

Strengthen local economies and create jobs

Introduction

Of all the areas of policy in which cities engage, economic development is an area of almost limitless possibility for reform and improvement. The vast majority of city economic-development dollars are currently spent inefficiently, subsidizing development that would have happened anyway and receiving little return in local economic benefit for those dollars.

Local government subsidies are a very significant pot of money, as they currently offer between \$5 billion and \$10 billion in property tax subsidies alone.¹ Indeed, a single company, Wal-Mart, has been the recipient of well over \$1 billion in state and local subsidies.²

Cities too often pursue low-road economic-development policies. They compete against each other to see which locality can provide the greatest subsidy and the most favorable development terms for large national corporations, which stay as long as the subsidies keep flowing before pulling up stakes for the next locality.

This classic “race to the bottom” results in massive waste and inefficiency and, at best, is likely to merely transfer jobs from one locality to another, disrupting lives and local economies and resulting in no new jobs overall. At worst, local siting of large national companies may take revenue away from small local retailers and the local distribution chains they rely on, undermining the job-creation effects of the subsidies they receive.

But there is a better way. The truth is that the kind of companies that cities really want to attract—those that create quality jobs and will not offshore their operations at the first hint of trouble—rarely make location decisions based on the availability of subsidies. These decisions are instead based on access to infrastructure, the quality of local human capital, supply chains, markets, and quality of life for their employees.

So rather than spend increasingly stretched local resources by throwing subsidies and tax incentives at multinationals, local governments should pursue high-road

economic-development strategies that attract and build stable, sustainable local economies.

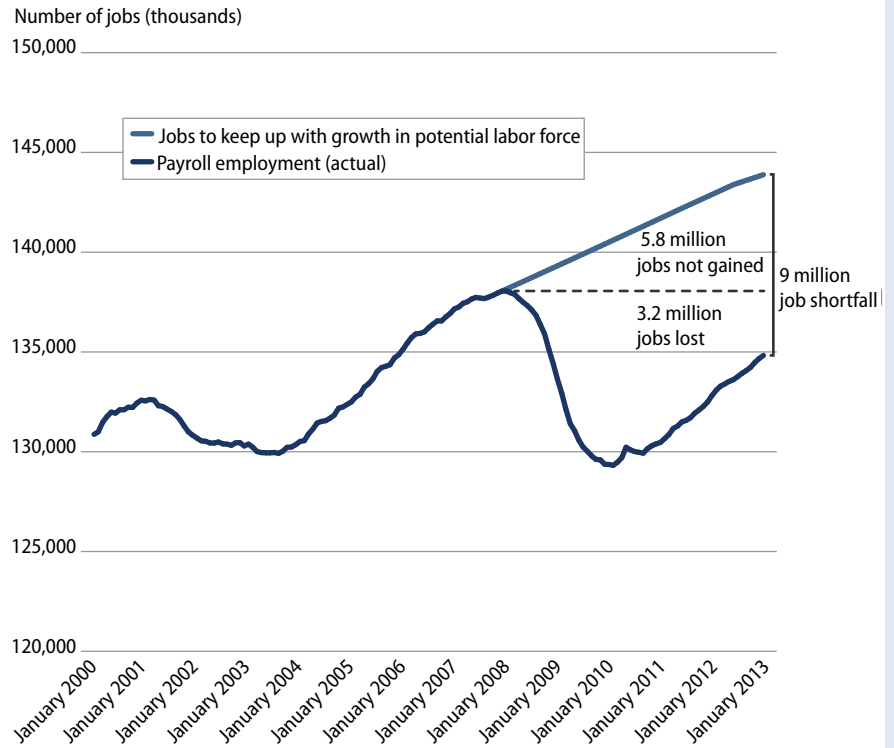
They should map their regional economy to locate areas of potential competitive advantage and develop those areas with the aid of more efficiently organized places. They should modernize and make their local infrastructure and transportation networks more efficient. They should cultivate and strengthen their human capital, enhancing the skills of the local workforce in ways immediately relevant to the region's best employers. They should concentrate on growing local, place-based businesses rather than pursuing national chains. And they should focus on capturing the value of all of the above locally and sharing it broadly.

Recommendations for doing so are contained in this chapter.

FIGURE 4

Recession has left a job shortfall of over 9 million

U.S. employment and the number of jobs needed to keep up with the growth in the potential labor force, 2000–2013



Note: Congressional Budget Office estimates of the potential labor force (found here: http://cbo.gov/sites/default/files/cbofiles/attachments/43910_KeyAssumptionsProjectingPotentialGDP.xls) are used to calculate the number of jobs needed to keep up with the growth in the potential labor force.
Source: Authors' analysis of Bureau of Labor Statistics' Current Employment Statistics public data series and Congressional Budget Office data

Data-driven economic development

Background

When approaching economic-development, or ED, strategy, cities often focus on business subsidies. While these may be responsive to existing businesses, they are not always strategic and do not add up to a proactive, comprehensive ED strategy. Growing a city's existing assets—its industry clusters, natural capital, educational

resources, talent and workforce, local supply chains, and exports—is a powerful economic-development strategy that builds on a city’s strengths and resources.

Asset mapping is the first step in that strategy. At its most basic level, asset mapping will provide city leaders with an inventory of key resources that they can use in economic development. While city leaders generally have a sense of the big local economic drivers—anchor companies and industry clusters, for example—they may not have a detailed picture of the local economy or the flow of funds and products that contribute to it.

Beyond the initial survey, more comprehensive asset mapping will result in an understanding of key networks and cultural attitudes that shape the city’s economy, “gap” areas where investment is needed, and a baseline to measure future ED progress.³

Gathering this crucial information and devising strategies based on the findings launches a city forward in its ED efforts from a starting point based on data—rather than anecdote or political pressure—to target real opportunities. It also leverages existing resources such as local ownership, supply chains, and export potential, and it creates opportunities to grow these resources.

San Antonio, for example, was recently hailed as a “recession-proof city”⁴ and is powered by three major industries: education; medicine and biosciences; and military and local government. These industries employed a third of the city’s workers in 2010. The city’s 31 colleges and universities enroll 100,000 students, boosting the city’s population by 8 percent during the school year.

The mayor acknowledges that the city’s growth has been slow relative to its peer cities and that the bedrock of San Antonio’s economy is not in “bright shiny venture capital industries” but in safe, noncyclical industries, which are evidently recession-proof.⁵ Knowing this allows the city to reinvest in these critical industries and further strengthen the economy.

Detailed asset analysis and map

All local governments should conduct an asset mapping as part of their economic-development planning. An asset map provides an in-depth look at a city or region’s assets and a dashboard assessing indicator characteristics relative to goals and/or

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peers. An asset map incorporates the elements equivalent to the latitude, longitude, landmarks, topography, and routes of any physical map.

- A city's major industries, identified by the size of their employment and sales
- Its critical industries, identified by their high location quotient, or LQ⁶
- Critical firms in those industries
- Value flows—purchases and sales—among those firms and others

Beyond those basic elements, several additional indicators can add context and depth to the asset map:

- **Talent indicators**, including education pipeline; workforce quality; R&D potential; science, technology, engineering, and mathematics, or STEM production; and lifelong learning.
- **Investment indicators**, including R&D intensity; business startups; inward investment; and access to capital.
- **Infrastructure indicators**, including business climate; transportation; broadband; energy; and sustainability.
- **Business performance indicators**, including productivity; exports; and market capitalization.
- **Public impact indicators**, including state GDP; employment growth; income distribution; state revenues; and standard of living.

