Promoting Economic Development in Vulnerable Communities

By
Monica Kearns

NATIONAL CONFERENCE *of* STATE LEGISLATURES

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- To improve the quality and effectiveness of state legislatures.
- To promote policy innovation and communication among state legislatures.
- To ensure state legislatures a strong, cohesive voice in the federal system.

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About the Strengthening Families and Neighborhoods Project

State legislatures face real challenges and opportunities in enacting, funding and implementing state policies that strengthen vulnerable families and their neighborhoods. The National Conference of State Legislatures/Annie E. Casey Foundation Partnership is an initiative designed to raise legislators' awareness of 1) the needs of vulnerable families and neighborhoods, 2) the policy tools available to legislators to strengthen those families and improve conditions in such neighborhoods, and 3) proven methods that allow legislators to focus on outcomes that affect families and neighborhoods, regardless of the committees on which legislators serve. More information about the partnership is available at www.ncsl.org/programs/sfn/sfn.htm.

The 17-member NCSL/Casey Partnership Advisory Committee includes state legislators, a former legislator and legislative staff. The advisory committee helps NCSL formulate issues, set goals and explore existing state programs related to the project. The advisory committee members are:

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The Casey Foundation web site—www.aecf.org/—features additional information about helping families and neighborhoods.

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1. INTRODUCTION

Intent of this Report

In This Chapter

- Intent of this report
- Themes that tie together the main points of and correlated thoughts on community economic development:
    - Efforts to measure results can clarify goals and options
    - Helping people who could start a business is particularly important
    - Effective local government and nonprofit models are needed
    - Strong connections and local engagement help community development

Economic development is consistently cited as a major concern in improving the well-being of struggling communities. In fact, just as states have specific policies and programs to improve family support, public health, housing and other conditions in distressed places, they also have economic development strategies that are designed to improve their economic conditions.

This report is designed for those who are interested in helping distressed places and determining how state economic development funds might contribute. The report is intended to strengthen the connections among economic development, human services and other activities aimed at improving the well-being of communities.

Economic development policy is oriented to businesses. Chapter two discusses the goal of economic development, which is to encourage business investment and improve business productivity, with a desired cumulative effect of increased employment and personal incomes. The chapter three elaborates on state economic development policy options for vulnerable communities, often called community economic development, which are targeted to: people who could start a business, people who could fill unmet demand for workers, community development organizations, local governments and existing business owners.[1]

Themes

Following are several themes that set the stage for the remainder of the report. These themes—efforts to measure results can clarify goals and options, helping people who could start a business is particularly important, effective local government and nonprofit models are needed, and strong connections and local engagement help community development—tie together the main points of and correlated thoughts on community economic development goals and policy options.

Efforts to Measure Results Can Clarify Goals and Options

Measuring the results, or outcomes, of policies is an increasing interest of state policymakers. These efforts go beyond standard evaluations that consider revenue and expenditure information as well as the amount and type of program activity at state agencies.[2] Instead, the purpose is to determine the effect policies have on the people they are supposed to help. In the case of economic development, rather than tallying the number of loans provided to businesses, for example, a state could try to determine whether the loans contribute to higher employment rates. Policymakers are, in fact, taking steps to improve their information about and understanding of state investments in economic development by establishing accountability and performance measures and undertaking cross-agency budget studies. The information gathered from these efforts can enable more informed decision making about goals and funding.

Helping People Who Could Start a Business Is Particularly Important

In recent years, economists have paid closer attention to the role of entrepreneurs in economic growth. For various reasons, fast-growing new businesses have a more important role in the U.S. economy.[3] Consequently, more economic development policies aim to help start new companies instead of attempting to recruit businesses or help existing businesses. In a study of three states' economic development budgets, nearly half the funds were dedicated to entrepreneurial development.

A landmark economic development study found that the net benefits of economic development policies are most likely to be positive in high-unemployment areas, where the benefits of more jobs are the greatest. Specific policies to encourage entrepreneurship have an advantage of being relatively low cost.[4] Together, these factors—positive net benefits and relatively low cost—mean that policies and programs for people who could start a business may be particularly important for vulnerable communities.

The entrepreneurship programs that help people who could start a business may be administered by state economic development agencies themselves, or states may support the programs of community development organizations and local governments. Programs that develop the workforce are a crucial complement to growing new businesses. Without skilled and educated employees, businesses cannot take full advantage of their opportunities.

Effective Local Government and Nonprofit Models Are Needed

An important point to remember in considering state community economic development is that states greatly rely on nonprofit community development organizations and local governments to put community development into action. Consequently, states have a need to search out effective local government and nonprofit models. Some findings on effective models are discussed in chapter three under community development organizations. One recent trend in community development involves assisting individuals with asset development. Individual development accounts, discussed in the section on programs for those who could start a business, are an example of asset-based strategies. These strategies emphasize self-sufficiency through savings and investment rather than through spending and consumption. In other words, the current emphasis on income-based assistance for those with low incomes can be complemented with asset-based policies.

Social capital development is another recent trend. Social capital is found where the members of a community routinely work together to solve their problems. Those who champion social capital say that strategies for business development and workforce training may not enjoy long-term success if they do not effectively engage local residents and organizations. State policies and programs can contribute to social capital by helping not only individuals but also community organizations and networks. Furthermore, rather than attempting to identify what is missing from a community and trying to fix it, a better approach is to inventory the social and physical assets of a community and allow local groups to design ways to build upon them.[5] The sections of this report that deal with policies for community development organizations and local governments contain examples related to social capital development.

Strong Connections and Local Engagement Help Community Development

States can help strengthen connections among those working to improve conditions in vulnerable communities. These connections can be among state agencies, among state and local agencies, between the private and public sectors, and within the private sector. States also can become involved in sub-state, regional efforts to help make connections. When community development efforts are connected, there is greater chance for communication and learning and less chance for lost opportunities and duplication due to fragmentation.

States may benefit from having a single agency or entity that comprehensively views the issues involved in community development, since many of the same challenges are found in every vulnerable community. To help rural areas, **North Carolina**, **Pennsylvania** and **Texas** have created permanent institutions with the sole mission to examine the broadest array of rural issues and promote rural development. Pennsylvania chose to create a legislative agency, while North Carolina formed a private, nonprofit organization operated with extensive state support. Texas created an executive agency by combining two existing programs.[6]

Several states have tried to better coordinate community development efforts among state, local and federal agencies and between the private and public sectors. A Council of State Community Development Agencies report examines how **Missouri, North Carolina, Oklahoma** and **Utah** have promoted strategic alliances among community development agencies and organizations.[7] In Missouri, the Department of Economic Development managed a collaboration that streamlined state and federal agency involvement in community strategic planning. North Carolina's effort involved five state agencies, with the Department of Commerce as the collaboration manager. County departments of social services were the primary agencies within a broad group of local entities. In a related effort, four North Carolina programs in three separate state agencies have devised a consolidated plan that outlines how they plan to spend the funds they receive—a total of more than $60 million annually—from the U.S. Department of Housing and Urban Development.

The Oklahoma collaboration focused on welfare-to-work and had two co-managing agencies, the state Department of Commerce and the Department of Human Services. Utah's collaboration involved several state agencies, 16 local public housing authorities and a number of nonprofit organizations. The collaboration manager was the state Department of Community and Economic Development, but the Department of Workforce Services and several local housing authorities had key roles.

Connections and coordination are important in order to share lessons learned from addressing common challenges, but each community also has its own needs. Consequently, strategies should be flexible and should maximize local involvement in solutions. The **Iowa** Community Empowerment program provides an example of how to approach this concern. The program, established by 1998 legislation, represents a partnership between communities and state government to improve the well-being of children under age 5 and their families. The 58 community empowerment areas cover all 99 counties in the state. Citizen-led boards in each area develop plans for improving results for children.

The Iowa community plans guide the use of state grant funds and relevant state services for each community empowerment area. An Iowa Empowerment Board supports the partnership effort and administers grant funds. The board includes 13 citizens and the directors of the departments of education, human services, public health and human rights; the Department of Management also is involved. Six state legislators serve as ex-officio board members. In fiscal year 2002, $21.9 million in grants were awarded.[8]

A number of the strategies discussed in this report can and do strengthen the connections among economic development, human services and other fields with an interest in improving well-being in vulnerable communities. With these efforts, the communities stand a better chance of improving their futures.

2. Public Policy Goals

Policy goals help inform policy choices. In this chapter, economic development policy goals are discussed by examining how economic development is defined. Furthermore, defining the term "vulnerable communities" helps set limits on the types of economic development policies that are considered in this report.

In This Chapter

- Defining economic development
- Economic development in vulnerable communities
- The job creation conundrum
- Measuring results

The discussion of goals and state approaches to achieving them illustrates a fundamental point: economic development policies usually target business owners, whereas human services policies target children and families. In other economic terms, economic development aims to improve conditions by assisting employers, while human services assist potential employees. (Economic development policy targets are further explored in chapter three.)

Also in this chapter is a discussion of the challenges in attempting to measure the results of economic development policies and programs in vulnerable communities.

Economic development policies usually target business owners, whereas human services policies target children and families.

Defining Economic Development

The concept of economic development includes the idea of economic growth, where the size of the economy increases relative to the population. Measures used to gauge economic growth include investment, output, consumption and income (see table 1).

However, economic development also includes the notion of changing the quality or nature of the economy, perhaps by changing investment choices or increasing the use of technology, for example. In the broadest sense, a complete list of state activities that foster economic development would include almost everything states do. Policies on public education, transportation, public health, environmental conditions and others all affect the nature of an economy. At the same time, states enact dozens of more narrowly targeted programs for economic development, and it is these programs that are the subject of this report.

Table 1. Gross State Product, 2000, and Personal Income, 2002

State/ Jurisdiction	Gross State Product, 2000 (in millions of current dollars)	Personal income, 2002 (in $ thousands)	Personal income per capita, 2002
Alabama	$119,921	$112,737	$25,128
Alaska	27,747	20,699	32,151
Arizona	156,303	142,868	26,183
Arkansas	67,724	63,720	23,512
California	1,344,623	1,158,679	32,996
Colorado	167,918	149,958	33,276
Connecticut	159,288	147,784	42,706
Delaware	36,336	26,465	32,779
Florida	472,105	494,648	29,596
Georgia	296,142	246,720	28,821
Hawaii	42,364	37,348	30,001
Idaho	37,031	33,605	25,057
Illinois	467,284	420,913	33,404
Indiana	192,195	173,932	28,240
Iowa	89,600	83,051	28,280
Kansas	85,063	79,144	29,141
Kentucky	118,508	104,691	25,579
Louisiana	137,700	114,064	25,446
Maine	35,981	35,913	27,744
Maryland	186,108	198,119	36,298
Massachusetts	284,934	252,252	39,244
Michigan	325,384	304,490	30,296
Minnesota	184,766	171,026	34,071
Mississippi	67,315	64,248	22,372
Missouri	178,845	164,143	28,936
Montana	21,777	22,755	25,020
Nebraska	56,072	51,480	29,771
Nevada	74,745	65,596	30,180
New Hampshire	47,708	43,778	34,334
New Jersey	363,089	338,912	39,453
New Mexico	54,364	44,412	23,941
New York	799,202	690,488	36,043
North Carolina	281,741	230,556	27,711
North Dakota	18,283	17,109	26,982
Ohio	372,640	335,841	29,405
Oklahoma	91,773	89,350	25,575
Oregon	118,637	101,176	28,731
Pennsylvania	403,985	391,354	31,727
Rhode Island	36,453	33,503	31,319
South Carolina	113,377	104,320	25,400
South Dakota	23,192	20,468	26,894
Tennessee	178,362	160,414	27,671
Texas	742,274	621,832	28,551
Utah	68,549	56,299	24,306
Vermont	18,411	18,231	29,567
Virginia	261,355	240,115	32,922
Washington	219,937	198,317	32,677
West Virginia	42,271	42,682	23,688
Wisconsin	173,478	162,818	29,923
Wyoming	19,294	15,249	30,578
District of Columbia	59,397	24,046	42,120
United States	9,941,552	8,922,320	30,941

Source: U.S. Department of Commerce, Bureau of Economic Analysis, 2003. GSP data available at http://www.bea.doc.gov/bea/regional/gsp/; state personal income data available at http://www.bea.doc.gov/bea/regional/spi/.

