enable the organization to implement these processes. These activities are linked by a chain of causality that runs from organizational capabilities to internal process to stakeholder satisfaction to financial results, and finally to the achievement of the organization's mission.

Often as a result of the process of putting together a Balanced Scorecard, performance measurement and data collection systems are put in place to measure the strategy itself. This metric makes the organizational strategy the centerpiece of its performance measurement system, helping to avert misalignment between what an organization is designed to achieve and what gets measured.

Scaling the strategy down – or up

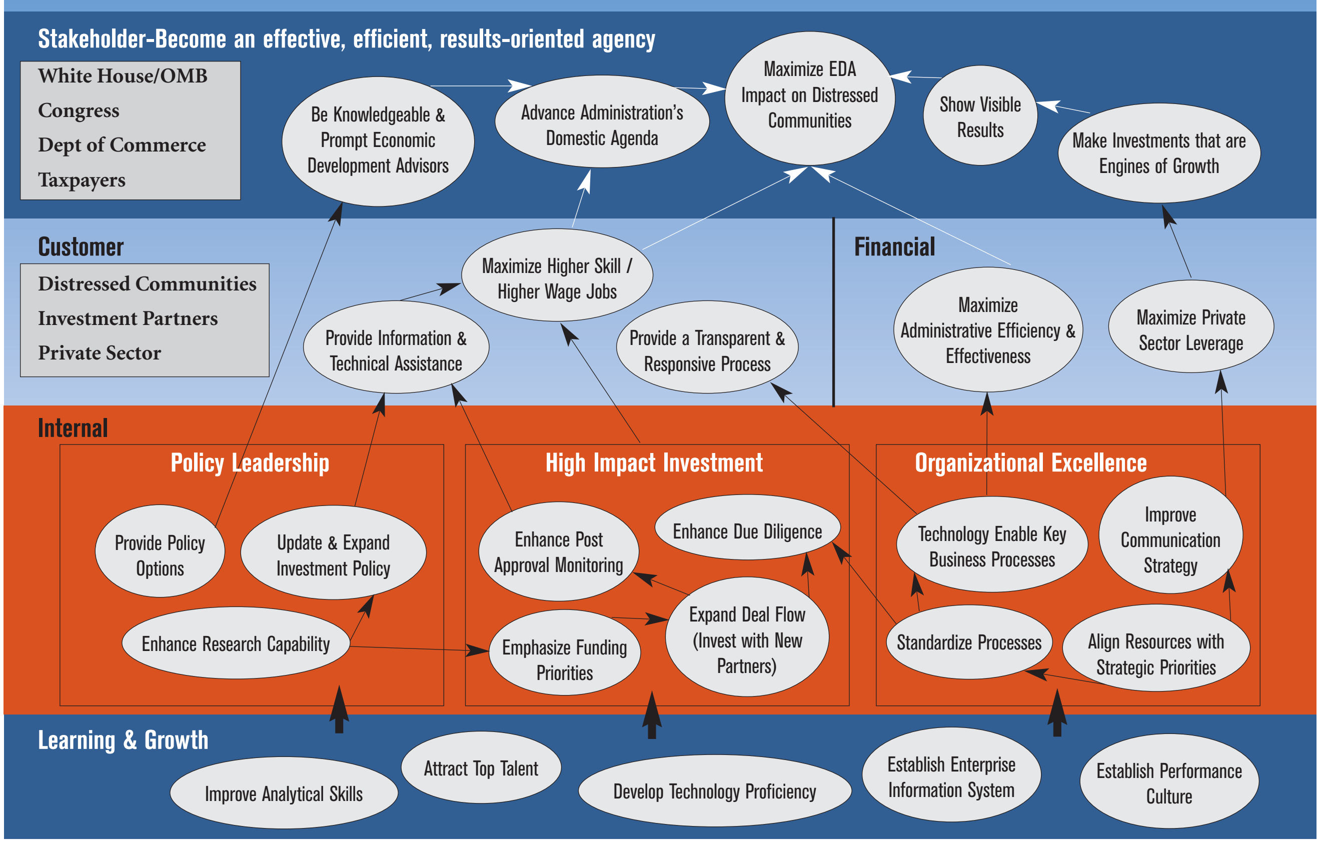
Once the top-level strategy has been developed and agreed upon, each organizational sub-unit creates its own strategy for achieving its obligations towards the larger organizational strategy. As the process cascades down the hierarchy with multiple levels of Balanced Scorecards being developed and deployed, the goals of various sub-units and that of the larger organization are aligned. A similar effect can be achieved throughout an economy when an EDO's Balanced Scorecard is scaled up into city, regional and state Balanced Scorecards.