The data for these analyses may come from the state departments of commerce, energy, environment, education, and natural resources; Metropolitan Planning Organizations; regional planning commissions; transit agencies; and private firms. Independent organizations, including several nonprofit organizations focused on urban development, can also lend support.

Several cities and metropolitan areas—including the Puget Sound, the Twin Cities, and Northeast Ohio—have drafted asset analyses as business plans in partnership with the Brookings Institution, which launched a metropolitan business planning program focused on developing compelling investment opportunities in cities.⁷ Brookings has also developed an interactive mapping and downloads tool that provides in-depth access to regional clean economy data that can be accessed online.⁸

In addition, the Initiative for a Competitive Inner City has studied inner-city economies in 100 U.S. metropolitan areas since 1994 and conducted on-the-

ground consulting engagements in 20 inner cities, including city-led approaches to ED in Boston⁹ and Newark, New Jersey,¹⁰ based on cities' existing strengths.

Some asset analyses such as “Indicators for the Washington Innovation Economy”¹¹ are mainly quantitative. The report plots out Washington state's performance in each of the indicators in the above table against peer states in an effort to pin down the state's assets.

Other analyses, such as “Mobilize Maine: Asset-Based Regional Economic Development”¹² and the Halifax-Moncton Growth Corridor Asset Mapping Baseline Research Project, in Nova Scotia¹³ are more qualitative, drawing a picture of the region's assets and calling out key advantages and red flags along the way.

When drafting asset analyses, it is important for cities to consider all types of assets. One asset not detailed in the list of indicators above is natural capital, which can greatly contribute to the health of a local economy. And the definition of imports and exports should be broad. Portland, Oregon, for example, rightly considers transportation fuels an import, and thus non-fuel-based modes of transportation contribute to the health of the local economy by reducing imports and the outflow of money to pay for them.

Regardless of the methodology, the intent of all these analyses is to give decision makers information about a city or region's existing assets and to inform ED policy and plans. Gathering and sharing data, and then making data-driven economic-development decisions, is critical to building healthy, sustainable economies.

Human capital

Economic development—growing the economy, jobs, and wages in metropolitan areas—requires the cultivation and strengthening of human capital, which is the skill, experience, and education of the region's workforce. As the skills of the workforce are enhanced to fit the region's best employers, productivity and regional competitiveness grow. Human capital strategies can thus be central strategies in any economic-development plan.

Human capital strategies are also central to *progressive* economic development because enhancing human capital is one way to help workers achieve better jobs and opportunities. These strategies can offer the win-win outcome of better skills

and productivity for employers and better wages and standards of living for workers. By focusing on who gets skills and how skills are delivered, metropolitan areas can strengthen the economy and opportunity in it at the same time.

While human capital is also developed inside firms, the public education system is the most relevant target for public policy and training innovation. We will focus here on strengthening the connection between education and training to work and employers, while other sections below will deal with K-12 and other education issues. The community college system is especially relevant as it often has the strongest potential to reach employers, as well as the workers and prospective workers who need to build their skills to get decent work. A region's social service providers and the federally funded but locally administered Workforce Investment Board also reach into communities that most need skills and better jobs and have their own relationships with employers as well.

Workforce development belongs in any asset mapping and cluster strategies, as we will discuss in the next section. In short, the important thing is to build a *system* that is both more relevant and responsive to employers and more accessible to and supportive of working adults and prospective workers.

Cities should focus on policy and program innovation that systematically builds a bridge from workers who need more skills to get into decent jobs to the region's better employers that offer decent work. Doing this "systematically" is necessary because all too often human capital and training systems work in piecemeal and retail ways, connecting one program or social service agency with a single employer or even just their human resources manager. Urban labor markets are riddled with the redundancy and confusion created by such a diffuse approach.

Also important is a focus on the region's "better employers." Too often the employers with the fastest revolving door on their frontline work are also the ones that turn to public systems to fill their jobs. Public training systems need to find ways to connect with better employers.

Lastly, public systems need to find a way to get skills to those who need skills to get to better work. Low-wage workers are often struggling just to get the hours and income they need to survive. In those circumstances, attending traditional higher education is simply too much to ask. Shorter-term options, which integrate basic and occupational skills and are offered when low-wage workers can get to class, are part of the human capital solution as well.

One option for doing so is workforce intermediaries. In Seattle in the mid-1990s, then-Mayor Norm Rice wanted to do something about human capital, and the Seattle Jobs Initiative, or SJI, was born. SJI organized the demand side and career pathways, but it also created a stronger referral network with the city's community-based organizations, or CBOs. Using an intermediary to anchor the relationship from communities into work is a slightly different model and one worth attention.

The project describes itself this way:

Seattle Jobs Initiative offers low-income individuals training that leads to college credentials in growing local industry sectors. We creatively align support services – intensive college navigation, housing, childcare and transportation – to provide participants the best opportunity to complete their career pathways and to secure and retain well-paying jobs.¹⁴

Since its inception, SJI has served more than 15,000 Seattle residents, placing some 6,000 in jobs. They have developed and promoted a comprehensive system with CBOs on issues such as case management, job-readiness training, and job development. They also have worked with community colleges to promote access and success for low-wage working adults.¹⁵

Though the SJI began as a city project, it spun off from the city in 2003 and established itself as an independent 501(c)(3) nonprofit organization. SJI continues to function as a workforce development intermediary today and is committed to improving the local workforce development system for the benefit of low-income job seekers.

Clusters

Economic clusters are collections of related companies in a particular industry—sporting goods, software, or health care, for example. Usually a region's relevant economic clusters include local institutions and organizations that provide skilled workers and other specialized services to the firms in the cluster and provide workers and services that may be key to maintaining the cluster's competitive position.

Helping to preserve the economic vitality of these clusters is a critical economic-development task because these clusters are the source of an economy's competitive advantage and deliver a disproportionate share of its good jobs. By focusing

on key sectors, cities can identify, strengthen, and help secure and anchor their unique economic assets.

Local leaders need to identify the economic clusters in their area that are growing or poised for growth. They should use quantitative data—including regional or local data on sales, employment, patents issued, typically by sector; information on local sales and purchases; and information gleaned from business directories or existing business groups—to identify the general outlines of a cluster and qualitative data—surveys, interviews, case studies, among others—to assess its unique characteristics and needs.

A defining feature of clusters is that they have unique attributes and distinct needs. There is no one best model for cluster-based economic development because no two clusters are exactly the same. Cities need to research how these clusters function and why they succeed and consult with members of the cluster to identify gaps and service needs local service providers can fill to both strengthen the cluster and further ground it in the local community. This means that multiple public-sector agents—from economic development to K-12 schools to postsecondary education—all need to support the cluster and respond to it rather than simply market existing services to the industry.

Functioning clusters must have or develop the organizational and communications capacity to discuss issues within the cluster, identify joint needs, help develop and amend remediation strategies, and then implement them. The public sector can convene them and help build the answers to the joint problems identified. Government can also encourage and facilitate clusters working with local education and training institutions to develop workforce skills and continually promote workforce training. Skill-development policies should fill discrete skill gaps in the local labor market that could otherwise inhibit cluster development.

Cities can also target economic development to firms in these clusters and their supply chains. Viewing local and regional economies through the lens of clusters provides a compelling logic for reorienting economic development away from both the generic “one-size-fits-all” approach and its opposite, the “special favors” approach, where economic-development “packages” are provided to select firms, often more as a result of connections or lobbying than any underlying economic value to the community.