According to the U.S. Department of Commerce:

> Economic development is fundamentally about enhancing the factors of productive capacity—land, labor, capital, and technology—of a national, state or local economy. By using its resources and powers to reduce the risks and costs which could prohibit investment, the public sector often has been responsible for setting the stage for employment-generating investment by the private sector.[1]

Economic development policies generally aim to encourage business investment (see "Key Economic Development Terms") and improve business productivity. The desired cumulative effect of business investment is to increase profits, which may directly or indirectly entail an increase in employment and personal income. Although generating employment is a secondary effect of business investment, it often is a focal point of economic development discussions by public policymakers.

Disagreement exists about whether the above goals—encouraging investment and improving productivity—should be the full extent of economic development concerns. Some believe, for instance, that economic development policies should go further to address issues of equity and sustainability. Indeed, these are the types of issues that receive particular attention in economic development policies that are designed for vulnerable communities. But many economists agree that any economic development policy can benefit from " … attention to distributional fairness, economic neutrality, the provision of adequate public services, and effective regulation in the public interest."[2]

Considerable disagreement also exists about the role of government in achieving economic development goals, and about which policies are most effective. State legislatures can help businesses by directly appropriating funds for financing and technical assistance and enacting targeted tax incentives. On the other hand, state policymakers can focus on providing a favorable overall tax structure and investments in education and infrastructure, which contribute to workforce development and business climate. (Two recent NCSL reports further discuss state economic development goals and strategies: *A Review of State Economic Development Policy: A Report from the Task Force on Economic Incentives* [1998], and *Retooling State Economic Development Policy for the New Economy* [2001]).

Furthermore, the public sector has its own interests related to economic development. As business activity increases, overall economic conditions improve and tax revenue collections may increase. Also, many social problems associated with unemployment may decline. In other words, states are concerned with economic development strategies because they can influence overall state fiscal conditions.

Just as opinions vary on what should be the goals of economic development and what approach should be used to achieve those goals, the rationale for categorizing the policies and programs associated with economic development varies among states. Some states may include housing, tourism or workforce development within economic development agencies, while others separate them into distinct agencies. These differences make it difficult

Key Economic Development Terms

Investment—In this report, investment describes an economic—not financial—concept. It refers to those resources that are devoted to future production rather than to current consumption. When a firm installs a new computer network, builds a new factory or retrains an employee, it is making an investment in its productive capacity. For an economy—just as for an individual or business—investment plays a vital role in determining its capacity for growth. An agent that consumes all its resources in the current period will have nothing to left for production or consumption in the future.

Inputs or Factors of Production—The land, labor, capital and technology used to make outputs.

Outputs—The goods and services produced—using inputs—for consumption or investment.

to generalize about state budgets for economic development agencies. Nevertheless, the National Association of State Development Agencies has identified key economic development budget items. It estimated the total of states' investment in economic development in 1998 at more than $6 billion in direct appropriations and more than $4 billion in foregone revenues from economic development tax incentives.[3]

Economic Development In Vulnerable Communities

In this report, the term *vulnerable communities* refers to what also are called distressed, disadvantaged or poverty-stricken places.[4] Each term carries a history and certain connotations. Vulnerability intends to convey the idea that a place is not economically healthy and is isolated from connections and resources that can help it become self-sufficient and thrive.

Vulnerable communities usually are neighborhoods in inner city or rural areas. They have lower than the state average per capita income and higher than average unemployment. Other indicators include low educational attainment, minimal access to resources such as telephones and computers, few transportation resources, low home ownership rates, and high crime rates.

Just as, in general, economic development programs attempt to encourage business investment that leads to increased employment and personal incomes, *community economic development* programs focus on achieving these goals in vulnerable communities. This distinction is important because any particular business investment—such as purchase of new computers or increased research and development—may not directly create jobs and increase incomes in the community where the business is located. Even if jobs are created and incomes are increased by such investments, they may not be in the target population where more jobs and better incomes are most needed. Consequently, states structure community economic development to assist geographic areas that have high unemployment rates and low incomes.

> Community economic development programs are based on standard economic development tools such as tax incentives, loans, grants and technical assistance for businesses.

Community economic development programs and policies are based on standard economic development tools such as tax incentives, loans, grants and technical assistance for businesses. States may have particular programs and policies for urban centers, rural areas and Indian reservations. To maximize the potential of these programs, many of which require knowledge of particular local conditions and resources, states usually rely on partnerships with local governments and local nonprofit organizations.

The Job Creation Conundrum

Job creation is a basic measurement for most publicly sponsored economic development programs. States generally use a formula for their loans, grants and tax incentives that accounts for the number of jobs and amount of capital investment to be created by a business within a certain time period. Thus, the economic development incentive has a link to job creation, which relates to the goals of increasing employment and improving the state's tax base.

> Economic development encourages business investment; job creation is a hoped-for secondary effect.

However, focusing only on job creation can obscure other important considerations of publicly sponsored economic development efforts. Some initiatives—such as tax equalization—seek to retain jobs that may otherwise be lost to a competing state or country with more favorable tax rates and overall business climate. Tax equalization programs permit states to negotiate corporate tax rates that are equal to or lower than the competing location.

Furthermore, economic development is designed to encourage business investment; job creation is a hoped-for secondary effect. The number of jobs associated with a new business investment or activity may determine the amount or type of state incentive for which the business may qualify. The incentive's existence does not necessarily spur the business to add jobs—or even consider the new activity—in the first place. Increased profit and competitiveness are a business's motivating factors, and they are influenced by an array of conditions. Incentives represent one aspect of profitability.

Also, a state may pull together tax and other economic development incentives to persuade a business to locate or expand there, bringing in or creating a certain number of new jobs. It is possible that the business could relocate to yet another place after a certain time or in response to different incentives. Even if the expected number of jobs is created, they may not be high-skill or high-wage jobs.

Job churn is another consideration. Job churn refers to the loss of jobs at less efficient companies as they downsize or close their doors and to the concurrent creation of new jobs at more innovative, efficient companies. Some economists believe that job churning is healthy for an economy. Job tenure may be less stable for many workers, but they may encounter new opportunities. Indeed, in the current economic climate, workers are finding that they must commit to a lifetime of learning and retraining to develop an array of skills that are needed in the quickly changing labor market. If states consider only the number of jobs, they do not capture the full effect of job churning (see table 2 and figure 1 for job churn data, and figure 2 and table 3 for employment data). In any case, short-term job creation continues to be a widely used test of economic development.

Measuring Results

General Economic Development Measures

Common state economic growth measures include personal income growth, employment growth and gross state product. Investment, another measure, is reflected in industry spending on equipment, for example, and in expenditures for research and development by university, federal and private entities.

Job creation conundrums notwithstanding, the number of new jobs created is an important measure, particularly when it is considered along with others that depict business competitiveness. At a company level, measures of competitiveness can include productivity, new products and market share. Broader measures of competitiveness include traded sector activity, which describes in-state businesses that produce goods and services that compete with firms outside the state.[5]

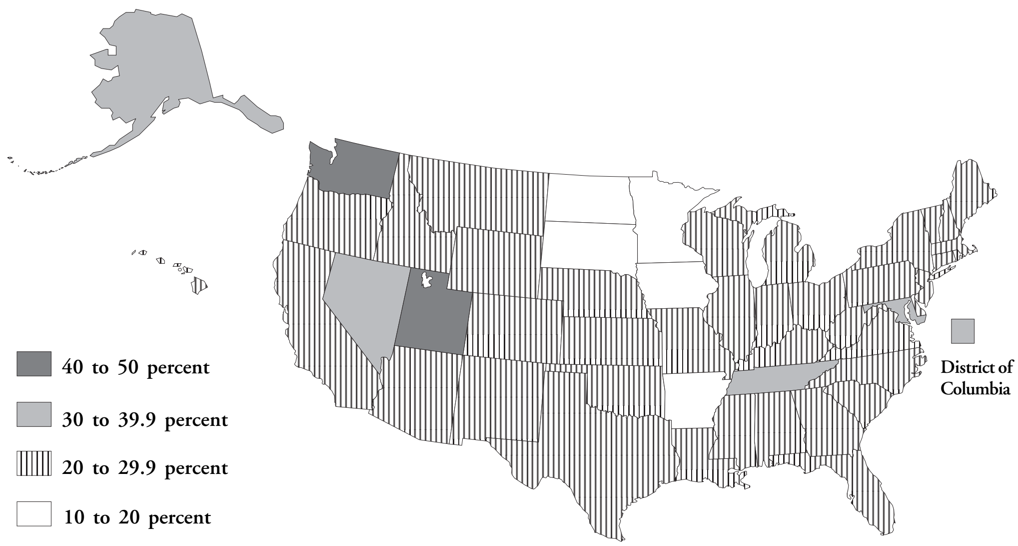
Table 2. State Business Churning Statistics: 1998, 2001

State/ Jurisdiction	1998		2001	
	Percent	Rank	Percent	Rank
Alabama	25.4%	30	28.9%	10
Alaska	30.1	11	30.6	7
Arizona	27.6	19	29.0	9
Arkansas	20.8	47	14.6	51
California	31.3	7	28.3	15
Colorado	29.8	12	22.9	36
Connecticut	22.5	39	21.1	45
Delaware	25.9	29	25.7	25
Florida	31.0	8	29.3	8
Georgia	31.8	5	24.7	28
Hawaii	23.5	37	27.6	16
Idaho	32.7	4	28.8	13
Illinois	21.3	44	21.6	41
Indiana	24.3	33	23.8	32
Iowa	17.8	51	19.5	47
Kansas	25.2	31	22.4	38
Kentucky	21.7	42	21.1	44
Louisiana	21.9	40	24.1	31
Maine	30.4	10	25.9	22
Maryland	31.4	6	30.9	5
Massachusetts	20.8	46	21.4	43
Michigan	21.6	43	23.3	33
Minnesota	19.5	50	14.9	50
Mississippi	26.3	25	25.7	24
Missouri	26.8	23	24.6	29
Montana	27.0	22	22.3	39
Nebraska	21.8	41	21.8	40
Nevada	39.1	2	36.9	3
New Hampshire	27.7	18	24.4	30
New Jersey	23.8	34	23.3	35
New Mexico	28.2	17	27.0	19
New York	26.1	26	27.1	18
North Carolina	29.5	13	26.0	21
North Dakota	21.2	45	19.0	48
Ohio	20.6	48	20.8	46
Oklahoma	26.0	27	25.9	23
Oregon	29.0	14	28.8	14
Pennsylvania	24.7	32	25.2	26
Rhode Island	23.8	36	23.3	34
South Carolina	27.4	21	27.2	17
South Dakota	19.7	49	18.1	49
Tennessee	30.8	9	31.2	4
Texas	28.6	15	28.8	12
Utah	34.2	3	44.6	1
Vermont	22.7	38	22.6	37
Virginia	26.6	24	26.4	20
Washington	39.6	1	40.5	2
West Virginia	26.0	28	24.9	27
Wisconsin	23.8	35	21.4	42
Wyoming	28.2	16	28.9	11
District of Columbia	27.4	20	30.8	6
United States	20.3		19.9	

Note: Business churn calculated as firm births plus firm deaths as a share of total firms.

