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Inside This Issue…

News & Views, published quarterly, is the newsletter of the Economic Development Division of the American Planning Association. We welcome articles, letters, suggestions and information regarding workshops and other educational opportunities for economic development professionals. Please forward your submissions by email to our Managing Editor, Zenia Kotval, AICP (address below).

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Revving the Engines of Economic Growth

An interview with EDA's Dr. David Sampson

As Assistant Secretary of Commerce for Economic Development for the Bush Administration, **Dr. David A. Sampson** serves as the principal advisor to Commerce Secretary Evans on domestic economic development policy. His primary responsibilities include policy development; establishing funding priorities; defining grant investment policy guidelines; and directing the Economic Development Agency (EDA) headquarters operation and the agency's six regional offices. In 2002, Dr. Sampson directed EDA investments of over $350 million dollars in 842 projects among America's most vulnerable communities, helping to create thousands of critically needed jobs. He currently oversees a $1.46 billion portfolio of economic development grants and projects.

Before becoming Assistant Secretary, Dr. Sampson gained valuable work experience in both the public and private sectors. He served as President and CEO of the Arlington, Texas Chamber of Commerce, Chairman of the Texas Council on Workforce and Economic Competitiveness, and as Vice Chair of the Texas Strategic Economic Development Planning Commission in then Governor Bush's Administration. Dr. Sampson holds degrees from David Lipscomb University, the New Orleans Baptist Theological Seminary and Abilene Christian University.

We conducted an interview with Dr. Sampson in November 2002. An edited transcript of his comments follows:

On economic development initiatives…

Dr. Sampson, how would you explain to our readers that your cluster-driven, technology-led, private-sector-oriented initiatives are indeed a departure from Stockton's trickle-down economics theory, i.e., increasing

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Thoughts From The Chair

By Florida standards it's been a chilly winter here in the Tampa Bay area. Of course, our Buccaneer's really heated things up around here but that's another story. Recently while enjoying our cool weather I began to think about the approaching spring and summer. That means one thing; dive season will soon be here! Every year my local scuba group arranges for a week in the islands somewhere for some great Caribbean diving. Last year, it was the extraordinary island of Dominica. A more lovely island and group of people you could not find anywhere. Mountainous and rain forested, it is pleasure for all the senses.

Aside from the environment, one of the most interesting things about the island which I observed was the dichotomy in terms of economic development. In the capital city of Roseau, one could be walking down the sidewalk and enjoying the incredible aroma of chickens being roasted at a sidewalk stand and turn the corner and find webpage designers and cell phone stores.

In a countryside where not having a wired phone was not unusual, it was not uncommon to be driving down a mountainous one lane "highway" and see someone leaning out the window of a rather primitive Kabuli stand (their indigenous beer), and talking on a cell phone. It really makes one mindful of the pace of change and its impact. What was particularly striking was to see how dramatically technological change and the resultant economic growth was providing new opportunity, employment, and increasing standards of living for a new generation of Dominican's.

I hope you've made plans for the national conference in Denver. Be sure to visit edd-apa.org and make note of the division's sponsored sessions and times. Our annual business meeting will be held Monday, at 5:30 in the conference hotel. We will be presenting the winners of our Excellence in Economic Development and Student Scholarship awards at that meeting as well as discussing the update of our By-laws, our annual budget, and other matters of the division. Hope to see you there. As always, your comments are welcome.

See you in Denver!

— Mike Delk, Chair

Calendar of Upcoming Events

2003 APA National Planning Conference
March 29-April 02, 2003
Colorado Convention Center
Denver, CO
http://www.planning.org

IEDC Professional Development Services: Introduction to Economic Development
April 1-4, 2003
Salt Lake City, UT
http://www.iedconline.org/prodev_EDIntro.html

The Complete Management Course for Planning Directors
April 14-15, 2003
Louisville, KY
http://www.planning.org/conferences/zucker.htm

The Complete Management Course for Planning Directors
May 5-6, 2003
Salt Lake City, Utah. Click here for details.
http://www.planning.org/conferences/zucker.htm

IEDC Professional Development Series: Managing Economic Development Organizations
May 7-8, 2003
Atlanta, GA
http://www.iedconline.org/prodev_ManagingEDOs_GA.html

IEDC Professional Development Series: Business Retention and Expansion
May 15-16, 2003
Dallas, TX
http://www.iedconline.org/prodev_BRE_TX.html

Interview with Dr. Sampson, cont. from p. 1

incomes of executives and creating more executive-level jobs benefits people below that level?