No city can afford to use its economic-development resources indiscriminately. Cluster strategies recognize that consistent and strategic investing in existing strengths is the most efficient and effective way to drive regional economic

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growth. Economic clusters by themselves cannot guarantee a strong local or regional economy with opportunity for all, but understanding and supporting them is part of building a high-road, high-wage economy for all.

Localized supply chains

Business growth is a core driver of urban economic development. Along with access to capital and management education for business owners, connecting businesses to procurement and supply-chain networks is a key accelerant for business growth.

Strategically deepening supply chains for strong industries is an ED strategy that strengthens a city or region's assets and grows new businesses with an established, local market. Supply chains are generally shorter with local suppliers, leading to a greater predictability with delivery times and lower delivery costs. Local suppliers can also be more responsive during high-demand periods. In addition to benefiting local businesses, local sourcing obviously contributes to a city's economy by keeping jobs and dollars local.

Working with priority firms and/or clusters, cities should map their supply chains. They should identify opportunities for existing local businesses within these supply chains and gaps where there are no local businesses. Their economic-development efforts should focus on attracting or growing businesses that can fit into these supply chains.

In its economic-development strategy, Portland, Oregon incorporated a cluster analysis, focusing the city's ED efforts on four industries: clean tech and sustainable industries, activewear, software, and advanced manufacturing. To support these clusters, particularly the advanced manufacturing cluster that depends on extensive product procurement, the city is actively trying to deepen the local supply chains for these industries.

In the city's ED strategy, the work plans for each cluster contain specific actions, including the recruitment of companies that grow the supply chain or otherwise complement existing cluster firms.¹⁶ Their coordinated city, state, and regional recruitment have paid off by establishing firms such as Vestas, Iberdrola, and Solar World—all leaders in the wind and solar industries with manufacturing bases in Portland.

Economically targeted investments

Background

Every city controls relatively large streams of money, which it collects, invests, and uses somehow. In both investment and expenditure, local government has an opportunity to leverage those dollars to create jobs, particularly for the unemployed, underemployed, or hard to employ. This requires two things: to find ways to invest and spend money to create jobs and to connect local people to those jobs.

Local governments need to pay attention to where their investments are placed and how they are used. Under the rubric of economically targeted investment, or ETI, investors and policymakers are increasingly considering investment strategies that promote broad-based sustainable development. ETI entails investments with rates of return comparable to conventional investment options but that also improve the economic well-being of a region by stimulating job and business creation, increasing or improving the stock of affordable housing, or improving infrastructure.

ETIs are not an asset class in and of themselves. They do not exhibit a common set of performance tendencies and are not subject to common regulation. ETI is instead an investment perspective that highlights a range of often-overlooked financial opportunities and offers both social and financial returns.

ETI is particularly valuable because it helps to deal with capital gaps, or investment areas underserved by markets. These include housing loans for low-income individuals, financing for small- and medium-sized businesses, certain types of infrastructure development in low-income urban areas, and private lending in low-income areas.

Small firms, for example, must rely on private-debt financing, yet over the past decade, small-business lending has declined nearly 10 percent as a percentage of total business lending.¹⁷ Banks have increasingly moved their investments away from small commercial loans for other higher-return and shorter-term investments. This makes small-business lending a key opportunity area for ETI. Such lending identifies areas for profitable investments that markets have missed due to inconsistent time horizons or imperfect information.

Facilitating economically targeted investments

The first step is to identify public projects that are good candidates for investment, in that they require upfront capital but provide revenue or savings over time. Examples will likely include infrastructure projects such as water and sewer systems, landfills, and parking facilities; energy efficiency and renewable-energy projects; and housing developments. In order to attract capital to these investment opportunities, cities should focus on two sources: publicly controlled investments and private investors.

Cities should create guidelines for using city-controlled investments such as pension funds to finance these types of projects. Guidelines should include the percentage of the total that may be invested in ETI, a transparent process to choose or solicit projects, job-quality guidelines, and policies excluding projects that harm public-sector jobs.¹⁸

Public pension funds, for instance, are increasingly considering infrastructure to diversify their portfolios. This is due to the low correlation of infrastructure with traditional asset classes and the fact that pension funds' long-term investment horizon makes them a good match for infrastructure investments. Pension-fund managers are also beginning to acknowledge the collateral benefits that accompany strategic investing of pension-fund assets.

There are obviously no circumstances under which pension-fund trustees can adopt policies or practices that violate their fiduciary responsibilities. But to the extent that trustees can accomplish other goals without sacrificing performance, it makes sense to investigate opportunities for geographically targeted infrastructure investment and locally or regionally targeted economic development. Furthermore, ETI is advantageous because of its longer time horizon and counter-cyclical nature, relative to traditional asset classes.

Most pension funds will not invest more than 5 percent of their assets through an ETI strategy. As of 2007, however, public-sector pension funds had committed approximately \$11 billion to ETI.¹⁹

- The Dallas Police and Fire Pension system became the first U.S. pension fund to invest directly in a major road project with its investment in Texas Department of Transportation's managed express lanes project on I-695 in Dallas.²⁰
- The Contra Costa County Employees Retirement Association, the Los Angeles County Employees Retirement Association, and the Los Angeles Fire and Police Pension Fund, all in California, have devoted portions of their funds to ETI.²¹

- New York City uses a portion of its pension assets to provide capital via indirect investment for low-, moderate-, and middle-income housing construction and improvement.

As of December 31, 2011, the five-year overall return on the pension funds' ETIs was 7 percent, compared with the Barclays U.S. Aggregate Bond Index's five-year return of 6.5 percent.²²

With more than \$20 trillion in funds under management, institutional investors in the United States are another potential source of capital for cities. Cities can create common investment vehicles through which various entities—public and private pension funds, university endowments, socially responsible investors, among others—can invest in ETI projects.²³

The Bay Area Family of Funds, run by the nonprofit Bay Area Council in Northern California, ties both private- and public-sector investors into regional initiatives to promote business growth in low-income communities.²⁴

According to the New York City Bureau of Economic Development, the New York Public Private Apartment Rehabilitation program:

Finances multifamily buildings in the five boroughs. Working with 8 private and not-for-profit lenders, the funds issue forward commitments to provide permanent, long-term mortgages for the rehabilitation or new construction of multifamily buildings that will remain affordable for the long term. For calendar year 2011, \$127 million has been invested and/or committed for 3,382 units of affordable rental housing.²⁵

Anchor institutions

Background

Anchor institutions such as universities, airports, hospitals, and large cultural institutions are often critical to the economic well-being of metropolitan areas. In more than half of the top 100 cities by population, an anchor institution is the largest employer. One in every 15 large hospitals and one in every eight colleges and universities are located in an inner city.²⁶

The purchasing power of these institutions is collectively in the billions of dollars, and they employ millions of people nationwide.²⁷ But more importantly, they are a significant proportion of the employment in their respective regions.²⁸ Their economic heft, however, is not what makes them the keystone of an economic-development strategy. It is their connection to place that makes them important—the fact that they are unlikely to pick up and leave as so many businesses have.

Anchors play several key roles in local economies, all of which can be organized and directed to benefit the surrounding community. The institution must prioritize community welfare and improvement, and stakeholders must be able to work together. Local government leaders can foster such partnerships by building strong relationships with institutional leaders and regularly convening them to discuss opportunities for collaboration. They can also take the lead on more structured initiatives such as the ones described in this section. In all cases, the surrounding community needs to be at the table, so their needs and priorities are taken into account.