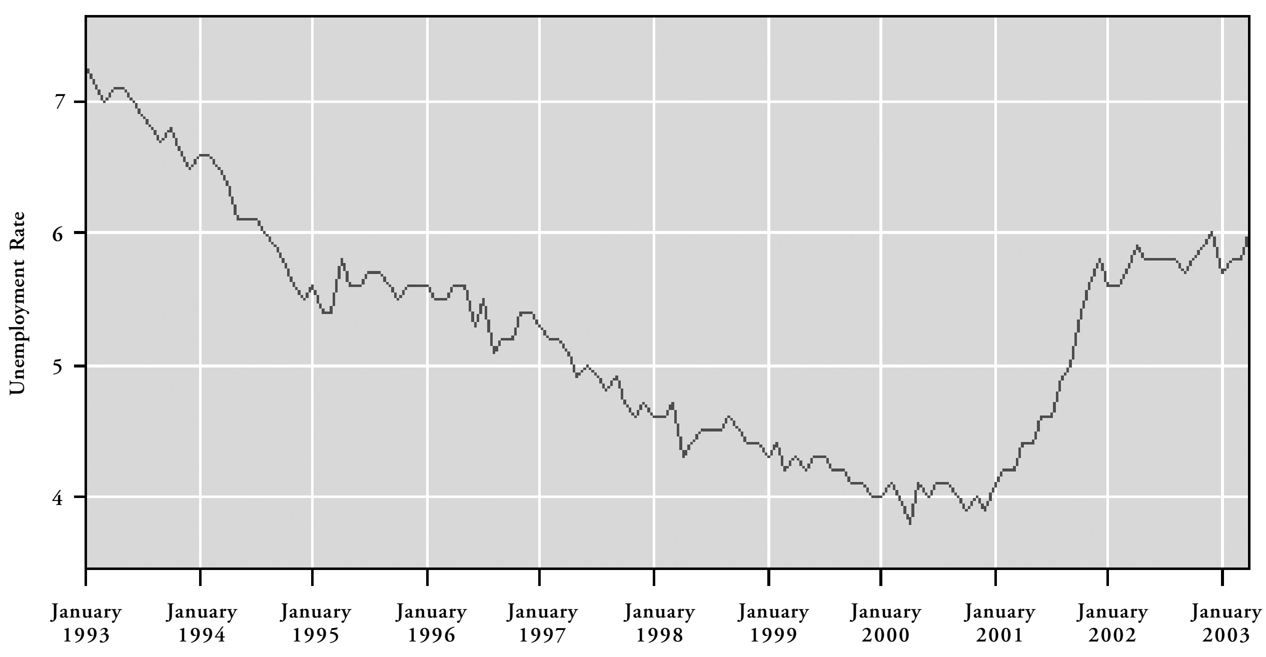
Source: State Science and Technology Institute. *SSTI Weekly Digest*, Feb. 21, 2003. Available at www.ssti.org/Digest/Tables/022103t.htm.

Figure 1. Business Churning (firm births plus firm deaths as a percentage of total firms), 2001



Source: State Science and Technology Institute. *SSTI Weekly Digest*, Feb. 21, 2003. Available at www.ssti-org/Digest/Tables/0221037.htm.

Figure 2. U.S. Annual Unemployment Rate, January 1993-January 2003



Source: U.S. Bureau of Labor Statistics, 2003. Available at http://data.bls.gov, 2003.

Table 3. Employment Status of the Labor Force, 2001

State/ Jurisdiction	Civilian Labor Force, 2001 (in thousands)	Unemployment Rate, 2001
Alabama	2,135	5.3%
Alaska	320	6.4
Arizona	2,580	4.7
Arkansas	1,248	5.0
California	17,183	5.4
Colorado	2,379	3.7
Connecticut	1,755	3.3
Delaware	429	3.4
Florida	8,020	4.8
Georgia	4,220	4.0
Hawaii	591	4.6
Idaho	681	5.0
Illinois	6,473	5.4
Indiana	3,134	4.4
Iowa	1,625	3.3
Kansas	1,383	4.3
Kentucky	1,985	5.4
Louisiana	2,053	5.9
Maine	686	3.9
Maryland	2,841	4.0
Massachusetts	3,393	3.7
Michigan	5,158	5.3
Minnesota	2,889	3.7
Mississippi	1,305	5.5
Missouri	3,020	4.7
Montana	463	4.6
Nebraska	953	3.1
Nevada	1,104	5.3
New Hampshire	700	3.5
New Jersey	4,305	4.2
New Mexico	861	4.8
New York	9,132	4.9
North Carolina	4,202	5.5
North Dakota	346	2.9
Ohio	5,844	4.2
Oklahoma	1,671	3.8
Oregon	1,817	6.3
Pennsylvania	6,212	4.7
Rhode Island	548	4.7
South Carolina	1,952	5.3
South Dakota	412	3.4
Tennessee	2,860	4.4
Texas	10,560	4.8
Utah	1,161	4.4
Vermont	340	3.6
Virginia	3,680	3.4
Washington	3,015	6.4
West Virginia	822	4.8
Wisconsin	3,028	4.5
Wyoming	272	3.9
District of Columbia	313	6.4
Puerto Rico[1]	1,297	11.4
United States[2]	143,734	4.7

Notes
1. The source of these data is the Puerto Rico Department of Labor and Human Resources.
2. Because of separate processing and weighting procedures, totals for the United States differ from the results obtained by aggregating data for the states.

Source: U.S. Department of Labor, Bureau of Labor Statistics, *State and Regional Unemployment, 2002 Annual Averages*, Feb. 28, 2003, news release; available at www.bls.gov/lau/home.htm.

Measures of Economic Development in Vulnerable Communities

State economic development efforts for vulnerable communities may need a complementary set of measures to those above, but at the neighborhood level. The Annie E. Casey Foundation has devised long-term community investment benchmarks that may be useful, including the following:

- Increase in services provided by formal financial institutions and depository financial institutions,
- Increase in the number of employers who look to the neighborhood for employee recruitment,
- Increase in private investments in the neighborhood,
- Increase of public resources committed to the neighborhood for infrastructure.

Interim milestones include:

- Completion of a neighborhood economic development strategic plan,
- Start-up or capacity building of a community development corporation or business association,
- Start-up of neighborhood businesses.[6]

The goals of development efforts in vulnerable communities likely go beyond narrow goals of economic development and, therefore, would involve additional measures of results, which could include:

- Increase in the number of jobs with health insurance and retirement benefits,
- Increase in the number of jobs with wage rates higher than the legal minimum wage.

Challenges to Measuring Results

It is difficult to draw a cause and effect connection between state economic development efforts and the above measures. As stated by the 1996-1997 bipartisan NCSL Task Force on Economic Incentives, it is difficult to say whether new economic activity would have happened anyway, without state efforts.

Regardless, many researchers look for connections. Academic assessments tend to focus on tax policy alone, however, and may not contain practical advice for legislators. Most state evaluations are compliance audits, designed to determine whether a program conforms with the law, not to measure effectiveness. Economic development agencies focus on their successes, often defined as the number of businesses assisted or the dollar amount of assistance provided, but may not consider evaluation or cost-effectiveness. At the same time, expected results may not be narrowly enough defined to make evaluation possible.

Measuring economic development is complicated by data collection obstacles. Some programs require direct appropriations and are subject to serious budget scrutiny. Others, such as tax incentives, simply involve foregone tax revenue that never enters the state treasury. States can counteract these obstacles by building more accountability into programs from the outset and tying program benefits to performance. Doing so requires a clear idea of the intended effect of the incentives—such as increased employment or capital investment. Imposing a sunset provision on incentive programs can encourage evaluation.[7] These steps can help policymakers equitably allocate state budget resources to the myriad of economic development programs.

Attempting to measure the effects of state economic development on particular vulnerable communities, specifically neighborhoods, is particularly challenging. To begin with, neighborhoods are a new unit of measurement; most data are broken down into county and state levels. Neighborhood data are becoming more available due to efforts such as the Neighborhood Market Drill Down Program of a nonprofit organization called Social Compact.[8] Other organizations are helping communities to define the kinds of data that can help measure outcomes. Two examples are the National Neighborhood Indicators Partnership, a program of the Urban Institute, and the Community Indicators Project of a nonprofit organization called Redefining Progress.[9]

Accountability Measures

In return for providing tax and other financial incentives to a business, the state may require the business to meet certain conditions, such as creating a specified number of jobs. Other requirements may be related to ensuring that the new jobs pay above a certain wage, the jobs include health benefits, the new jobs are not shifted from a nearby location, or—for enterprise zones—that a certain number of workers from within the zone are hired to fill the new jobs.

States monitor business accountability through disclosure requirements. Businesses must show how they have met the criteria for the incentives. These reporting requirements also help states evaluate their incentive programs. **Maine** and **Minnesota** have the most extensive reporting requirements. Penalties for businesses that fail to meet the criteria for incentives can include clawbacks, or repayment of the incentives to the state. More information is available from Good Jobs First at http://www.goodjobsfirst.org/bestpractice.htm.

Measuring results also is complicated because efforts to assist vulnerable communities cut across traditional policy jurisdictions, and each policy realm may have a different approach. Economic development focuses on conditions in business sectors, regardless of location, while community development considers conditions in particular places. Human services programs are designed to help low-income individuals, while economic development programs generally are designed to help business owners (employers). However, numerous policy options exist that can bridge the efforts and link the client bases. These policy options are discussed in chapter three.

Efforts to Measure Economic Development Results

A landmark study by Timothy Bartik showed that state and local economic development policy can have strong positive effects on local economic growth, although the effectiveness of particular programs may vary. Concerning vulnerable communities specifically, a recent article by Bartik states that programs that target distressed areas can be successful if they provide extensive resources over a lengthy period of time.

Several states have attempted to gauge the effectiveness of their overall economic development incentives for businesses. The **Ohio** General Assembly commissioned an 18-month study of the state's 12 largest economic development programs to determine their fiscal and economic costs, benefits and overall effects. Among the findings in the final report, conducted by Cleveland State University's Urban Center and released in May 1999, were:

- Although the state's economic development incentives are not the primary influence in the investment and location behavior of firms, they do have a significant effect on this behavior.
- The areas with larger existing concentrations of business and industry receive the greatest share of incentive funds.
- Manufacturing firms receive most of Ohio's incentive funds. The state is under-investing in other business sectors, including value-added service and businesses that develop technology.
- Reforming broad business tax policy will not eliminate the need for tax incentives, but it could reduce the need for some incentives in the future.
- The state should exercise greater leadership in economic development. Its economic development efforts are most successful when funds are co-invested with local government and the business community.