Economic development is about creating a high and rising standard of living. It's about moving regional economies to a higher level, and creating a more diverse and more stabilized economy. Essentially, the purpose of economic development is to increase per capita income (PCI). If your prevailing wage in the economy is X, you don't advance your PCI with an economic development strategy that focuses on jobs that pay minus X. So, our whole focus is on developing a high and rising standard of living for the regional economy. If this is not achieved, there will be greater dependency upon federal or state programs in the future.

You did not use the phrase "living wage." Was that intentional?

We don't focus on the notion of a living wage. We believe that the living wage concept is a command and control concept, which is not our goal. Instead, we concentrate on a market-driven strategy because the equation for economic development for the 21st century is that the higher the levels of PCI, the higher the number of better paying jobs. We have seen a direct correlation between the level of PCI in an economic development investment and the level of pay for those jobs. So, in my opinion, the living wage concept is a government-driven command and control approach as opposed to a market-driven approach.

Are you getting resistance to your message?

Overall, I think people have been very responsive to EDA's message, but some people are always unsure of change. Early on, there was some misunderstanding and concern that the funding priorities and investment policy guidelines were de-emphasizing the importance of rural economic development. This is not about rural vs. urban. It is about efforts that will drive economic growth — the EDA's focus is on the drivers of economic growth.

In order to clear up the misunderstanding, I have made it a high priority to meet with the economic development practitioners who are out in the field. I have accepted every invitation to speak to the major economic development organizations — NATO, NARC, and IEDC. I have visited all of our regional offices and visited with a number of our grant recipients. I've been very pleased with the recent activity.

What is your opinion of communities or regions with high levels of unemployment that focus their economic strategies on the concept that "any job is a good job"?

I think there are multiple levels at which economic activity takes place. If, for example, you have a community or inner city area where there are no retail stores available, no grocery stores, no Wal-Marts, and places like that, all the money generated by these businesses leaves the community and goes into neighboring communities or other parts of the city. Residents then have to pay a premium to go elsewhere for their household goods. For places like this, a valid economic development strategy could involve the capture of that disposable income within the community because of the sales tax benefits which can generate a revenue stream back to the government entity.

Within the various levels of economic activity, EDA tries to emphasize and give priority to drivers of economic growth. The analogy that I always use is that we are focused on locomotives, not cabooses. There has never been a caboose that pushed a train up grade.

What do you think about the relationship between local planning agencies and economic development?

I think having a good strategy and assessment on the ground that is sustained over a long period of time is very important. Economic development efforts have to last beyond every change in the mayor's office at city hall, the county commissioner's office and even the governor's mansion. Local planning organizations can play a vital role here.

Within local planning initiatives, the EDA wants to promote greater involvement by the private sector. You cannot have economic development without the private sector and we have to ensure that everything we do is really driven by market opportunities. We need to listen to our partners, the practitioners, and interview the elected officials to make sure that we are providing the tools that they need in terms of strong robust policy and research components. The reality is that given the war that we are in, and federal budget constraints, there are not likely to be significant infusions of dollars for economic development programs across the board. We have to make sure that we take advantage of the very robust research of the last decade and deploy our assets to leverage the maximum amount of state, local and private funds.

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Interview with Dr. Sampson, cont. from p. 3

What role do you see for Chambers of Commerce in economic development initiatives?

There will always be different delivery systems, advocacy groups and institutions for collaboration. You need to have both the public and private sectors together and the Chambers of Commerce can play a major role in that effort. You cannot be successful in economic development if the private sector is not at the table, and it is very, very difficult to do if the public sector is not there, simply because capital is risk adverse, and capital will not go where it is not wanted.

On performance and results…

The Comprehensive Economic Development Strategy (CEDS) process was enacted prior to your arrival at the EDA. From your perspective, is it working?

I think the process needs to be reviewed. We need to determine if there are opportunities to make it more modern, relevant and streamlined. Our new performance measures focus on results and not the process. The only way to measure the value of the CEDS is to determine how many of the initiatives or strategies are actually implemented.