We describe below how cities can benefit from the multiple roles anchors play in the economy. There is one perhaps obvious role that we do not detail: the primary mission of the institution. A hospital's primary mission, for example, is health care, and many hospitals are involved in health initiatives in their home communities. Similarly, colleges and universities often have education-based outreach programs. Such programs are more likely than the ones described below to emerge naturally and thus are not our focus.

Anchor as consumer

Substantial evidence shows that the local economy retains a higher percentage of a dollar spent at a locally owned business than if that same dollar were spent at a nonlocal business. So one of the most powerful ways an anchor institution can help build the local economy is by purchasing goods and services from local businesses.

The University of Pennsylvania, for example, has brought in \$94.8 million to West Philadelphia's economy by redirecting only 10 percent of its annual purchasing to local suppliers.²⁹ University Hospitals in Cleveland used local procurement and local hiring by contractors in its strategic growth plan, Vision 2010. Local businesses received more than 90 percent of the contracts during the plan's five-year implementation.³⁰

Anchors play several key roles in local economies, all of which can be organized and directed to benefit the surrounding community.

Local governments can partner with anchors to increase their local purchasing either by setting local purchasing goals for contracting and procurement by anchor institutions or by including a local purchasing preference in their procurement system. Similar to governments, anchor institutions should also include job-quality requirements, including wage and benefits standards, in their contracts.

Focusing on the supply chain of anchors makes for an even more comprehensive approach, as demonstrated by Cleveland's Evergreen Cooperatives. Evergreen is a joint venture between the city of Cleveland, the Cleveland Foundation, The Democracy Collaborative, and the three largest anchor institutions in Cleveland: Case Western Reserve University, the Cleveland Clinic, and University Hospitals. These institutions spend approximately \$3 billion annually on contracted services alone, excluding wages and direct operating costs. Evergreen focuses on capturing those dollars locally by providing the services the anchors contract for while also offering good jobs for local residents.³¹

Local governments can work with anchors to map their supply chains and redirect business to local and responsible firms.

Anchor as employer

Local governments have a strong and legitimate interest in making sure that anchor institutions—particularly institutions such as airports and hospitals that provide important public services—maintain safe working conditions and provide quality jobs.

Quality jobs are important for the local economy, of course, but they are also important to maintain labor peace at these institutions in order to prevent service interruptions. So it is in the local government's interest to promote or protect the right of workers to family-supporting wages, adequate benefits, safe and fair working conditions, and the right to organize for all of the above. For anchor institutions that are public or quasi-public, local governments should require common-sense job-safety and job-quality measures.

The most basic of these are affordable and accessible employer-provided health care for workers and their dependents, paid sick leave for workers to recover from illness or to care for a child or immediate family member, and family-supporting wages for all classifications of workers. These standards should apply to contracted

workers in addition to regular employees, and contractors should not be able to evade health care or paid-leave standards by breaking up service contracts into multiple part-time positions rather than using full-time staff.

These measures benefit employers as well. When the San Francisco Airport Commission established a mandated minimum wage plus benefits and paid leave, employee turnover fell by approximately 30 percent.³²

Offering initial and ongoing training to employees consistent with their positions and responsibilities further helps to promote safety and security and to retain workers. Businesses that are receiving contracts should also be required to submit a detailed training plan that outlines the training required for each position.

The Los Angeles Airport training requirements, for example, cover rules, safety, security, Transportation and Security Administration regulations, emergency response, and relevant equipment operation for all service employees.³³

A stable, trained, and experienced workforce that knows the facilities, protocols, and chain of communication to report security breaches and public-health hazards is essential to the safe and secure operation of workplaces such as airports.

Another way to maintain workforce consistency in these institutions is to adopt worker-retention policies for their contracts. Such a policy would provide for a 90-day transition period in which incumbent workers can only be terminated for cause or where the successor contractor determines lower staffing levels are needed to perform services under the contract. New York,³⁴ Los Angeles,³⁵ Philadelphia,³⁶ San Francisco,³⁷ St. Louis,³⁸ Washington, D.C.,³⁹ and Newark, New Jersey,⁴⁰ all have policies requiring a successor contractor to retain the incumbent workforce.

Local governments should additionally ensure that anchor institutions adopt a broad labor harmony policy applying to all service workers. Such policies represent an agreement between management and labor that service to the public will be maintained during any labor disputes. Again, promoting labor peace is important for local governments because bad labor relations can cause service interruptions at hospitals, airports, and other crucial facilities.

Two types of anchor institutions are worth noting here. The first is airports: They deserve special attention because they are usually controlled by public entities, but the majority of employees are usually employed by contractors and may be subject to unsafe working conditions, low pay, and no benefits.

Local governments should use permitting power to ensure that private contractors providing passenger services in airports are responsible; provide standard wages, benefits, and paid leave; and ensure stability of the workforce. In addition to the policies discussed above, San Francisco and Los Angeles provide instructive examples on how to do so.

The second is health care institutions such as hospitals and nursing homes. These anchors operate all day, every day and employ large numbers of people. In fact, in smaller communities they may be the largest employers. In addition, the jobs in these institutions require a large range of education and experience and thus can provide both entry-level jobs and career pathways to employees.

Hospitals should, of course, consider all of the strategies discussed in this section. But beyond that they should consider offering community benefits such as energy conservation and efficiency, support for the availability of fresh and healthy food, availability of their facilities for community activities, and even help to incubate startup businesses and organizations.

All anchor institutions can take steps to hire staff from adjacent neighborhoods or from groups identified as underrepresented or with particularly high rates of unemployment. Cities should work with anchor institutions to establish a program to promote hiring residents from surrounding neighborhoods.

The University of Southern California has a program that prioritizes hiring residents from surrounding neighborhoods, including hosting job fairs and a drop-in recruiting center. The program offers training in resume-writing and interview skills and provides free professional development to current employees.⁴¹ Columbia University partners with first-source hiring⁴² programs that identify, screen, and refer potential candidates from low-income neighborhoods. And four Boston-area hospitals participate in the Healthcare Training Institute,⁴³ a nationally recognized partnership that offers training and career-advancement services with a particular emphasis on helping low-income workers and community residents secure jobs that pay family-supporting wages.

Local governments can play a role in establishing these types of programs, particularly if they already use similar techniques to increase the local hiring of their contractors.⁴⁴

Anchors can also help strengthen surrounding neighborhoods by encouraging their employees to purchase homes and live nearby. Local governments should

partner with anchor institutions to create employer-assisted housing programs that target neighborhoods in need of investment and revitalization and assist employees with rent, down payments, or home improvements.

The Yale Homebuyer Program, for example, has helped more than 1,000 employees purchase homes since 1994. Eighty percent of the employees were first-time homeowners.⁴⁵ Employees of nonprofit institutions in the Greater University Circle area of Cleveland—including Case Western Reserve University, Cleveland Clinic, Cleveland Museum of Art, and University Hospitals—are eligible for a range of housing assistance, including one month's rent, up to \$8,000 in matching funds for exterior renovations, and between \$15,000 and \$30,000 in forgivable loans for the purchase of a home.⁴⁶

Anchor as real estate developer

Anchor institutions are often significant landowners in cities. As such, they have a vested interest in the state of local infrastructure and the viability of surrounding neighborhoods. This is likely why anchors are taking a more proactive role in real estate development as a way to spur economic development and to improve neighborhoods.