The Ohio study explored possible cause and effect connections between state efforts and economic development results, and it identified options for improving results. **Maine, Oregon** and **West Virginia** are among the states that have established systematic monitoring of economic development—and other—results.

A **Texas** bill passed in 2001 will enable the state to better understand the scope of its investment in economic development. SB 275 directs the comptroller of public accounts to develop an integrated, or unified, budget for all economic development programs. The budget will include direct appropriations to not only the Texas Department of Economic Development but also to other agencies, and it will include tax expenditures. As of February 2003, the first report had yet to be submitted to the Legislature.

Sources: Timothy J. Bartik, *Who Benefits from State and Local Economic Development Policies?* (Kalamazoo, Mich.: W.E. Upjohn Institute for Employment Research, 1991); Timothy J. Bartik, *Evaluating the Impacts of Local Economic Development Policies on Local Economic Outcomes: What Has Been Done and What is Doable?* Upjohn Institute Staff Working Paper No. 03-89 (Kalamazoo, Mich.: W.E. Upjohn Institute for Employment Research, November 2002); Cleveland State University, the Urban Center, Maxine Goodman Levin College of Urban Affairs, *An Assessment of the Costs, Benefits and Overall Impacts of the State of Ohio's Economic Development Programs* (Cleveland: Cleveland State University, May 28, 1999); Oregon Economic and Community Development Commission, *19990-2001 Biennial Report*, January 2001, www.econ.state.or.us/BI01_appb.htm; Maine Development Foundation, *Measures of Growth 2002,* www.mdf.org; West Virginia Council for Community and Economic Development, *West Virginia: A Vision Shared!,* www.wvcouncil.org/impl12.html.

3. Public Policy Options for Targeted Groups

In This Chapter

Policy options for—

- People who could start a business
- People who could fill unmet demand for workers
- Community development organizations
- Local governments
- Existing business owners

Inner City Market Potential

For the past five years, *Inc.* magazine has profiled "The Inner City 100," a list of the fastest growing U.S. businesses in inner cities. A landmark 1998 study estimated that inner cities represent $85 billion in annual spending power for the retail sector alone. Other promising market segments include health care, real estate, child care and education services such as supplemental tutoring.

The Initiative for a Competitive Inner City, a national non-profit founded by Harvard Business School Professor Michael Porter, compiles the Inner City 100 data and analyzes it. Of the businesses on the 2001 list, 24 percent of the companies were in business products and services, 18 percent were in high tech, 16 percent were in consumer goods, and 15 percent were in construction. Thirty three percent of the businesses were launched with less than $10,000 in start-up capital. The average wage of the rank and file worker was $11.81/hour, and the average CEO salary was $206,610 (the median was $130,000). Twenty nine percent of senior management at these businesses lived in the inner city, 38 percent of middle management or skilled workers lived there, and 55 percent of the rank and file workers lived there.

Source: Mike Hofman, "The Inner City 100," *Inc.* magazine (May 1, 2002); Thea Singer, "The Inner City 100," *Inc.* magazine (May 1, 2001).

Most economic development programs and policies target existing business owners and local governments. However, some target people who could start a business, people who could fill unmet demands for workers, and community development organizations. These efforts are of particular interest to those who want to help vulnerable places. Therefore, this chapter first discusses the latter policy options. Some programs and policies may not be restricted to distressed areas, but they represent an important resource that can be tapped by distressed areas and are particularly applicable to the goals of community economic development. Those who are interested in obtaining further information about or participating in the programs should contact the state agency or other entity that administers them.

People Who Could Start a Business

Although helping existing businesses is a significant part of economic development efforts, increasing the supply of entrepreneurs who start new businesses is important for economic growth. All communities need people with abilities to take risks, identify new economic opportunities, and improve upon or break from established ways of doing business.[1] A healthy environment for entrepreneurship encourages creativity, innovation (commercial application of a new idea or invention), and risk taking—and it has sources of capital. Some communities may find it difficult to generate an entrepreneurial climate.[2] Entrepreneurship involves complex personal and cultural values, and communities that are struggling with certain demographic trends—such as a declining population or a relatively older population—will be at a particular disadvantage.

Economic development agencies realize the importance of entrepreneurship. Many are devoting more resources to developing entrepreneurs relative to historic practices of recruiting businesses from other states. An in-depth study of local, regional and state-level economic development agencies in **Maine, Nevada** and **Pennsylvania** shows that, on average, 43 percent of the agencies' budgets are devoted to entrepreneurial development.[3] Examples follow of how states offer or support financial and technical assistance to those who may be interested in starting a business. Additional information on financing is discussed in chapter three in the section on policies for existing business owners.

Entrepreneurship Education for Adults and Youth

Entrepreneurship education teaches about financial institutions, government agencies and community resources that can support a start-up business. It also can involve training on basic business functions such as budgeting, management and marketing.

Entrepreneur magazine has identified more than 700 entrepreneurship programs at universities and colleges across the United States.[4] Community colleges are an ideal venue to provide entrepreneurship education. The National Commission on Entrepreneurship reports that the demographic group most likely to start a new business is comprised of working adults between the ages of 25 and 44. Community colleges serve this group. In addition, community colleges are more widespread—they exist in nearly every sizable community. They also have more diverse student populations than traditional four-year higher education institutions.[5] In **New York**, Brooklyn's Kingsborough Community College offers a virtual enterprise course where students run a simulated business and engage in commerce with simulated student businesses at other colleges via the Internet.[6]

Youth enterprise development includes entrepreneurship education as well as mentoring and job networking services. The National Foundation for Teaching Entrepreneurship has a high school entrepreneurship curriculum that has received praise from the Local Initiatives Support Corporation (LISC), a national nonprofit organization that provides financing and training for community development corporations.[7] The **Nebraska** Department of Education has its own comprehensive entrepreneurship program for youth.[8]

The Rural Entrepreneurship through Action Learning (REAL) Enterprises program is taught in 33 states—specifically, in 250 high schools, 69 community or technical colleges, four universities, 140 elementary and middle schools, and 18 community-based organizations.[9] The elementary school curriculum creates an in-school community with an entrepreneurial sector, a court system, a government sector and banking. The post-graduate curriculum is devised for those who are ready to start a business.

Microenterprise Development

Microenterprise programs help the unemployed or underemployed develop skills and obtain capital to become self-employed. The programs are intended for those with low incomes and for minority, women and other disadvantaged entrepreneurs who do not have a business track record and cannot secure conventional financing. The term *microloans* specifically refers to the loan amounts extended to the entrepreneurs. The **Mississippi** Development Authority microloan program provides loans in amounts ranging from $2,000 to $15,000 for purchase of equipment, inventory or other fixed business assets. The business owner is required to invest cash, land or equipment in the business that equals at least 5 percent of the loan amount.[10] The U.S. Small Business Administration (SBA) has a microloan program that makes funds available to nonprofit community development corporations, which then lend the funds to new businesses. The average amount of an SBA microloan is $10,500.[11]

Many states have established Individual Development Account (IDA) programs to support microenterprise development. IDAs are savings accounts that are matched with public and private funds that are dedicated to education or job training, capitalizing a small business, or housing down payments or repairs. IDAs target those with low incomes, and the savings are not considered in eligibility determination for public assistance programs. Account holders participate in a financial education program.

By 2002, at least 23 states had an IDA program established by legislation or under executive authority, either with or without matched public funds (see table 4).[12] The **Minnesota** Legislature was involved in establishing the state's IDA program, which has a three-to-one match. **Washington** had appropriated more than $1 million by mid-2002 for IDAs, had included IDAs as a component of its welfare reform plan, and had established a state IDA program. An evaluation of 2,364 IDA account holders in 14 programs across the country was conducted from 1997 to 2001 by the Center for Social Development at Washington University in St. Louis. The center found that participants deposited an average of $40 per month, including months without deposits. Participants' income did not have a statistically significant effect on the amount saved; in other words, poorer participants did not save relatively less. The largest portion (28 percent) of matched withdrawals was used for home purchases, followed by capitalizing a small business (23 percent), post-secondary education and home repair.[13]

America's Entrepreneurial Landscape

Business scholars draw a distinction between conventional small business owners and entrepreneurs who lead high-growth firms. Although many businesses start small and stay small, high-growth entrepreneurial firms have a product, service or distribution method that captures significant productivity gains. High-growth firms can be found in vulnerable communities; *Inc.* magazine compiles a list of the 100 fastest growing businesses in inner cities, and firms on the 2003 recent list have grown at an average annual rate of 55 percent.

Small businesses and entrepreneurial businesses both are important for the economy, but economic developers are particularly interested in high-growth entrepreneurial firms because of their revenue and job creation potential. A 2001 report by the National Commission on Entrepreneurship included interesting findings concerning high-growth companies in the U.S.:

- High-growth companies are few in number. Less than 5 percent of businesses that existed in 1991 grew their employment by at least 15 percent per year over five years (during the 1992-97 period).
- All regions have high-growth companies. This finding became apparent because the study mapped every county in the U.S., rather than focusing on metropolitan areas like most studies. In fact, each of the country's 394 Labor Market Areas has growth companies that could serve as the basis for future growth. Some areas, such as the "rust belt"—often considered an area of slow economic growth—have a surprisingly large number of high-growth firms.
- Most fast-growing companies are not in "high tech" industries. They are widely distributed across industries in local market, retail, distribution, business services, manufacturing and extraction sectors.

Source: National Commission on Entrepreneurship, *High-Growth Companies: Mapping America's Entrepreneurial Landscape* (Washington, D.C.: NCOE, July 2001); available at www.ncoe.org/lma/index.html.

Business Incubation

Incubation programs provide physical office space and a full array of business services to start-up companies. Specialized staff help run the incubator and provide technical assistance with marketing, accounting and finance, networking, finding sources of financing, and linking to universities and colleges. The goal is to provide guidance so client companies can "graduate" from the incubator and stand successfully on their own.