Once this process of strategy-making and scorecard development has taken place, each sub-unit's actual performance is measured against its own targets and is monitored on a regular basis. The Balanced Scorecard thus becomes a means to focus energies toward what is important. It is often claimed that the Balanced Scorecard simplifies and communicates the strategy and brings laser-like focus to an organi-

Case Study: Implementing Balanced Scorecard at the Economic Development Administration

In 2002, the Economic Development Administration (EDA) of the US Department of Commerce began its Balanced Scorecard Initiative. It adopted a structure comprising five performance perspectives, namely, stakeholders, customers, financial, internal process, and learning and growth. A high-level strategy map (shown below) was developed to support and communicate EDA's strategy under each of these perspectives. Several lower-level (e.g. for each of the six regions) strategy maps were also developed to support the broader organizational scorecard. Several goals and objectives were identified under each of the five performance dimensions, and specific metrics were identified to measure performance on these goals.

EDA's 'Corporate' Strategy Map



zation's goals, thus making strategy everyone's job. Balanced Scorecards also are used as a communications tool at management and board meetings, helping focus discussion on measuring progress toward the organizational strategy.

This process also leads to learning across the organization – detecting discrepancies between achieved and targeted performance, analyzing their causes, and suggesting possible remedial actions. Using metrics to support a cause-and-effect model of organizational performance, the leadership can also, over time, test hypothesized relationships between inputs, process and outcomes, and update their own mental models of organizational performance.

A Balanced Scorecard may seem like a simple way of organizing an EDO's strategy and performance activities, but it is not simplistic. Over half of the organizations that claim to implement a Balanced Scorecard do not do so in both letter and spirit. They do not, therefore, achieve the benefits that are available. Understanding the intricacies and nuances of the various steps that go into the construction of a well-functioning Balanced Scorecard is critical to implementation. Thinking through the underlying philosophy of the Balanced Scorecard as it applies to commercial entities and adapting it to EDOs is an even more important consideration. ★★★

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Comprehensive Economic Development Strategies (CEDS) Summary of Requirements

U.S. Department of Commerce, Economic Development Administration

This document provides a synopsis of the requirements for comprehensive economic development strategies. For further information, interested parties are directed to section 302 of the Public Works and Economic Development Act of 1965 (42 U.S.C. § 3162) and EDA's regulations at 13 C.F.R. part 303. The document is intended to serve as a convenient source for requirements relating to the CEDS. Nothing in this document is intended to supersede or otherwise modify EDA's statute, regulations, policies or procedures.

Introduction: A comprehensive economic development strategy (CEDS) is designed to bring together the public and private sectors in the creation of an economic roadmap to diversify and strengthen regional economies. The CEDS should analyze the regional economy and serve as a guide for establishing regional goals and objectives, developing and implementing a regional plan of action, and identifying investment priorities and funding sources. A CEDS integrates a region's human and physical capital planning in the service of economic development. Integrated economic development planning provides the flexibility to adapt to global economic conditions and fully utilize the region's unique advantages to maximize economic opportunity for its residents by attracting the private investment that creates jobs for the region's residents. A CEDS must be the result of a continuing economic development planning process developed with broad-based and diverse public and private sector participation, and must set forth the goals and objectives necessary to solve the economic development problems of the region and clearly define the metrics of success. Finally, a CEDS provides a useful benchmark by which a regional economy can evaluate opportunities with other regions in the national economy.

Who should develop a CEDS? A Planning Organization seeking to formulate and implement a regional economic development program will benefit from developing a CEDS. Successful economic development efforts are based on CEDS that provide an economic roadmap to diversify and strengthen regional economies. The Public Works and Economic Development Act of 1965, as amended (PWEDA), requires a CEDS in order to apply for investment assistance under EDA's Public Works or Economic Adjustment Assistance Programs. At EDA's discretion, EDA may accept CEDS that it has funded or CEDS prepared independently of EDA investment assistance or oversight.