In the best cases, this is tied to community development so that residents are served rather than being displaced. Johns Hopkins has focused on the neighborhood north of its medical campus in Baltimore, partnering with the city and others on the East Baltimore Development Initiative—the largest redevelopment project in Baltimore to date. The initiative includes developing a science and technology park, significant housing construction, and a new public school. It also has case management and workforce development components.⁴⁷

In Memphis, Tennessee, LeMoyné-Owen College created a community development corporation that leverages financing for development projects and has contributed to a \$5,000 increase in per capita annual income in the surrounding neighborhood.⁴⁸

Syracuse University is working with the city of Syracuse, New York, on the Connective Corridor project—a \$42.5 million infrastructure investment funded by a combination of public and private dollars. This has spurred an additional \$200 million in development in the corridor and central business district.⁴⁹

And the University of Akron in Ohio—along with Summa Health System, Akron Children's Hospital, Akron General Health System, and other partners—formed

the University Park Alliance to improve the quality of life in and raise the median income of the neighborhoods surrounding the university. They have made investments of more than \$300 million in real estate development, crime prevention, housing improvements, and construction and infrastructure improvements. The alliance also leverages the talent at its member institutions to offer services such as tutoring and health screenings.⁵⁰

Anchor as part of a cluster

Anchor institutions, particularly universities, are often associated with the high-tech sector because of their potential for research collaboration and technology transfer. As such, they can anchor a cluster of related businesses and incubate startups.

At the University of Houston, collaboration between university scientists and pharmaceutical companies has generated revenue and jobs for the region, notably from the development of a new form of the stem-cell transplant drug Busulfan, which had global sales of \$40 million in 2008.

The University of Central Florida developed partnerships with biotech companies that purchase land in its adjacent Research Park for office, laboratory, and manufacturing activities. These efforts have resulted in a biotech cluster of 116 companies with 9,500 employees locating themselves in the Orlando-based Research Park.⁵¹

And Virginia Commonwealth University was the primary mover behind the Virginia BioTechnology Research Park, a business incubator done in partnership with the city of Richmond and the Commonwealth of Virginia. Dozens of companies—most of them based on VCU faculty research—started in the park. In 2000 these companies employed 829 people;⁵² today the 59 resident companies employ more than 2,200 people.⁵³

Key factors

For all of these approaches, several factors are important for success:

- **Be on the same page.** Regardless of where the effort initiates, the anchor institutions and local government need to explicitly identify an economic-development strategy that leverages the anchors to the benefit of all.

- **Involve the community.** This work should be done with the surrounding communities, not to or for them.
- **Identify a “project champion.”** It is crucial in the early stages to have a leader who will champion the vision by providing or securing funding, cultivating the needed support from partners, and laying the organizational groundwork.
- **Find local political support.** Active promotion by influential leaders, who are willing to make the project a public centerpiece of economic development, is needed to catalyze the needed institutional commitments, financial backing, and technical partners to make the cooperative viable.
- **Identify and obtain buy-in from community anchors.** Taking an inventory of these actors—and of their largest expenditures within and outside the community—can help identify where the greatest entrepreneurial opportunities lie. Getting buy-in and commitments from these large economic actors may be less straightforward, but it is crucial to success. In addition to the benefits that accrue to the community in terms of jobs and local ownership, however, there are also many benefits to the anchor institutions that can be emphasized:
 - Maintaining a qualified, quality worker base and reducing turnover
 - Improving the community in which the institution is anchored by reducing crime rates, improving quality of life, and enhancing the attractiveness and reputation of the institution
 - Ensuring long-term demand in the community for the services or role performed by the institution
- **Partner for early success.** Early successes are essential. Engaging development and financing expertise, business-plan specialists, workforce-development trainers, community land trusts, and other partners as soon as the need is anticipated—rather than after problems are encountered—is a key factor to success.

Small and local business support

Background

While many of the strategies discussed above are directed at larger employers, municipal governments are increasingly thinking about how to cultivate smaller, locally owned businesses as well.

There are good reasons for this: Small businesses represent 99.7 percent of all employer firms and have generated 66 percent of new job growth over the past 15 years.⁵⁴ More importantly, local businesses keep a greater percentage of their profits in the local economy—more than three times as much, according to some studies.⁵⁵ Local businesses also tend to be centrally located and thus make more efficient use of infrastructure⁵⁶ to be attached to shorter—and thus less carbon-intensive—supply chains, and are significantly less likely to relocate in the near term.

Since consumer spending is a relatively fixed pie—sales gains at a new shopping development, for example, are usually offset by losses at existing businesses—it makes good sense for cities to focus on growing businesses that return the most to the local economy.⁵⁷

But the fact that a business is locally owned does not guarantee that the jobs it creates are high quality or pay family-supporting wages; to the contrary, small businesses, which are less likely to have unionized workers, are often some of the worst offenders on wages and working conditions.

That is why cities need to encourage the growth of local businesses that pay decent wages and work with others to encourage them to do so. Each of the policy suggestions below offers an opportunity to educate and encourage the participating small businesses about the benefits of good wages, benefits, and workplace conditions or to require that they provide such in exchange for assistance.

ED policy supporting local businesses is not a substitute for comprehensive wage and hour standards as noted in the chapter on Job Quality, and those standards should broadly apply to small businesses as well as large.⁵⁸ That said, concentrating on local businesses and creating a healthy local economy is part of creating efficient, sustainable, and thriving localities, and cities should consider some of the approaches below as methods of doing so.

Education

The often confusing thicket of regulations and business knowledge that potential entrepreneurs must navigate to form a new venture is one obstacle to startups. City governments can help new small-business owners succeed by providing them with necessary business knowledge and public intermediaries to smooth interaction with regulators.

Some options include:

- **Educational resources and research assistance:** A low-cost, though also likely low-impact, way to encourage local businesses is to offer public access to business resources and research assistance. Chicago has created a Business Information Center as part of its public library system.⁵⁹ Through the center, patrons can schedule one-on-one consultations with business librarians for research assistance. The library also provides sample business plans and free access to subscription business resources such as magazines and databases—including Standard & Poor’s, Crain’s, among others. In Los Angeles the Office of Small Business maintains a business resource finder website, which links users to more than 150 local organizations that offer small-business assistance.⁶⁰
- **Free or low-cost business classes:** New York City’s Department of Small Business Services offers free courses in basic and advanced business topics.⁶¹ For new businesses, the department gives training in marketing, business planning, and finance. Advanced classes include corporate coaching, construction management, and strategic-growth planning. A survey of 123 entrepreneurs who completed the city’s strategic growth program found their businesses averaged a 41 percent increase in revenue, hired 100 new full-time and 60 new part-time employees in total, and secured an aggregate \$1.6 million in new financing.⁶² Labor standards should be part of these business classes.
- **Business plan competitions:** Many cities encourage potential business owners through business plan competitions, in which the winner or winners receive a cash award to use toward their business startup costs. Chicago’s Office of the City Treasurer holds an annual Business Plan Competition for businesses less than three years old; the top three finalists each receive \$10,000 in cash prizes.⁶³
- **Liaison to city government:** San Antonio’s Economic Development Department employs a small-business liaison who guides business owners through licensing and regulatory requirements and provides initial counseling on securing financing, developing a business plan, choosing a business entity form, and marketing.⁶⁴

Many cities encourage potential business owners through business plan competitions, in which the winner or winners receive a cash award to use toward their business startup costs.

Incubation and research parks

Another relatively low-cost way—at least compared to most subsidy programs—that cities can support the growth of local businesses is through busi-

ness incubators. These are programs that support the successful development of entrepreneurial companies through an array of business resources and services.⁶⁵ This approach is particularly effective—and common—as part of university-based or university-related technology-transfer initiatives.