Incubators can be set up to achieve community economic development goals. Microenterprise incubators help the poor to become self-employed, and empowerment incubators target women and minority-owned businesses. Likewise, they can focus on inner city or rural areas and offer the chance to renovate vacant or aging buildings. In **Pennsylvania**, the Enterprise Center incubator targets urban Philadelphia and houses about 20 start-up companies. The center has received several awards from the National Business Incubation Association.[14]

Since the 1980s, most states have passed legislation to establish incubator programs, but most state-funded incubators focus on technology development rather than on microenterprise development. State governments or nonprofit organizations fund roughly half of all business incubators; universities and colleges are the next largest incubator sponsors, supporting 27 percent of the total.[15] Data from the National Business Incubation Association shows that about 84 percent of incubator graduates remain in their communities and continue to operate.[16]

Table 4. State Individual Development Account (IDA) Programs

State	Support (in $ thousands)	IDA in TANF	State IDA Program
Alabama	—	No	No
Alaska	—	No	No
Arizona	—	Yes	Yes
Arkansas	$1,506	Yes	Yes
California	—	Yes	No
Colorado	20	Yes	Yes
Connecticut	400	Yes	Yes
Delaware	—	No	No
Florida	—	Yes	On Hold
Georgia	—	Yes	No
Hawaii	—	No	Yes
Idaho	—	No	Developing
Illinois	1,000	Yes	Yes
Indiana	5,000	Yes	Yes
Iowa	1,700	Yes	Yes
Kansas	—	Yes	No
Kentucky	—	Yes	No
Louisiana	2,000	Yes	Developing
Maine	200	Yes	Yes
Maryland	100	No	Developing
Massachusetts	—	No	No
Michigan	5,000	Yes	Yes
Minnesota	2,500	No	Yes
Mississippi	—	No	No
Missouri	200	Yes	Yes
Montana	100	Yes	Developing
Nebraska	—	Yes	No
Nevada	—	No	No
New Hampshire	—	No	No
New Jersey	2,000	Yes	Yes
New Mexico	—	Yes	No
New York	—	Yes	No
North Carolina	3,000	Yes	Yes
North Dakota	—	No	No
Ohio	308	No	Yes
Oklahoma	1,000	Yes	Yes
Oregon	68	Yes	Yes
Pennsylvania	8,000	Yes	Yes
Rhode Island	—	Yes	No
South Carolina	650	Yes	Yes
South Dakota	—	No	No
Tennessee	300	Yes	Yes
Texas	—	Yes	On Hold
Utah	—	Yes	On Hold
Vermont	200	Yes	Yes
Virginia	800	Yes	Yes
Washington	1,800	Yes	Yes
West Virginia	—	No	No
Wisconsin	—	Yes	No
Wyoming	—	No	No

Source: K. Edwards, Center for Social Development, Washington University, and C. Rist, Corporation for Enterprise Development (personal communication with author, 2002). St. Louis, Mo. Available at http://sadrc.cfed.org/measures/idapolicy.php.

Minority- and Women-owned Business Development

Centers to develop minority- and women-owned businesses can be operated by state and local governments, private entities, Native American tribes and educational institutions.

Some states have offices for minority- and women-owned business development that aim to increase participation in competing for and securing state procurement contracts. State construction projects are among the most coveted contracts. The **Louisiana** Department of Economic Development and its Division of Economically Disadvantaged Business Development have a program that helps contractors secure bonding and also provides education about the legal and business aspects of the construction industry.[17]

A number of states have passed laws that direct agencies to establish goals for minority- and women-owned business procurement. A 2001 **Maryland** law increases the minority business participation goal to 25 percent of each agency's total dollar value of procurement contracts. An Urban Institute report says that many state procurement policies follow federal goals, which are to award 5 percent to small disadvantaged businesses, 5 percent to women-owned firms, and 20 percent to small businesses generally.[18]

People Who Could Fill Unmet Demand for Workers

A significant feature of community economic development is to provide education and training for unemployed people in vulnerable communities to help them enter job markets they otherwise could not enter. Workforce development has the same goals as economic development—to increase employment and incomes—but the emphasis is on employees rather than employers. At the same time, it is essential that employers are involved in workforce development efforts because they are the source of demand for workers and they can ensure programs are designed to fit opportunities.

Workforce Policies

For more information on state workforce policy, refer to the NCSL Labor and Employment Web page at www.ncsl.org/programs/employ/topmenu.htm.

State workforce development programs often are administered by a department of labor or other agency that is separate from the state economic development agency. Workforce development programs originated in the United States as federal programs, and federal programs and policies still set the stage for state efforts. The federal government has three funding streams for workforce development, each with distinct purposes and funds. The unemployment insurance system provides income replacement to unemployed workers. The job service system provides job placement services, also called employment services, to help unemployed workers find new jobs. Finally, the Workforce Investment Act provides training services to unemployed workers to help them qualify for new jobs.

The Workforce Investment Act (WIA) (PL 105-220) of 1998 breaks down many barriers to coordinating federal and state programs.[19] WIA attempts to consolidate federal efforts and give states a larger role, although block grants still go to local governments to administer federal programs. The act also strikes

K-12 and Higher Education

The K-12 and higher education systems are distinct from the workforce development system, but they are the foundation for it. Virtually any type of educated worker with strong analytical, communication and problem-solving skills will have the best job options. Furthermore, because job tenures have shortened over time, children and adults need more than just a proficiency in a range of subjects—they need a devotion to the learning process to build a basis for lifetime learning.

State and federal funding for education also represents a much larger pool of resources than funding for workforce development alone. For these reasons, K-12 and higher education are consistently a part of community economic development concerns. For more information about state education issues, refer to the NCSL Education Program Web page at www.ncsl.org/programs/educ/EdIssues.htm.

a greater balance between state legislative and executive branch involvement, for example with the requirement that federal training funds be appropriated rather than received directly by state agencies and with the requirement that two legislators from each chamber be appointed to the state workforce board. States can jointly plan their federally funded programs to increase coordination and efficiency. **Utah**, for example, has integrated its workforce development systems and has linked them to welfare programs. **Florida** has not only integrated its workforce development systems, it also has linked them to the state economic development system.

WIA also aims to improve services offered to workers. Previously, federal services were organized by sub-state service delivery areas and private industry councils that corresponded to areas with a population of 200,000. Recognizing that labor markets do not necessarily correspond with these boundaries, WIA reconfigures the system into workforce development areas and workforce development boards. Local boards are required to develop a central or one-stop delivery system that integrates job service, training and career development services. The act emphasizes providing a choice of quality training providers to workers, and making those providers accountable for their services. Examples follow of how states offer job training assistance to workers.

Job Training for Economically Disadvantaged Adults

Many states have adult job training and placement programs for those who have low literacy levels or who experience other barriers to employment. The **Texas** Workforce Commission administers a self-sufficiency fund that supports job training for recipients of Temporary Assistance to Needy Families and/or Food Stamps recipients with dependent children. The fund received $6 million in state appropriations for fiscal year 2002-2003 to provide grants to joint training projects that involve employers and community colleges, technical colleges, nonprofit corporations or extension services.[20] As part of its comprehensive workforce development and training efforts, **North Dakota** offers a Job Training Partnership Program that covers up to 50 percent of the costs for training unemployed and economically disadvantaged residents. More programs for economically disadvantaged adults are striving not to place low-skilled workers into low-skilled jobs, but to prepare the workers to move up the employment ladder.

Job Retention and Career Advancement and Training

The community college system is especially important in helping employed people upgrade their skills and advance their careers. Colleges and employers can work together to design specialized curricula that match opportunities. Companies also may form their own networks to acquire programs from training providers or to purchase the training services at reduced costs. As of February 2001, **Connecticut** provided funding for eight of these training networks, which included companies in metal manufacturing, electronics, information technology and metal finishing.[21]

Any workforce development effort benefits from the involvement of business, the state's labor and education systems, unions and affected communities. The **Wisconsin** Regional Training Partnership was established by business, labor and educational institutions to help workers, employers and communities involved in the state's manufacturing industries. The training partnership offers programs on retraining, school-to-work and plant modernization, among others. Funding from several state agencies is complemented by funds from private sources, local governments, Welfare-to-Work and other federal programs. Connections to and funding from community resources, including the Annie E. Casey Foundation Milwaukee Jobs Initiative, help recruit, screen and support training participants, many of whom are from vulnerable communities. The partnership now involves 100 employers and unions, the participant retention rate is 73 percent, and participants generally increase their average annual earnings from about $9,000 to nearly $23,000 during their first year on the job.[22]

Community Development Organizations

States rely heavily on community development organizations, as well as on local governments, to administer community development efforts. Nonprofit community development organizations perform a range of activities to improve social and economic conditions in vulnerable places, including economic literacy programs, housing construction and rehabilitation, and prevention of predatory lending. States offer financial and technical assistance to community development organizations.

Financial Assistance, Including Grants, Loans and Tax Incentives

In many states, community development organizations receive state financial assistance in the form of grants for general support, grants for specific activities, loans for general support, loans for specific activities, and tax incentives.

What Are Community Development Organizations?

Community-based development organizations aim to restore the economic and social health of distressed areas.

Community development corporations (CDCs) are perhaps the most common type of community development organization. They are private, nonprofit organizations that combine conventional financing services—such as loans offered by banks—with the responsiveness of local nonprofit organizations. They fill a gap in providing small amounts of debt and equity financing and technical assistance for projects in vulnerable neighborhoods.

Community development financial institutions (CDFIs) serve as a financial resource for CDCs.

Other community development organizations include community action agencies, religious groups and neighborhood housing service agencies. All community development organizations operate with the involvement of residents in low-income neighborhoods on efforts such as affordable housing construction and rehabilitation, job training, business assistance and development, and social service delivery.

For example, **North Carolina** appropriated $1.8 million in 2002-2003 to its Department of Commerce to support the North Carolina Community Development Initiative. This initiative raises public and private funds to offer general support grants, loans and technical assistance on a competitive basis to community development corporations (CDCs). For 2003, funds were awarded to 21 CDCs that fulfill these criteria: they have operated for at least three years, have completed or are nearing completion of an affordable housing or other community construction project, and they have two consecutive acceptable audits.[23] The Department of Commerce awards funds to other community development organizations, including the North Carolina Rural Economic Development Center and the Institute of Minority Economic Development.

It is important to note that state economic development agencies tend to target their grants, loans and tax incentives for nonprofit organizations to activities that help potential entrepreneurs. **Minnesota** has a challenge grant program for nonprofit organizations in its six rural regions. Up to $1 million over three years is awarded by the Department of Trade and Economic Development to each region. The nonprofit organizations must use the funds to provide revolving loans in amounts ranging from $5,000 to $200,000 or microloans of $1,000 to $10,000 for start-up businesses. The first $1 million of revolving loans for each region must be matched by non-state sources.[24] *Revolving loans* are dedicated to specific purposes, and the funding base, once it has been loaned, is replenished by principal repayments, interest income and fees, and then it is loaned again. In this way, the loan fund is used for successive projects over an extended period of time.

Financial assistance to nonprofit organizations also may be in the form of tax incentives to businesses that give financial or in-kind contributions. The **New Jersey** Neighborhood Revitalization State Tax Credit Act gives corporations a 50 percent state income tax credit for financial contributions to nonprofit activities in low-income communities. Qualifying activities include small business assistance, construction or rehabilitation of affordable housing and commercial facilities, job training, and child care and transportation services that are needed to obtain or retain employment.[25]

Lessons from Foundation Initiatives

Foundations provide crucial funding and training to community development organizations. The Annie E. Casey Foundation has a number of initiatives that focus on community development. The Making Connections Initiative was launched in 22 cities in 1999. Its goal is to build a groundswell of support to improve the participating communities by involving all relevant players in improvement strategies. The Jobs Initiative emphasizes workforce development in vulnerable communities. The Rebuilding Communities Initiative, which began with five communities in 1993, took a broad approach but identified a single "engine of change" to lead renewal efforts.

Over seven years, 11 core principles were developed from the Rebuilding Communities Initiative:

1. Change takes time and must be carefully planned.
2. Be comprehensive.
3. Keep the change process focused by identifying an "engine of change."
4. Focus on a neighborhood's assets, not just its problems.
5. Empower residents and build their capacity to transform their neighborhoods.
6. Build "social capital" within a neighborhood.
7. Collaborate.
8. Reform systems that affect a community.
9. Emphasize ways to strengthen families.
10. Involve youth.
11. Evaluate in an ongoing and realistic way that generates lessons as the process unfolds, not just after it is over.