The following sections set out below on "Planning Organizations" and "Strategy Committees" cover the requirements for EDA-funded CEDS, while the remainder of this document pertains to technical requirements for CEDS. *It should be noted that in determining the acceptability of a CEDS prepared independently of EDA investment assistance or oversight for projects under 13 C.F.R. parts 305 or 307, EDA may in its discretion determine that the CEDS is acceptable without it fulfilling every requirement set out in 13 C.F.R. § 303.7. In doing so, EDA shall consider the circumstances surrounding the application for investment assistance, including emergencies or natural disasters, and the fulfillment of the requirements of Section 302 of PWEDA.*

A. EDA-funded CEDS

Pursuant to 13 C.F.R. § 303.6, if EDA awards Investment Assistance to a Planning Organization to develop, revise, or replace a CEDS, the Planning Organization must follow the procedures set forth in paragraphs A.1 and A.2.

1. Planning Organization: A Planning Organization (as defined in 13 C.F.R. § 303.2), typically an Economic Development District (EDD) or Indian Tribe, may be eligible for EDA planning investment assistance. The purpose of such assistance is to develop a CEDS for a specific EDA-approved region. The Planning Organization is responsible for:

- Appointing a Strategy Committee (CEDS Committee);
- Developing and submitting to EDA a CEDS that complies with 13 C.F.R. § 303.7;
- Making a new or revised CEDS available for review and comment by the public for a period of at least thirty (30) days prior to submission of the CEDS to EDA;
- Obtaining approval of the CEDS from EDA;
- After obtaining approval of the CEDS, submitting to EDA an updated CEDS performance report annually. The performance report, in addition to reporting progress on CEDS implementation, should also discuss community and private sector participation in the CEDS effort. Any performance report that results in a change in the technical components of the EDA-approved CEDS must be available for review and comment by the public for a period of at least thirty (30) days prior to submission of the performance report to EDA;
- Submitting a copy of the CEDS to any Regional Commission if any part of the EDA-approved EDD region is covered by that Commission;
- Submitting a new CEDS to EDA at least every five (5) years, unless EDA or the Planning Organization determines that a new CEDS is required earlier due to changed circumstances.

2. Strategy Committee: The Strategy Committee is the entity identified by the Planning Organization as responsible for developing, revising, or replacing the CEDS. The Strategy Committee must represent the main economic interests of the region, and must include Private Sector Representatives (defined in 13 C.F.R. § 300.3, with respect to any for-profit enterprise, as any senior management official or executive holding a key decision-making position, or that person's designee) as a majority of its membership. In addition, the Planning Organization should ensure that the Strategy Committee also includes:

- Public officials;
- Community leaders;
- Representatives of workforce development boards;
- Representatives of institutions of higher education;
- Minority and labor groups; and
- Private individuals.

Strategy Committees representing Indian Tribes or States may vary.

B. Technical Requirements

Pursuant to 13 C.F.R. § 303.7, a Planning Organization must include the following information in a CEDS submitted to EDA:

1. Background: The CEDS must contain a background of the economic development situation of the region that paints a realistic picture of the current condition of the region. This background must include a discussion of the economy, population, geography, workforce development and use, transportation access, resources, environment, and other pertinent information.

2. Analysis of Economic Development Problems and Opportunities: The CEDS must include an in-depth analysis of the economic development problems and opportunities that identifies strengths and weaknesses in the regional makeup of human and economic assets, and problems and opportunities posed by external and internal forces affecting the regional economy. This analysis must:

- Incorporate relevant material from other government-sponsored or supported plans and demonstrate consistency with applicable State and local workforce investment strategies.
- Identify past, present, and projected future economic development investments in the region.
- Identify and analyze economic clusters within the region.

3. CEDS Goals and Objectives – Defining Regional Expectations: The CEDS must contain a section setting forth goals and objectives necessary to solve the economic problems, or capitalize on the resources, of the region. Any strategic project, program, or activity identified in the CEDS should work to fulfill these goals and objectives.

- Goals are broad, primary regional expectations.
- Objectives are more specific than goals, clearly measurable, and stated in realistic terms considering what can be accomplished over the five (5) year time frame of the CEDS.

4. Community and Private Sector Participation: The CEDS must include a section discussing the relationship between the community in general and the private sector in the development and implementation of the CEDS. Public and private sector partnerships are critical to the implementation of the CEDS.

5. Strategic Projects, Programs and Activities: The CEDS must contain a section which identifies regional projects, programs and activities designed to implement the Goals and Objectives of the CEDS. This section should identify and describe:

- **Suggested Projects** – All suggested projects, programs and activities and the projected number of jobs to be created as a result, and the lead organization's responsibilities for execution of the projects.
- **Vital Projects** – A prioritization of vital projects, programs, and activities that address the region's greatest needs or that will best enhance the region's competitiveness, including sources of funding for past and potential future investments. These can be overarching "themes" for regional economic development success and is expected to include components. Funding sources should not be limited to EDA programs.