In regional economic development activities where many entities work together to create jobs, how does an individual entity accurately demonstrate its performance and results to the EDA?

First, it is vital that a common set of measurements be developed that are applicable to all federal economic development programs, which starts with clearly identifying the goals of economic development. Once goals are established, the federal role in support of economic development then needs to be clarified. Second, one should be wise and realistic about the attribution. What role did an individual entity play in that broader process? Ultimately, we have to work with all of the federal programs involved in a local community to identify their contributions to economic growth and diversification.

It is often difficult to measure economic development efforts that are more qualitative than quantitative in nature. How can performance measures take into consideration the qualitative side of economic development, as opposed to just the number of jobs created?

We need to develop a credible formula with appropriate attribution ratios and multipliers that will be used to evaluate all federally funded economic development projects. This should be done with the help of our partners, world-class researchers and firms that make their living coming up with these numbers. A formula like this will alleviate many of the problems related to measuring the effectiveness and qualitative aspects of a project.

How is the EDA working with other federal agencies to improve local economic development initiatives?

First of all, we have a number of Memorandums of Understanding with other sister agencies like the EPA for brownfields redevelopment, the Department of Defense for the commercialization of closed bases, and the Department of Energy for the commercialization of closed energy facilities. We also have developed a very close working relationship with the Department of Labor (DOL), at the direction of the President. I have traveled extensively with my counterpart in DOL, going into communities to retrain workers and develop a robust economy simultaneously. We will continue to seek opportunities to work with agencies that play roles in the creation of a favorable business environment.

On influences…

We know that Winston Churchill has greatly influenced you in your life. In your opinion, why was he a great leader?

There are four keys to understanding the leadership of Churchill. First, there is the importance of candor and plain speaking that characterized Churchill throughout his life. Second, he thought that one should spend the time to think through issues and then be willing to make a firm decision and move forward with it. As he would say: "Ponder, then act." The third key is the importance of having historical imagination. Churchill once said, "The longer you look back, the farther you can look forward." And the fourth is that Churchill balanced the big-picture view with an attention to details. He once said, "An efficient and successful administration manifests itself equally in small as well as great matters." Those who interact with the EDA know that as we're talking about a bold new strategy for economic development for the 21st century, we are also giving a great deal of attention to the details.

What are some books that have influenced you?

I am a disciple of Michael Porter. He has heavily influenced me since the days in Texas when he worked with us on the Texas Strategic Plan. While his work on clusters is not something I am currently reading, it's something that stays out because we are constantly referring to it.

Another book which heavily influences our approach is Kaplan & Norton's *Balanced Scorecard*. It was required reading for all of my senior staff when I arrived here. As a result, we hired the Balanced Scorecard Collaborative to develop the balanced scorecard for the agency.

I also found the "Clusters of Innovation: Regional Foundation of U.S. Competitiveness" report by Porter, Monitor Group to be really ground-breaking research on how regional economies are built.

On the topic of Porter's work, would you change anything about the diamond?

Instead of changing the diamond, I would focus on relating the diamond and the cluster model to rural areas. In fact, EDA recently received a study conducted by the University of Minnesota that analyzed three emerging rural knowledge clusters in Minnesota. The development of rural clusters such as those in Minnesota is a topic that the EDA is interested in focusing on in 2003.

With respect to the diamond concept, how does the EDA go about stimulating a divine spark in places where all the parts are in place but communities just can't get the match lit?

In situations like that, I think it is important to showcase other areas that have had successes despite stagnant or declining economies. People need to talk about the realities of their economy and look for diversification and enhancement opportunities. I think a big motivator can be communities where EDA funds have been spent to produce positive results.

Can you give an example of a region that has successfully transformed itself?

There are some tremendous success stories, including Pease Air Force Base in Portsmouth, New Hampshire, the academic medical campus and Colorado Bioscience Park at the former Fitzsimons Army Medical Center in Aurora, and the California technology incubator at Almeda Naval Air Station.

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Can you give examples of places where there has been successful transformation involving a traditional economic sector?

I am very impressed with the regional economic development efforts in and around Macon, Georgia. I would also offer the development of the riverfront area in Dubuque, Iowa, the potential development of an automotive cluster in Mississippi and Alabama, and the development of a strong medical cluster in southern Texas, specifically in McAllen and Harland, as good examples of successful transformations.