Source: Annie E. Casey Foundation initiatives, 2002, available at www.aecf.org/initiatives/.

Technical Assistance and Networking Support

States also offer technical assistance and networking support to community development organizations to maximize their financial and management performance. **North Carolina** appropriated $360,000 in 2002-2003 to its Department of Commerce to support the North Carolina Association of Community Development Corporations, which provides professional development and networking services for the state's community development corporations. The state Department of Commerce's Division of Community Assistance also convenes forums of nonprofit organizations, lenders, foundations, local governments and others concerned with community development.

In addition to professional organizations and the state economic development agency itself, state universities and colleges can be sources of technical assistance for community development organizations. **Ohio** University's Voinovich Center for Leadership and Public Affairs has an Appalachian Regional Entrepreneurship Initiative that provides technical assistance to community development organizations and businesses in southeast Ohio. The initiative provides strategic planning, research and marketing services to community organizations that are involved in developing new businesses.[26]

Local Governments

Local governments are the primary public entities that are involved in community development, which includes—but is broader than—community economic development.[27] Community development accounts for a significant portion of local government budgets. Local governments altogether spent 18.9 percent of their budgets on transportation infrastructure, housing, parks, sewerage and other environmental services in fiscal year 2000.[28]

Although local governments are the main administering agencies for community development, states have a significant role. Both state and local governments have multiple agencies and programs related to community development. At the state level, these programs are related to housing and local government assistance and usually are handled not by the

More Lessons from Nonprofit Organizations

The **Connecticut** Department of Community and Economic Development hired the Local Initiatives Support Corporation (LISC), a national nonprofit organization that funds community development corporations, to identify programs that have successfully promoted urban competitiveness. The LISC study was released in 1999.

Of the 18 programs nationwide studied by LISC—most of which are administered by nonprofit community development organizations—the most effective had these traits in common:

- *Link to market need*. Programs need to directly link to business needs, as with tying career development to industries where jobs currently are available and are projected to have strong future demand, and involving relevant industries in creating training curricula.
- *Entrepreneurial, opportunity-driven approach*. Programs need to identify opportunities for funders (businesses and foundations), rather than focusing solely on the need of clients.
- *Visionary and pragmatic leadership*. Programs should have an understanding of the big picture but a thorough knowledge of their clients.
- *At least one champion in business, foundation or government*. These champions give credibility as well as financial and technical assistance resources to programs.
- *Focused mission with targeted goals and customers*. Effective programs did not try to be "all things to all people." They found a niche and created partnerships as needed to offer clients additional services.
- *Emphasis on outcomes for clients*. Programs should take a holistic view to meet the various needs of clients. In providing financial incentives, effective programs focus on small geographic areas and offer a large number of related incentives and services. Programs with strong local support had especially strong chances for positive outcomes.

LISC also examined Connecticut's urban and small business development programs. The study found that financial incentives and tools are plentiful but that more support services for businesses are needed.

Source: Local Initiatives Support Corporation, *National Survey of Urban Economic and Community Development Models* (New York, N.Y.: LISC, 1999).

state economic development department but by a separate department, agency or financing authority.[29] At the same time, economic development agencies that are not primarily responsible for housing and local government assistance may have a role in infrastructure projects, community strategic planning and local leadership training, among other efforts.

Local government agencies that are involved in community development include planning departments and zoning boards, which work with neighborhood groups to set up overarching plans for how residential and commercial development—as well as open space and historic preservation—occur in neighborhoods. Planning and zoning have a significant effect on economic development and property tax revenues, so planning and zoning officials work to anticipate market trends and other factors that influence business location and activity.

Other local agencies contribute to community development. Local economic development agencies devise incentives and other assistance to help businesses locate or grow in certain neighborhoods. They may recruit supermarkets or other retail stores to locate in vulnerable communities that historically are perceived as unprofitable. Local public works agencies handle traffic studies, sewer system design and waste management, among other issues. Departments of safety aim to make neighborhoods safe from crime and hazardous materials and prepared for emergencies. Parks departments handle parks and recreation centers.

State and Local Financing, Particularly for Infrastructure

Economic development agencies at both the state and local levels are involved in infrastructure development. Local infrastructure is of particular importance to economic developers because it supports ongoing business activity and serves as the basis for business construction and expansion. Infrastructure may involve water, sewer, road, electricity, telecommunications or rail systems.

Bond financing

Most states have industrial development authorities that handle financing and management of infrastructure projects or construction of commercial and industrial facilities. *Industrial development bond* (IDB) financing is a common way to fund these efforts. With IDBs, local governments apply for the bond funds on behalf of a business locating in the area. IDBs represent a significant funding source—the federal government allows each state to have a volume of IDBs and other private activity bonds totaling $225 million.[30] States also can authorize city or county bond financing for infrastructure projects and for building construction and purchase of equipment and machinery. The state may provide matching funds for the local financing programs.

Local Development and Property Taxes

The property tax system is a cornerstone of local community economic development. Paradoxically, vulnerable communities are least likely to generate property taxes sufficient to fund development programs.

A recovery plan for the City of Camden, **New Jersey** describes conditions found in many vulnerable areas throughout the United States. Public buildings, the central business district, housing and infrastructure have deteriorated and lost much value. In fact, Camden has the smallest tax base in New Jersey, measured in equalized value per capita. The average one-family home has a market value of less than $26,000, and almost half the assessed value of property in the city is exempt from taxation. Furthermore, the city does not rigorously enforce tax collection and nearly three out of 10 land parcels are in serious tax arrears.

For additional information about property taxes, refer to Mandy Rafool, *A Guide to Property Taxes: An Overview* (Denver: NCSL, 2002).

Source: New Jersey Department of Community Affairs, *City of Camden Multi-Year Recovery Plan, Fiscal Years 2001-2001 Executive Summary,* www.state.nj.us/dca/camdensummary.pdf.

Local tax incentives, including tax increment financing

State tax incentives related to local development include tax abatements and tax increment financing. Tax abatements reduce or eliminate the taxes paid by a business—usually the property tax—to help attract the business to a community. *Tax increment financing (TIF)* is a way to use tax revenue growth produced by an increase in the tax base of a specified area to repay the costs of investment in the area. TIF has long been associated with urban redevelopment projects, but some states allow the use of TIF for virtually any development projects.[31] State law must authorize TIF districts, but a local governing body—appointed by various local taxing authorities—manages the TIF improvement projects.

A 2002 study of TIF in **Indiana** asserts that, from 1977 to 1992, about 2,400 more jobs were created as a result of TIF districts than would have been created otherwise.[32] However, TIF has become controversial in some cases because voter consent seldom is required to establish a district. The TIF district may have a significant effect on local finances, particularly for schools, which are largely funded by local property taxes. Since TIF districts usually are drawn to capture increased property tax revenues, an overlapping school district may stand to lose revenue in some cases, even though the TIF may provide the school district with a portion of the tax increment.

California, Illinois and **Texas** are among the states that have recently modified their TIF laws to address such concerns.[33] In 1999, Illinois enacted two laws to reform TIF that included clarification of the term "blighted area," a requirement for TIF districts to provide standardized annual reports to the state comptroller's office so that meaningful evaluations can be conducted, a requirement that municipalities negotiate with review boards that may oppose a new TIF district, and reimbursement to schools.[34] **Wisconsin** is among the states where the formula for state aid to school districts considers, and attempts to compensate for, the district's loss in tax revenues from TIFs.[35]

Vulnerable communities may be the specific targets of state and local community development financing. Forty-three states have financial incentives—which may include bonds, loans, grants and tax incentives—for establishing industrial plants in areas of high unemployment, and 37 states have local versions of these incentives, according to the Council of State Governments.[36] Examples of loans, grants and tax incentives are discussed in chapter three under policies for existing business owners.

Strengthening Neighborhood Efforts

Besides offering financial incentives, states can help strengthen and better coordinate neighborhood improvement efforts. A **Connecticut** law authorizes neighborhood groups to identify and devise strategic plans for neighborhood revitalization zones. A plan may include components for job training, education, public safety, youth, the elderly and the arts. Recommendations for land use, acquisition of deteriorated property, and waiver of certain regulations may be part of the plan. A plan can identify local, state and federal services and funds—as well as private sector support—to help achieve neighborhood goals.

The plan is submitted to the neighborhood's municipal legislative entity, most likely the city council, which forms a committee to consider the recommendations and devise a coordinated, multi-agency response. The Governor's Office of Policy and Management reviews the neighborhood strategic plans and is the lead agency for coordinating state community development assistance to the neighborhood revitalization zones.[37]

Land banks are another way to help neighborhood improvement efforts. In some states, cities are authorized to establish land banks that acquire deteriorated and tax-delinquent properties and sell them at reduced rates for residential and commercial development. If a number of lots are in close proximity, the land bank can consolidate them. This consolidation service is of immense value to developers, since there are few purposes for which they can use smaller, isolated lots. Cleveland, **Ohio,** and Atlanta, **Georgia,** have land bank programs.[38] In Cleveland, lots with less than 40-foot frontages are offered to adjacent landowners for $1. The land bank sells residential lots for $100.[39]

Federal Funds

Local community development efforts can benefit from federal funds that are available through programs such as *Community Development Block Grants* (CDBG), which are administered the U.S. Department of Housing and Urban Development (HUD). About one-third of CDBG funds, totaling $1.3 billion granted in the 2002 federal fiscal year, were given to states to distribute to local governments. States may use up to 1 percent of their grants to provide technical assistance to local governments and nonprofit organizations. The remaining funds—$3 billion in 2002—are directed to "entitlement communities" that include central cities of metropolitan statistical areas, other metropolitan cities with populations of at least 50,000, and qualified urban counties with populations of at least 200,000 (see tables 5 and 6).

The CDBG funds can be used for various purposes, including acquisition of property for public purposes; construction or reconstruction of streets, water and sewer facilities, and recreation centers; rehabilitation of public and private buildings; provision of public services; planning activities; and provision of assistance to nonprofit community development organizations as well as private, for-profit economic development entities. At least 70 percent of the funds must benefit low- and moderate-income people.[40] Some local governments use their CDBG funds for Main Street programs, which involve strategies to revitalize historic or traditional commercial areas.