6. CEDS Plan of Action: The plan of action, as described in the CEDS, implements the goals and objectives of the CEDS in a manner that:

- Promotes economic development and opportunity;
- Fosters effective transportation access;
- Enhances and protects the environment;
- Maximizes effective development and use of the workforce consistent with any applicable State or local workforce investment strategy;
- Promotes the use of technology in economic development, including access to high-speed telecommunications;
- Balances resources through sound management of physical development; and
- Obtains and utilizes adequate funds and other resources.

The CEDS must also contain a section that discusses the methodology for cooperating and integrating the CEDS with a State's economic development priorities.

7. Performance Measures: The CEDS must contain a section that lists the performance measures used to evaluate the Planning Organization's successful development and implementation of the CEDS, including but not limited to the:

- Number of jobs created after implementation of the CEDS;
- Number and types of investments undertaken in the region;
- Number of jobs retained in the region;
- Amount of private sector investment in the region after implementation of the CEDS; and
- Changes in the economic environment of the region.

These are not meant to be the only performance measures for the CEDS. Most Planning Organizations developing a CEDS will benefit from developing additional quantitative and qualitative measures that will allow them to evaluate progress toward achieving the goals identified as important in their regions.

For more information, go to www.eda.gov.

About EDA Information Clearinghouse Partners

Part of the United States Department of Commerce, the mission of the **Economic Development Administration (EDA)** is to lead the federal economic development agenda by promoting innovation and competitiveness, preparing American regions for growth and success in the worldwide economy.

EDA was established to generate jobs, help retain existing jobs, and stimulate industrial and commercial growth in economically distressed areas of the United States. EDA assistance is available to rural and urban areas of the nation experiencing high unemployment, low income, or other severe economic distress.

The **International Economic Development Council (IEDC)** is the premiere organization for the economic development profession. Serving close to 4,000 members, IEDC is the world's largest professional membership organization providing a diversity of economic development services, including research and advisory services, conferences, professional development and legislative tracking. Visit IEDC's website at www.iedconline.org to learn more about membership, upcoming events and IEDC services.

INTERNATIONAL ECONOMIC DEVELOPMENT COUNCIL

The **National Association of Regional Councils (NARC)** is the preeminent alliance for fostering regional cooperation and building regional communities. For more than three decades, NARC has represented multi-purpose regional councils of government that assist community leaders and citizens in developing common strategies for addressing cross-cutting transportation, economic development, air and water quality, social equity, growth, and other challenges, through advocacy, training, technical assistance and research. For more information, visit www.narc.org.

NARC
Building Regional Communities

International Economic Development Council
734 15th Street, NW, Suite 900
Washington, DC 20005

EDA Regional Economic Development Symposia Planned for 2007

Mark your calendar! In conjunction with its regional offices, EDA, IEDC and NARC will hold six Regional Economic Development Symposia in 2007.

The symposia will focus on regional strategies, policies and best practices to create jobs and economic opportunity. Speakers will include regional and national leaders from the private and public sectors. The program will include case studies of successful regional approaches to economic development, a session on innovation and entrepreneurship and region-specific training related to EDA.

- Tuesday, March 13, 2007: Philadelphia Regional Symposium in Philadelphia
- Thursday, April 12, 2007: Austin Regional Symposium in San Antonio
- Wednesday, May 16, 2007: Seattle Regional Symposium in Long Beach, CA
- Thursday, June 14, 2007: Atlanta Regional Symposium in Atlanta.
- Wednesday, September 26, 2007: Combined Denver/Chicago Regional Symposium in Kansas City, Mo.

For more information, please contact Dana Rothstein (drothstein@iedconline.org, 202-942-9470) or Richard Heffernan (rheffernan@iedconline.org, 202-942-9471).

Availability Alert * Nomination Brochure * EDA Excellence Awards 2007

Nomination brochures for the EDA Excellence in Economic Development Awards 2007 will be available in January 2007, online at www.eda.gov or by phone at (202) 482-4521.

For back issues of Economic Development America and to learn more about EDA's information resources, follow the "Information Clearinghouse" link at the bottom left of EDA's home page, www.eda.gov.