In 2008 the Semiconductor Research Corporation, a consortium of microchip manufacturers, chose the University of Notre Dame as one of its four U.S.-based research centers, creating the Midwest Institute for Nanoelectronics Discovery, or MIND. In support of MIND, South Bend, Indiana, cleared and developed Ignition Park and Innovation Park, two incubators that house MIND-inspired businesses and other tech startups, and the city committed \$50 million to support the commercialization of products developed by MIND.⁶⁶

Los Angeles partnered with local business organizations and universities to take advantage of the area's cluster of top research schools and created CleanTech Los Angeles, a research initiative that will develop innovations for an environmentally sustainable economy.⁶⁷ The city was instrumental in developing the CleanTech Corridor, a 4-mile-long business incubator on the edge of downtown, which will house clean-tech manufacturing centers and related businesses.

Access to capital

Small businesses often have difficulty accessing capital, either because their owners are not deemed creditworthy or simply because the megabanks that dominate the market postcrash do not find traditional loans to small businesses worth their while.⁶⁸

Chicago's city leaders estimate an annual demand of \$28 million for small-business microlending—small-dollar loans, often without collateral—that goes unfulfilled in their city.⁶⁹ Cities can help lessen this barrier to starting and growing a business by providing low-interest loans directly to small-business owners or by facilitating loans through partnerships with private lenders.⁷⁰

Chicago, for instance, provides loans of up to \$50,000 to small businesses through local partners—banks, credit unions, and nonprofits that focus on business and workforce development.⁷¹ To reduce the risk of business failure, Wilmington, Delaware, requires potential loan recipients to complete a 10-week entrepreneurial training program that covers a variety of hard and soft business skills.⁷² And Kansas City, Missouri, targets a third of its business microlending to distressed areas of the city.⁷³

To give early stage, high-risk, and high-potential businesses the capital they need to get off the ground, some cities are investing their monies in venture capital or mezzanine capital funds.

Ventura, California, partnered with an outside venture capital firm rather than hiring in-house staff to manage the city's venture capital investment.⁷⁴ The city put \$5 million in an investment pool as an equal partner, ensuring their funds would be highly leveraged. Part of the fund is solely dedicated to financing businesses located or locating in Ventura, including creation of a new business incubator in the city; the remainder of the fund will prioritize Ventura-based businesses but is not limited to them.

Cities have to be mindful, however, of the amount of risk in municipal funds. In order to mitigate risk while still encouraging small-business growth through capital investment, municipal leaders should consider facilitating investments by private funders rather than investing city money in these ventures.

The Angel Capital Association, a trade association of angel investor groups, suggests that local governments support higher-risk business investment by generating “deal flow”—referring entrepreneurs in their area to angel networks to ensure that angel groups can choose from a sufficient number of potential investments.⁷⁵

Another option for spurring angel investment is to offer tax credits for targeted investments: New York Assembly Bill A 10711-2011 offered up to \$20,000 in credits to investors who put their money behind a New York City-based startup. Seventy-five percent of the startup's employees must be based in the city for the company's investors to qualify for the credit.⁷⁶

Improve small-business energy efficiency

Municipalities can help small businesses retain more of their earnings by educating owners on energy efficiency methods and government incentives.⁷⁷

The Office of Sustainability in Austin, Texas, in partnership with the local Small Business Development Program, hosts lectures by topic experts to help small businesses lower their energy consumption costs.⁷⁸ In Seattle business owners can receive financial incentives from the city for replacing inefficient lighting equipment; given that lighting expenses may account for up to 60 percent of a small business's energy costs, this upgrade can have a significant effect on a small

business's balance sheet.⁷⁹ And Philadelphia offers sustainable-business tax credits to certified B Corporations.⁸⁰ These companies are certified to meet comprehensive and transparent social and environmental standards and are incorporated as Benefit Corporations.⁸¹ The U.S. Small Business Administration maintains a list of state and local efforts to help small businesses improve environmental sustainability and reduce energy costs.⁸²

Small-business location and appearance

For many small businesses, location and appearance is crucial to success. A low-cost way for cities to help new businesses determine where to locate is by maintaining accurate and up-to-date online databases of available commercial property.

Boston, for instance, maintains an inventory of city-owned land, including retail and commercial space, while cities such as Geneva, Illinois; Bethlehem, Pennsylvania; and Cathedral City, California, keep online lists of all available commercial property in their cities, regardless of the property's current ownership.⁸³

Another relatively low-cost, effective way to simultaneously develop local businesses and improve the quality of city neighborhoods is façade improvement grants—matching grants or low-interest loans to small business owners.

Milwaukee offers improvement grants in excess of \$2,000.⁸⁴ If a property owner receives more than \$10,000, the city places a lien on the property that remains in effect for three years; if the property is transferred within the three-year lien period, a portion of the city's grant must be repaid.

To the extent possible, cities should attach conditions on job creation and wages to any direct grant; however, the small size of grants such as these limits cities' leverage on recipients.

Both Baltimore and New Orleans offer matching façade improvement grants for up to \$20,000.⁸⁵ Both cities allow grant recipients to use their funding for the initial design work, labor, and materials needed to remove the existing frontage and for the installation of the new façade and signage. Louisville, Kentucky, meanwhile, offers small-business owners low-interest, fixed-rate loans to improve the appearance of their buildings.⁸⁶

Growing existing businesses: Economic gardening

In 1989 Littleton, Colorado, became the first city to experiment with an “economic gardening” model. The model, based on research by David Birch at the Massachusetts Institute of Technology, or MIT, rests on the finding that the majority of jobs in any local economy are produced by the small, local businesses already in the area; gardening grows those local businesses that have the potential to expand.⁸⁷

Cities have three main roles in an economic gardening plan: improving infrastructure, facilitating connections, and providing information.

First, in economic gardening, infrastructure includes not only the physical facilities a city has to offer but also amenities that improve resident employees’ quality of life, including green spaces, community events, and well-maintained buildings. The city’s educational- and workforce-development opportunities also train the local workforce with skills needed by local businesses.

Second, cities can help foster local business growth by facilitating connections between businesses, think tanks, academic programs, trade associations, and other relevant groups.

Third, economic gardening requires that entrepreneurs have access to tactical and strategic information. Littleton maintains sophisticated databases containing information normally only available to large corporations. The city provides entrepreneurs with pertinent information on industry trends, new product tracking, legislative information, marketing lists, and other data that can help business owners answer customized questions.

Since Littleton began the economic gardening model, the city’s job base has nearly doubled from 15,000 to 27,000, and its sales tax revenue has increased from \$6 million per year to \$20 million while the city’s population has only increased by 23 percent.⁸⁸

As more communities realize that “economic hunting” is a game they cannot win, and as more and more multinational conglomerates move their production offshore in search of ever-cheaper labor markets, economic gardening will receive renewed interest as a way to create good jobs.

Support democratic employee ownership

Cities can promote democratic employee ownership, or DEO, of businesses as a means to create and preserve stable, well-paid jobs. Employee ownership encompasses a range of potential legal structures from employee stock ownership plans, or ESOP, to worker cooperatives, but the essential dimensions are the democratic governance of the organization and the workers' residual claims over the firm's assets. This combination of democratic representation of worker-owner interests and worker ownership of firm assets guarantees that workers have the legally enforceable authority and the decision-making mechanisms to maintain fair wages and stable employment.