Mayaguez, **Puerto Rico,** is among the many communities that has used its CDBG funds for community economic development. A 1999 HUD profile of Mayaguez states that the municipality was struggling with a 20 percent unemployment rate and further job loss due to the downsizing of four major local industries. City officials sought to spur economic activity by constructing a new industrial facility that could provide space to businesses that wanted to expand or to new businesses that would employ low- and moderate-income people. The city donated the land for the building and received $400,000 in CDBG funds—along with a $1.25 million U.S. Economic Development Administration grant and $350,000 from HUD Urban Development Action Grant loan repayments—to finance construction. The six rental units in the building were occupied, and the city partnered with the local university and state agencies to help the new business tenants with business management and operations issues.[41]

Table 5. Community Development Block Grants to Entitlement Communities, 2002

State/Jurisdiction	Budget (in $ thousands)	Outlay (in $ thousands)
Alabama	$27,337	$27,086
Alaska	2,313	2,303
Arizona	42,904	42,607
Arkansas	8,851	8,806
California	485,707	483,416
Colorado	31,234	31,033
Connecticut	34,771	34,552
Delaware	6,046	6,021
Florida	147,670	145,828
Georgia	44,027	43,749
Hawaii	13,254	13,229
Idaho	2,495	2,452
Illinois	176,828	176,299
Indiana	45,850	45,717
Iowa	17,356	17,282
Kansas	13,485	13,437
Kentucky	22,772	22,696
Louisiana	45,756	45,587
Maine	5,885	5,872
Maryland	56,789	56,435
Massachusetts	91,733	91,116
Michigan	120,154	118,407
Minnesota	46,850	46,170
Mississippi	7,259	7,249
Missouri	54,891	54,695
Montana	2,718	2,692
Nebraska	8,390	8,492
Nevada	13,738	13,584
New Hampshire	4,617	4,601
New Jersey	113,130	111,912
New Mexico	7,681	7,626
New York	365,259	363,791
North Carolina	27,905	27,688
North Dakota	1,889	1,883
Ohio	139,262	138,685
Oklahoma	16,252	16,199
Oregon	23,801	23,639
Pennsylvania	211,778	210,531
Rhode Island	14,869	14,793
South Carolina	16,727	16,604
South Dakota	1,670	1,663
Tennessee	29,495	29,351
Texas	214,036	212,748
Utah	16,107	16,023
Vermont	1,084	1,075
Virginia	46,074	45,806
Washington	51,255	51,209
West Virginia	9,081	9,062
Wisconsin	47,257	47,006
Wyoming	1,178	1,163
District of Columbia	24,011	23,899
Puerto Rico	77,219	76,539
U.S. Virgin Islands	0	0
Territories	0	0
Total	**$3,038,700**	**$3,020,307**

Note: The U.S. Department of Housing and Urban Development awards CDBG funds directly to entitlement communities, which include central cities of Metropolitan Statistical Areas, other metropolitan cities with populations of at least 50,000, and qualified urban counties with populations of at least 200,000.

Source: Federal Funds Information for States, June 2002; available at http://204.131.235.67/ffisdb/progtbl99.cfm.

Table 6. Community Development Block Grants to Non-Entitlement Communities, 2002

State/Jurisdiction	Budget (in $ thousands)	Outlay (in $ thousands)
Alabama	$33,576	$33,524
Alaska	3,267	3,252
Arizona	11,042	10,975
Arkansas	24,360	24,281
California	45,220	44,990
Colorado	11,411	11,322
Connecticut	14,538	14,498
Delaware	1,983	1,973
Florida	31,932	32,832
Georgia	44,825	44,552
Hawaii	5,057	5,036
Idaho	9,673	9,642
Illinois	38,635	38,597
Indiana	37,427	37,306
Iowa	30,729	30,645
Kansas	20,835	20,777
Kentucky	34,910	34,770
Louisiana	37,860	37,710
Maine	16,747	16,695
Maryland	9,137	9,113
Massachusetts	38,253	38,335
Michigan	44,075	44,598
Minnesota	24,778	25,152
Mississippi	38,527	38,363
Missouri	29,522	29,412
Montana	7,955	7,940
Nebraska	15,172	15,151
Nevada	2,970	2,955
New Hampshire	10,207	10,166
New Jersey	9,900	10,511
New Mexico	15,705	15,676
New York	56,163	56,034
North Carolina	46,528	46,387
North Dakota	6,344	6,334
Ohio	56,210	56,020
Oklahoma	21,337	21,265
Oregon	15,545	15,538
Pennsylvania	59,244	59,082
Rhode Island	5,772	5,754
South Carolina	29,336	29,267
South Dakota	8,306	8,289
Tennessee	30,924	30,777
Texas	86,970	86,796
Utah	7,872	7,809
Vermont	8,746	8,719
Virginia	24,097	23,956
Washington	15,948	15,670
West Virginia	21,292	21,243
Wisconsin	33,656	33,560
Wyoming	3,469	3,462
District of Columbia	0	0
Puerto Rico	57,462	57,550
U.S. Virgin Islands	2,149	2,208
Territories	4,707	4,836
Total	**$1,302,300**	**$1,301,324**

Note: The U.S. Department of Housing and Urban Development awards non-entitlement CDBG funds to states, which distribute them to local governments that are not CDBG entitlement communities.

Source: Federal Funds Information for States, June 2002; available at http://204.131.235.67/ffisdb/progtbl99.cfm.

In a 2002 report, HUD examined the effects of CDBG spending on urban neighborhoods. The report states that two readily available sets of data—number of businesses and median home loan amount—hold some promise for helping communities measure the effects of concentrated CDBG expenditures. The report cautions that additional research is needed to verify the usefulness and clarify the limitations of the methodology. The variety of ways in which local governments use CDBG funds makes national evaluation difficult, and external factors such as general economic conditions, interest rates and investment from other sources further complicate the analysis.[42]

Besides CDBG, federal programs related to community development include:

- Empowerment Zones/Enterprise Communities, jointly administered by the U.S. Department of Housing and Urban Development and the U.S. Department of Agriculture,
- U.S. Department of Commerce Economic Development Administration and Small Business Administration programs, including the New Markets venture capital initiative,
- U.S. Department of Health and Human Services Temporary Assistance to Needy Families program and Office of Community Services programs,
- U.S. Department of Labor Welfare-to-Work program,
- U.S. Department of Treasury Community Development Financial Institutions Fund,
- Federal Reserve Board's Community Reinvestment Act program reports. Financial institutions must meet the requirements of the 1977 federal Community Reinvestment Act, and some states have laws that further encourage community reinvestment.[43]

Existing Business Owners

Most state economic development programs are geared toward businesses that already are active, in contrast to programs for people who could start a business. Some programs are targeted to businesses existing in or locating to vulnerable communities. In any case, the goal is to encourage investment and improve productivity. The programs often involve financial assistance such as tax incentives (including enterprise zones), loans, grants and venture capital.

States also support technical assistance and networking services for existing businesses. These services may involve training and education, site analysis, special technical assistance for manufacturing industries, and industrial cluster development strategies. These, too, have been adapted for vulnerable communities.

In this Section

Policies for Existing Business Owners—
- Tax policy and tax incentives
  - Job creation tax credits
  - Enterprise zones
- Loans
- Grants
- Venture capital
- Technical assistance and networking services
  - Industry clusters

Tax Policy and Tax Incentives

General tax policy refers to tax law provisions that apply to every firm and person liable for a tax. Tax incentives refer to credits, exemptions or abatements targeted to particular kinds of businesses, such as those in high-technology industries. Tax incentives also are targeted to certain business investment activities, such as research and development or adding new jobs. Some incentives may be offered at the discretion of state economic development agencies to entice a business to locate in the state.

Tax incentives to businesses account for more than half of the total economic development investment—a combination of direct appropriations and foregone revenues in the form of tax incentives—in many states. A **California** study found that the state spent $7.8 billion on economic development altogether in 2000-2001. Most (52 percent) of the expenditures were in the form of general relief tax incentives. Research and technology development received the second largest share of economic development spending, at 15 percent ($1.2 billion), mostly in the form of tax incentives.[44]

A 1996 study of tax incentives in 24 states found that about 44 percent of the total value of the incentives was comprised of subsidies to lower the cost of capital—usually embodied in sales tax exemptions for equipment and machinery purchases—and land—usually embodied in property tax abatements. These types of incentives may be offered to every business in a state but may benefit certain industries over others. For example, manufacturing businesses generally need considerable land for production facilities and thus benefit more from property tax abatements than do computer software firms.

The study also found that about 24 percent of the tax incentives were made up of jobs tax credits, which are awarded when the number of new jobs at a business exceeds a certain threshold. The remaining 32 percent included corporate income tax incentives such as investment tax credits and income exemptions related to enterprise zones.[45]

The effect of state tax policy on economic growth is a hotly debated issue. The share of taxes that business pays in a state does not appear to have a significant relationship to the state's economic growth rate. Taxes are one of many factors firms take into account when they are considering where to start, expand or relocate. Academic researchers say that tax incentives may foster business growth, but the effect may be small or limited to special circumstances. At the same time, tax burdens differ greatly among industries and individual businesses in a state, and incentives may have significant effects on specific businesses.[46]

Economists generally agree that states should focus on a broad, stable tax system with low rates rather than trying to devise ad hoc tax reductions for particular firms or industries.[47] (In-depth discussions of state tax policy are available in various NCSL publications, including *Tax Policy Handbook for State Legislators* [2003] and *Principles of a High-Quality State Revenue System* [1999]). As stated by the bipartisan NCSL Task Force on Economic Incentives, if there is any consensus on this issue, it is that it is undesirable (from the perspective of development) for state taxes to be very far out of line with those of neighboring states, and that policymakers cannot automatically assume that tax cuts and tax breaks will stimulate growth.

Job creation tax credits

In discussions of vulnerable communities, tax credits for job creation often arise. Forty-three states offer job creation tax credits, according to the Council of State Governments. Georgia's Job Tax Credit Program provides an income tax credit for businesses where the most generous credits go to firms that locate in counties with the highest unemployment rates; in these counties, $3,500 is awarded to firms that create five or more jobs.[48]

Enterprise zones

Enterprise zones also are a popular strategy for vulnerable areas. These zones provide tax incentives and regulatory relief to businesses that already are located in a zone or to those that are moving into a zone. The benefits offered to firms vary among states, but the tax incentives usually are for job creation.[49] The regulatory incentives could be waiver of local building permit fees, for example. Once a state legislature authorizes enterprise zones, as most have, the zones are delineated by a state entity. **Colorado** has a nine-member Economic Development Commission that governs enterprise zones and other economic development funds; five members are appointed by the governor, two by the president of the Senate and two by the speaker of the House.[50]

The **Michigan** Renaissance Zone program is unique in that it grants virtually tax-free status to nearly all businesses and to residents located in the zones.[51] **New Jersey** Urban Enterprise Zones offer reduced retail sales tax rates, dedication of sales tax revenue to redevelopment projects in the zone, a sales tax exemption for purchase of certain materials and property, a job creation tax credit, subsidized unemployment insurance costs for certain new employees, an investment tax credit, and access to the New Jersey Local Development Financing Fund and Job Training Program.[52] Enterprise zones are a popular approach for helping vulnerable communities, but their effectiveness is unclear (see "Evaluations of Enterprise Zones").

Evaluations of Enterprise Zones

A 2002 study by Alan H. Peters and Peter S. Fisher, noted urban planning professors, examined data from 75 enterprise zones in 13 states from 1990 to 1998. The study estimated, year by year for 20 years, the after-tax cash flow attributable to a firm's investment in a particular city and enterprise zone, using financial statements from representative firms in 16 manufacturing sectors.

The study found that the average zone tax incentive package lowered the effective tax rate on a new plant by about one-third—a significant amount. However, since wages are a larger cost to firms than are taxes, the study also examined the amount in wage costs the zone incentives would offset. The average zone incentives—across sectors and cities—were equivalent to a wage reduction of 0.7 percent to 2.5 percent in 11 of the 13 states. In other words, the extra inducement a firm receives from enterprise zone incentives is quite small in terms of wage equivalents.