Request for Comments

Congressman Earl Blumenauer is preparing a new initiative for the impending TEA-21 reauthorization aimed at state highways targeted for redevelopment. Often these would be small town main streets. The program recognizes that often these roads and highways are not in a strong competitive position for attention from state DOTs. Rep. Blumenauer wants to establish a new grant program to be administered by FHWA to provide federal funds to local governments, MPOs, and tribal governments to plan and implement strategies for rehabilitating, repairing or enhancing these so-called "orphan" highways. APA has been approached for assistance in input. All responses should be sent to: Jason Jordan, Government Affairs Coordinator, American Planning Association, 1776 Massachusetts Ave., NW, Suite 400, Washington, D.C. 20036 (email: JJordan@planning.org). Please note that the recommendations from APA's TEA-21 Reauthorization Task Force are now online: www.planning.org/legislation/.

Technology-Based Economic Development

by Rhonda Phillips and Robert Pittman

Technology-based economic development (TED) is a complex and dynamic combination of innovation, entrepreneurial activities, public policy, infrastructure and other factors. At the same time, it has become clear that the public sector cannot shield technology industries from economic fluctuations and downturns. The most important role of the public sector appears to be that of initiating and encouraging the technology development process, often by supporting and encouraging research activities. This article presents a summary of TED approaches used by communities. It reflects a portion of a larger report on technology-based economic development; copies of the full report can be obtained by contacting the ICMA bookstore at (800) 745-8780.

Defining Technology-Based Economic Development

Technology-based economic development comprises several elements that complicate its definition. Economic development itself holds a variety of meanings, depending on the viewer's perspective. Generally, economic development includes activities undertaken to increase standards of living through greater per capita income, to improve the quality and quantity of employment opportunities, and to improve the quality of life for people within the development district. The specific purposes of economic development programs may vary with sponsors. For example, a local government may promote economic development to produce greater tax revenues — this is one of the more common justifications for economic development activities sponsored by local governments. Regardless of their variety, economic development activities are typically conducted by organizations in the public and nonprofit sectors with the intent of influencing private sector activity.

The focus of technology-based economic development at the beginning of the twenty-first century is on influencing, either directly or indirectly, private sector activity specifically in high-tech or technology-intensive companies and industries. Directly, local governments can recruit new technology companies and industries into the jurisdiction, assist existing technology companies to expand or convince them to stay in the area, and provide support for new start-up technology businesses in the jurisdiction. Indirectly, local governments can help foster an attractive environment, via investments in infrastructure, that encourages growth of technology industries. It is these indirect actions that often translate into better quality of life for community residents. For example, investments in advanced telecommunications infrastructure may provide higher-speed access to the Internet or community-based networks for increasing accessibility to information that benefit everyone in the community. Likewise, programs to improve the skills of the workforce by expanding educational opportunities benefit the community at large.

Because both direct and indirect actions are widely used, it is difficult to gauge the amount of funding the public sector gives to technology-based economic development. A variety of current programs directly and indirectly support science and technology economic development: telecommunications infrastructure, higher education technology, K-12 technology, seed and venture capital, tax and other financial incentives, high-tech workforce development, science and technology research capacity, technology strategic plans, and biotechnology and life sciences. Technology-based economic development essentially is development that focuses on policies and programs designed to encourage growth in any given jurisdiction of any of a number of industries known as technology industries or high-technology industries, foster the transfer of technologies to improve the competitiveness of firms and industries, and in general, increase the standard of living by encouraging use and growth of new technological innovations. It focuses on the goal of improving the standard of living by promoting use and application of technologies. It is economic development with a focus on technology-intensive industries, firms, products, and processes.