The benefits of a strong DEO community for cities fall into three categories. First, DEO firms create stable employment. In a DEO firm major asset sales such as plant closings must be authorized by a vote from ownership, according to ESOP and cooperative statutes.

Second, DEO firms increase compensation for workers. The most recent nationally representative cross-industry survey of employee-owned firms found that these firms pay salaries on par with industry averages so that profit shares do not replace but supplement income.⁸⁹ This is clearly only the case when DEO firms are profitable. DEO firms, however, have also been shown to perform more profitably than comparable firms with concentrated ownership.⁹⁰

Third, DEO firms are an ideal mechanism for workers' protection of their welfare. Not only are DEO firms subject to all of the same labor regulations as traditional firms, but DEO firms also give workers both the information access and authority to oversee and manage work-quality issues.

Local policymakers can take a number of practical steps to support the DEO community. Among the most attractive and plausible is encouraging retiring business owners to sell their businesses to employees. With the Baby Boomer generation approaching retirement, thousands of business owners in the coming 15 years will look for ways to sell their stakes.

Section 1042 of the Internal Revenue Code allows a business owner to defer long-term gain from the sale of his or her business to an ESOP or a worker-owned cooperative.⁹¹ Legislation to create a similar benefit under state code was just introduced in New Jersey. Funded in part by public resources, the Ohio Employee Ownership Center conducts feasibility studies for local businesses considering

transition to employee ownership. They have developed a model and best practice guide for ownership succession in small businesses using the employee cooperative as an ownership structure.⁹²

In their entrepreneurship and business incubation programs, cities can also give additional attention to democratic employee ownership. Lack of awareness of employee ownership is a key obstacle to its proliferation.

The city of Madison, Wisconsin, together with the University of Wisconsin-Madison Center for Cooperatives and a group of local-worker cooperatives, hosted the Madison Cooperative Business Conference in June 2012 to provide a networking opportunity across different sectors of the co-op community, to explore best practices in cooperative development, and to brainstorm ways in which local government can support the cooperative economy.

The mayor of Richmond, California, recently hired the country's first municipal co-op development coordinator. This co-op expert works with the California Center for Cooperative Development, a local nonprofit, to help startup worker cooperatives put together a business plan and provide other technical assistance and training on the co-op business model.⁹³

In their entrepreneurship and business incubation programs, cities can also give additional attention to democratic employee ownership.

Subsidy oversight and control

Background

Local governments are operating with reduced resources, so it is essential that they evaluate and maximize the effectiveness of resources that they disperse. In part, that means assuring that taxpayer money is not being spent on giveaways to corporations that will not return economic benefit to local communities.

Local governments should enhance the transparency and productivity of public subsidies by publicizing information on subsidy allocations and their outcomes and by including in subsidy agreements clauses that enable communities to recoup the resources if subsidy recipients do not fulfill their initial promises.

Given that the size of local government subsidies is so significant—local governments currently offer between \$5 billion and \$10 billion in property tax subsidies alone⁹⁴—even a small improvement in the productivity of these investments

could yield substantial benefits. Local governments should ensure that subsidies benefit local residents and the local economy.⁹⁵ But policies requiring public benefits will only be effective if they are enforced—a task that many municipalities fail due to lack of competence, capacity, or political will.

According to a recent report from Good Jobs First, taxpayers dole out \$70 billion per year in incentives for companies through state and local government.⁹⁶ These subsidies come in a wide range of forms, including:

TABLE 1
Where the money goes

State and local government business subsidies

Direct grants or forgivable loans	Use of public money to support (usually) capital expenses of relocating, renovating, or building a new facility. Loans may convert to grants over time.
Low- or no-interest loans	Loans at below-market rates in return for moving to or expanding in a location.
Tax credits	Credits that decrease tax liability in future years and are usually at the state level.
Property tax abatements	Long-term exemptions from or reductions in corporate taxes on land and buildings and/or equipment and vehicles.
Tax increment financing	The diversion of the incremental increase in property, sales, and/or other taxes generated by a project to subsidize redevelopment of a specified district, including direct grants to businesses.
Sales tax rebates	Payment to big-box retailers or retail-space developers of all or some of the increased sales tax revenue generated by their new store.
Infrastructure improvements	Addition of or improvements to roads, sewers, and/or water lines for a specific business.
Land parceling or land write-downs	Assemblage of project footprints, sometimes using eminent domain or public dollars. ⁹⁷

These subsidies should be directed to companies and developments that actually need them. The companies that receive these incentives are too often not the types that would otherwise be unable to get financing or centrally located real estate through traditional means but rather those that have the most resources with which to lobby for them.

In addition, companies rarely make location decisions based on the availability of subsidies. These decisions are based on access to human capital, raw materials, transportation networks, supply chains, customers and markets, or amenities and quality of life for their employees.⁹⁸

In many cases local governments are subsidizing investments that likely would have been made without the subsidies. Thus, one of the first tasks of local government is to screen potential investments carefully for maximum return on investment.

The prevalence of unscreened subsidies pits local governments against each other, driving subsidies up and public benefits from economic development down. In these “races to the bottom,” city governments are the losers. They can spend millions of dollars of scarce local revenue in bidding wars to entice businesses to locate within the city limits. But the more money spent, the more questionable the net benefits accrued from that location. And without the kinds of policies we discuss in this section, there is little guarantee of any benefit at all.

Even when there are benefits, engaging in this kind of “economic hunting”⁹⁹ is a zero-sum game nationally—jobs are moved from one city to another, disrupting lives and local economies and resulting in no new jobs overall, even if it brings new jobs, however temporarily, to a particular city.

In their bids for subsidies, companies will often make claims about the quality of jobs they will create or the benefits they will provide but will frequently not follow through with their promises once the subsidy is granted. Alternatively, large national companies may undermine the job-creation effects of the subsidies they receive by not only taking revenue away from small local retailers but also the local supply chains on which they rely.¹⁰⁰ Finally, regardless of the benefits of business growth or long-term growth of a tax base, excessive use of subsidies may lead to cuts in public services due to resulting revenue shortfalls.¹⁰¹

To address these problems, local governments need to improve their oversight of economic-development subsidies. This entails placing conditions on economic-development subsidies, publicizing the subsidies being allocated and the benefits being promised, and creating mechanisms with which local governments can hold corporations to their commitments.

While states have gained some ground over the past 20 years—thanks in part to the efforts of good governance groups such as Good Jobs First and the Public Interest Research Group, or USPIRG, and its state affiliates—local governments have made less progress and received less attention. Because local governments use a range of subsidies that are distinct from those of states and because weak oversight by any municipal government undermines the efforts of other localities, subsidy-oversight policies at the local level are a key priority.

Subsidy conditions

The first step toward effective subsidy oversight is for cities to clearly state their expectations for the benefits that subsidies will generate. Subsidies necessarily involve some dimension of risk, in that they support investments that are not guaranteed to succeed. Cities and their taxpayers, however, should not carry the full burden of that risk. Cities, moreover, should not create situations in which firms are encouraged to enter into high-risk investments because they know they are protected from harm.

And if the investment fails, cities should have some protection. This can be achieved by structuring subsidies such as contracts, in which conditions are placed on subsidies, so city governments are guaranteed to draw some benefit from the transaction and so businesses are not encouraged to make risky investments.