The study also attempted to determine whether enterprise zones result in new jobs. The authors found that the cost of complying with jobs credits, which often involve hiring zone residents to fill the new jobs, appears to be much higher than the cost of claiming capital incentives, such as investment credits. As a result, enterprise zones are more effective in encouraging capital investments. Overall, the study authors conclude that enterprise zones have almost no influence on local growth.

Some studies of enterprise zones in individual states are more approving of the zones' effects. A 1998 study of 20 New Jersey urban enterprise zones showed that the program has successfully encouraged firms to locate in the zones. From 1994 to 1998, one of every four businesses relocating to New Jersey chose a location in an urban enterprise zone. Fifty-six percent of the new employees hired by zone businesses were residents of the zones, and the zone assistance fund enabled zone municipalities to provide nearly $145 million in improvements. The study said that, to complement the zones' effective business recruitment, the zones would benefit from incentives that focus on business retention (improving the performance of businesses already in the zones). Performance standards and cost effectiveness measures for all zones also would be beneficial.

A 1999 analysis of Ohio's enterprise zone program concluded that the zones produce marginally positive net direct benefits to the state treasury and local government. Indirect effects of the program could not be determined because of a lack of data over time. The effectiveness of the zones is hampered, the analysis said, because so many zones exist that they have lost their ability to provide a competitive advantage to distressed areas.

Sources: Alan H. Peters and Peter S. Fisher, "The Effectiveness of State Enterprise Zones," *Upjohn Institute Employment Research* newsletter 9, no. 4 (W.E. Upjohn Institute, Kalamazoo, Mich., October 2002); New Jersey Commerce and Economic Growth Commission, Sept. 14, 1998 news release; Cleveland State University, the Urban Center, Maxine Goodman Levin College of Urban Affairs, *An Assessment of the Costs, Benefits and Overall Impacts of the State of Ohio's Economic Development Programs* (Cleveland, Ohio: Cleveland State University, May 28, 1999).

Loans

Direct loans, revolving loan funds

State departments of economic development have a variety of loan programs to encourage business development. Most states offer *direct loans* to businesses for building construction and equipment and machinery purchases. Many states have *revolving loan funds*, which are intended for businesses that cannot successfully obtain conventional financing because they have a poor or nonexistent credit history, insufficient collateral or no business history because they are just starting up. The revolving loan funding base, once it has been loaned, is replenished by principal repayments, interest income and fees, and then it is loaned again.

Like many states, **Montana** has a variety of local and regional revolving loan programs that receive funds from the state Department of Commerce and other sources. Nonprofit microbusiness development corporations administer many of these programs, including the microbusiness finance program that extends loans of up to $35,000 to businesses with fewer than 10 employees and less than $500,000 in gross annual revenue. The businesses also receive technical assistance.[53]

Loan guarantees, capital access programs

Other loan programs do not involve direct lending by the state to businesses. Rather, they aim to decrease the risk of lending to certain types of businesses—or to businesses in certain areas—for conventional commercial lenders. For example, state *loan guarantees* ensure the repayment of some portion of a loan that a commercial lender has made to an approved firm. The state loan guarantees may include minimum and maximum amounts; specify or limit the purposes for which the proceeds of the guaranteed loan are used; specify ceilings on interest rates; and require non-fiscal performance from the borrower, such as creation of a specified number of jobs. *Capital access programs* offer a different approach. With these programs, states match the insurance premium on commercial loans.

Linked deposit programs

Linked deposit programs provide another way states can lend money to businesses. These programs designate a portion of state deposits in lending institutions to be used to help provide low-cost capital for specified investments in the state. Most programs target agriculture and small businesses. The state does not lend the money directly or guarantee loans. Instead, some of its deposits are made at below-market rates with the requirement that the institution that holds the deposits will pass along its interest savings to investors who meet criteria established by the state.

Grants

Some states may have constitutional restrictions on providing grants directly to businesses. Where they exist, many of these grants are related to workforce training conducted at the business or in a classroom setting. Training providers may be community colleges, universities, vocational schools or private training organizations.

States may offer relocation expense grants in recruiting a business to the state. The **New Jersey** Commerce Commission offers grants to relocating or expanding companies that create a minimum of 25 new, full-time jobs in the state within one year.[54] These grants go toward moving and installing furniture, machinery and equipment. Local governments may provide grants of land that it owns to businesses that are relocating or expanding.

Venture Capital

Venture capital is most important in the early stages of a firm's development, after research and development has been conducted and a new product or process is ready to be commercialized. At this point, the business does not have a record and collateral against which conventional financing can be secured. Therefore, venture capital from wealthy individuals or venture capital firms fills a gap between the research and development stage—which may tap funds from the entrepreneur, family, friends, corporations and the government—and the time when the business can issue equities or borrow from banks.

State policy options for enhancing the venture capital industry relate to building an entrepreneurial culture (such as helping to link investors and entrepreneurs), investing or co-investing in venture capital funds, and offering tax incentives for venture capital investments. State-supported venture capital funds can be required to target investments to vulnerable communities. The return on investment in these funds is likely to be less than funds with unrestricted investment criteria, which may compromise their long-term survival. **Kansas, Kentucky, Maine** and **Oklahoma** are featured as states that have promising community development venture capital programs, particularly for rural areas, in a 1999 U.S. Federal Reserve Bank of Kansas City publication.[55] The federal new markets tax credit program, administered by the U.S. Small Business Administration, offers another source of venture capital for vulnerable communities.[56]

Technical Assistance and Networking Services

Training and education

State economic development agencies may offer or support a range of technical assistance and networking services for businesses. These programs aim to increase the knowledge, skills and resource networks of business owners. Technical assistance may be provided in conjunction with financial assistance, and it may be geared to vulnerable communities. The **Massachusetts** Community Development Finance Corporation, a quasi-public investment corporation, administers an Urban Initiatives Fund. This fund provides loans, grants and technical assistance to small, minority-owned businesses and community development programs in low-income communities. The fund's revenues were $500,000 in fiscal year 2000, all of which came from the state.[57] The *training and education* offered in conjunction with financial assistance often covers basic business functions such as budgeting, management and marketing.

Site analysis

Site analysis is another common form of economic development technical assistance. State economic development agencies maintain databases on available commercial real estate sites, the status of infrastructure at those sites, and other key variables that businesses consider when they make location decisions. Land banks (discussed in the section on policies to help local governments) can bring valuable information about resources in vulnerable communities to traditional site analysis services. As a related strategy, state economic development agencies often administer marketing programs designed to recruit businesses to the state and boost tourism.

Technical assistance for manufacturing industries

States may support special *technical assistance for manufacturing industries*, particularly small plants. Manufacturing industries are important because they tend to generate relatively high-wage, high-skill jobs. Small manufacturers—those with fewer than 500 employees—are of particular importance because they constitute 98 percent of all U.S. manufacturers, they are responsible for more job growth than large plants, and they can be compatible with the resources and workforce available in inner cities and rural areas.[58]

Small manufacturing plants can benefit from manufacturing extension programs that provide financing and information on investing in new technology, updated business practices, workforce training and outside expertise. The Northeast **Oklahoma** Manufacturers Council offers these kinds of services, as well as increased business opportunities, for small plants by arranging use of shared manufacturing equipment and submission of joint bids. The council represents 62 manufacturers, the **Creek Nation**, Green Country Vo-Tech, the Okmulgee Chamber of Commerce, Okmulgee county public schools, and Oklahoma State University at Okmulgee.[59]

Industry clusters, networking

In addition, technical assistance and networking programs are beginning to reflect the current economic development emphasis on developing *industry clusters*. Businesses have more flexibility than ever in deciding where to locate because of information technology and transportation systems that allow them to communicate globally and purchase inputs from or outsource work anywhere in the world. At the same time, businesses benefit from being in close proximity with collaborators, competitors, suppliers and related institutions, such as universities. As a result, firms in related industries have a tendency to cluster together within a certain geographic area.

As economic development policymakers and practitioners study industrial clusters and attempt to replicate their success, they learn that clusters develop where technology, skilled and educated labor, capital and effective public policy have come together in a mix that is as much enabled as constructed. Economic development agencies can help clusters develop by offering comprehensive, in-depth services that respond to the marketing, technology, worker training and financial needs of particular industries. This differs from organizing services according to type of assistance, so that a business has to work with one program for a loan and another for training. States also can help clusters by supporting *networking* and collaborative efforts. For example, states can link entrepreneurs to appropriate skills development programs, and they can connect businesses with public agencies for marketing and promotional efforts.

Policymakers face a challenge in applying the cluster concept to vulnerable communities, which usually have a shortage of skilled labor and available capital. In **Connecticut**, networking and cluster development strategies have been devised for five inner cities. Creation of the Connecticut Inner City Business Strategy, which began in 1999, involved more than 200 businesses and civic and community leaders from Bridgeport, Hartford, New Britain, New Haven and Waterbury. The strategy was coordinated and funded by the Department of Economic and Community Development and also involved the Governor's Council on Economic Competitiveness and Technology and a national nonprofit organization, Initiative for a Competitive Inner City.

The Connecticut strategy outlines plans for accelerating inner-city business growth, preparing 3,000 inner-city residents to compete for higher-skill jobs, developing 500 new inner-city entrepreneurs, and altering opinions about opportunities in inner cities. A number of plans already are in action. In Bridgeport, 10 metal manufacturers have formed the Metal Manufacturers' Education and Training Alliance to help the 160 local metal manufacturers with joint purchasing, improved production processes, marketing and training. The alliance has received more than $100,000, mostly from the private sector.[60]

Furthermore, cluster development can benefit from a regional approach. Regions generally are no smaller than a metropolitan area or a collection of counties. Economic activity follows regional markets more than political boundaries, so economic developers and policymakers have an interest in forging regional cooperative efforts. In 2001, the **Arkansas** governor, the **Louisiana** lieutenant governor and the **Mississippi** governor announced that their states would support an Emerging Markets Partnership for 58 counties and parishes in the Delta region.

This partnership will invest in financing and training for small business development, workforce development, home ownership, telecommunications infrastructure, child care and health care. The nonprofit Enterprise Corporation of the Delta will manage the partnership, which will receive funding from a foundation and the Federal National Mortgage Association (Fannie Mae). The governors' offices have designated liaisons to identify how existing state programs can participate. The partnership expects to provide $180 million in loans and investments over five years.[61]

4. Conclusion

State economic development efforts represent an important resource for helping vulnerable communities. Just as states have specific policies and programs to improve family support, public health, housing and other conditions in distressed places, they have economic development strategies that are designed to improve economic conditions. The scale of community economic development resources may not be evident because these resources routinely are divided among various state agencies and organizations.

The goal of most public economic development initiatives is to encourage business investment and improve business productivity, with a desired cumulative effect of increased employment and personal incomes. Economic development policies for vulnerable communities are targeted to people who could start a business, people who could fill unmet demand for workers, community development organizations, local governments and existing business owners.

In reviewing these goals and policy options, several themes on state community economic development are apparent: efforts to measure results can clarify goals and options, helping people who could start a business is particularly important, effective local government and nonprofit models are needed, and strong connections (within and between the public and private sectors) and local engagement help communities.

By exploring options for and examples of state community economic development, this report seeks to strengthen the connections among economic development, human services and other fields that have a particular interest in improving the well-being of vulnerable communities.

NOTES

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1. Many examples of state policy options are included in this report. The programs and incentives given as examples, although established by law or by executive agency authority, may or may not be funded in any given fiscal year.

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