City governments should also set high standards for these benefits. They should not invest in low-wage or low-skill jobs, just as they should not invest in schools with lax standards or in poorly designed infrastructure. When citizens invest their tax dollars in low-quality jobs, they will be forced to pay further in additional social services that result from an underpaid and underemployed population. Subsidies can be evaluated on three dimensions:¹⁰²

- **Economic growth:** Subsidies can be held to various metrics of economic growth such as job creation, job retention, training, and investment.
- **Wages and pay:** Subsidies can be conditional upon the creation of jobs with particular wage and pay requirements or minimum numbers of hours.
- **Benefits:** Subsidies may be conditional on various employee benefit requirements, from full coverage to employer contributions. Paid leave may also be included.¹⁰³

While no locality is perfect in this regard, many have made strides on different aspects of the above elements.

The Philadelphia City Council's 21st Century Minimum Wage and Benefits Standard mandates that companies that have service contracts with, or receive financial assistance (such as grants, loans, loan guarantees, or tax incentives) from the city must pay their employees a living wage and, as of 2012, offer paid sick leave for their workers.¹⁰⁴

In Wichita, Kansas, the city government passed a resolution making eligibility for economic-development incentives conditional on the creation of "value-added jobs" that export goods and services outside of the Wichita metropolitan statisti-

cal area, wages and salaries above industry standards, health benefits or equivalent additional pay, and a certain level of “public” return on investment, as determined by the city government.¹⁰⁵

The County of Monroe Industrial Development Authority in New York requires that any project receiving its assistance must use local labor for facility construction and that some projects must use local suppliers.¹⁰⁶

By specifying these types of expectations, cities can both enhance the likelihood of attracting publicly beneficial projects and can also ensure that they are able to hold subsidized businesses accountable.

Subsidy disclosure

If conditions are the first step, transparency is the second step toward assuring that public resources are effectively allocated.

Public disclosure of company-specific information on subsidies received and jobs created—either anticipated or actual—gives citizens and public officials the resources to investigate and monitor the allocation of their tax dollars. Because the companies that receive subsidies have the responsibility to report the information and because the oversight itself is conducted by civil society, the costs of such a program are those of creating and maintaining a database. Costs and components of a public monitoring system are discussed further below in the discussion on clawbacks.

Oversight should be public, specific, and comprehensive. It should be collected in a central place and aggregated to the extent possible—for instance, on a government website that combines information on various types of local subsidies. It also should be published in an accessible format. The state of Michigan, for example, uses a map-based format that allows users to filter for different types of subsidies, see how they are concentrated geographically, and then access more information and links to the formal documentation.¹⁰⁷

Data should also be regularly updated so that constituents can see companies’ progress in meeting their employment-creation promises.

Lastly, cities should publish historical data so that users can more easily understand changing subsidy levels and companies’ job-creation histories in a locality.

Specific information allows elected officials and the public to evaluate both the real and anticipated costs and benefits of subsidies. First, the source should list the company's name, preferably a unique identifier of the company—such as an employer identification number—and, where relevant, information about the industry in which the company operates. Second, the subsidy dollar amount and the date of the agreement should be documented, as well as the location of the project. Lastly, the documentation should include information about the number of anticipated jobs, the types of jobs to be created, the benefits employees will receive, and the degree to which these goals have been realized.

New York City took good first steps on local subsidy disclosure.¹⁰⁸ In 2011 the city council passed a bill authorizing the publication of current and historical discretionary subsidy deals through the city's Industrial Development Agency. Formally known as the Annual Investment Projects Report, it includes data on current and promised employment, amounts and types of city subsidies, amount of subsidies recaptured, and various characteristics about the new employees, including whether they are city residents and whether they are offered health benefits.¹⁰⁹

One political obstacle facing disclosure efforts is the concern that such policies will disclose confidential financial information about companies that will undermine their competitiveness. Legislators at various levels have used this argument to undermine proposed disclosure policies.¹¹⁰

There are good reasons, however, to discount this concern. First, companies are not required to take incentives, and such disclosure and reporting can be considered part of the cost of receiving such an incentive. Second, disclosure requirements can easily be drafted so that they protect sensitive information: To date, no company has offered evidence of competitors using disclosure information to gain an advantage over recipients.

Both Republicans and Democrats are concerned about crony capitalism and secretive government deals with corporate sponsors. This kind of transparency is a clear solution.

Subsidy clawbacks

Four years after receiving a subsidy package worth more than \$200 million from the state of North Carolina, computer-maker Dell shut down its assembly plant

Specific information allows elected officials and the public to evaluate both the real and anticipated costs and benefits of subsidies.

and moved operations overseas. Though the governor swore to recoup the taxpayers' money, only one-tenth of the subsidies were ultimately returned.¹¹¹

Such horror stories remind us that cities must also have mechanisms to hold recipients of subsidies accountable if they fail to meet their promised economic-development goals.

Clawback provisions are clauses in both the ordinances that establish a subsidy program and the individual contracts for subsidies that authorize governments to recover distributed resources if recipients do not fulfill the conditions set out in their subsidy agreement.¹¹² Clawback provisions have grown more common over the past 20 years but remain focused at the state level and limited in their effectiveness.¹¹³

Municipal and county governments should learn from the mistakes of state governments and implement—and enforce—robust clawback provisions that provide a real incentive for compliance. This necessitates a number of steps:

1. **Companies must be forced to report outcomes regularly.** As discussed above, local governments need to set clear standards when granting subsidies. These need to translate into specific required outcomes for each individual subsidy, which the recipient must regularly and publicly report.
2. **Governments should independently verify output data.** This may entail program-specific audits of company records and verification of data with independent sources. Employment figures, for example, can be crosschecked with unemployment-insurance records.
3. **Penalties must be consequential and credible but may come in varied forms.**
 - Subsidy recaptures recoup previously allocated subsidies.
 - Subsidy recalibration allows for a downward adjustment on the value of future allocations.
 - Subsidy rescissions allow for termination of an agreement at any point in time and cancellation of future payments.
4. **Because clawback provisions are only useful if applied when necessary, local governments should be required to disclose when they are enforced.** Requiring disclosure of clawback enforcement allows civic organizations and the public to oversee whether the system is functioning effectively, both when it is being applied insufficiently and when it is being applied overzealously.

5. **Governments can structure subsidies to completely avoid the need for claw-back provisions.** This can be done through pay-for-performance structures such as those used in traditional contracting situations.

Albuquerque, New Mexico, is one of a number of American cities that has become more active in its oversight and enforcement of subsidy performance. In 2002, two years after Philips Semiconductor received a subsidy package providing nearly \$400 million in financing from the state of New Mexico and the city of Albuquerque, it closed its microchip plant. This financing, however, was the first subsidy to fall under the city's revised financing policies. Despite the fact that the taxing authority lay with the state and that clawback provisions were not in the state legislation, the city was able to demand money from Philips because it had passed a more stringent ordinance on the industrial revenue bonds it was allocating.¹¹⁴ The city won back \$13 million in tax exemptions that it had given as part of an industrial revenue bond and millions in other tax abatements.

Two concerns are occasionally raised in discussions about clawbacks. The first is that clawbacks undermine the business climate of a locality by creating an oppositional dynamic between business and government. To date, however, proponents of this view have not offered any cases of clawback provisions in subsidy legislation reducing business investment.

The more substantial concern is exemptions. Widespread exemptions undermine the policy's effectiveness. But if unforeseen circumstances like an economic downturn compromise a company's ability to generate the economic benefits promised in the time anticipated, clawback provisions may only worsen their financial position. An alternative to offering an exemption is to negotiate a grace period for achievement of economic goals under extenuating circumstances. This way, companies are held accountable, but are also able to survive unanticipated crises.

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