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TECHNOLOGY-BASED ECONOMIC DEVELOPMENT, CONT. FROM P. 7

Structuring the Local Program

Technology-based economic development has been embraced by communities both large and small. Local programs vary in design but generally incorporate many elements, some of the more common being:

- Policy and regulation to support attraction and expansion of technology industries
- Education, research, and development
- Research and technology industrial parks as locations for attracting technology companies
- Technology business incubator facilities for generating new technology businesses
- Financial incentives
- Technology transfer from research organizations to the marketplace
- Workforce training and development

Generally, three categories of technology-based economic development tools have emerged:

- **Policies and regulations** — Changes to the regulatory environment to encourage technology-intensive business location within the jurisdiction as well as policy designed to support technology-based activities such as university technology transfer; also, educational activities to boost the skill base of the jurisdiction's workers to attract technology-intensive employers.
- **Financial and non-financial incentives** — Variety of approaches such as establishment of revolving loan funds, venture capital, and other funds to finance technology-intensive enterprises; modification of state and local tax policy to produce incentives for technology-intensive businesses.
- **Real estate and facilities** — Actual facilities such as technology business incubator programs or research parks to entice businesses to form or locate in the jurisdiction; also, investments in telecommunications infrastructure to provide networks and other support for technology-intensive users.

Local officials often use a combination of these three approaches. Most communities find that it takes considerable effort and involvement throughout the community to prepare for and implement the necessary variety of technology-based economic development activities.

Most communities focus on one or more of the following economic development objectives in their development planning activities:

- **Recruitment** — Activities to recruit U.S. firms' and international firms' new corporate facilities, relocations, or expansion from other sites, include research to identify the types of industries and specific firms appropriate for the area and marketing to these companies. Some jurisdictions also solicit public or nonprofit research organizations to locate within the jurisdiction.
- **Retention and expansion of existing firms** — Activities to keep existing businesses in the area and assist them to expand can include providing incentives; assistance in finding land, facilities, and workers; technical assistance; and changes to policies or procedures.
- **Indigenous entrepreneurship** — Encouraging indigenous entrepreneurship means helping new and young businesses and organizations thrive — often by providing technical assistance, information, business training, or opportunities to learn from others. Entrepreneurship has become especially important in recent years, given that the majority of net new job growth emanates from small businesses. Young technology firms are particularly interesting since most of these did not exist just a few years ago, yet they contribute a tremendous proportion to the growth of the U.S. economy.

All three of the major categories of technology-based economic development tools — policy and regulatory changes, financial and nonfinancial incentives, and real estate and facilities-related assistance — support these economic development objectives. In support of indigenous entrepreneurial activity, for example, a technology business incubator may combine a real estate–based approach (providing a building) with incentives (short-term tax abatement) and policy support (a training program for small-business owners). Depending on its structure, the incubator program may also engage in recruitment, perhaps bringing in an anchor tenant.

Yet, before the local government decides on the tools it will use, it must assess its current situation, choose its objectives and make a plan. This can be accomplished through a **technology audit** to structure a coherent approach to technology-based economic development and to find out what resources are needed to support the attraction, retention and expansion of technology businesses. An audit typically includes: an analysis of the local and regional economies; an inventory of existing industries and their needs; an assessment of physical and knowledge

infrastructures; and a catalogue of programs, policies and organizations available to support technology-based economic development.

The audit leads to construction of a **technology development plan.** A community can identify particular technology sectors or activities to target by developing supporting resources, including physical and knowledge infrastructures. A community can draw up a technology development plan that states the goals of the community and the actions required to achieve them. Many local governments and nonprofit economic development organizations partner with a university to increase capabilities for improving processes, generating new products, promoting entrepreneurship and incubation of new and existing technology-intensive firms, assisting firms in adopting innovative production technologies, and transferring technologies from the laboratory to the private sector. The partnership with a university or research organization seems to be key to achieving significant technology-based development outcomes, reflecting a new era in which university-industry-government relationships are determining factors in the economy.

How are communities choosing among the various approaches to structure their technology-based economic development? Many large metropolitan areas such as Kansas City, Cincinnati and Omaha rely heavily on marketing campaigns to increase awareness of their technology resources. Omaha is using its base of information technology services and advanced telecommunications infrastructure to market itself as a "hub of the information superhighway." Apparently, its "born to be wired" marketing approach is working because new jobs are increasing at above-target levels with events such as Qwest's three-state consolidation of technology data centers to Omaha. Some smaller areas like Portsmouth, New Hampshire also use marketing, but others may focus on building the supporting infrastructure first. LaGrange, Georgia has aggressively pursued development of an advanced telecommunications infrastructure, and several technology businesses have located or started operations in LaGrange. The city is also improving the quality of life of all its citizens: in 2000, this city of 27,000 introduced free Internet service for all residents. Montgomery County, Maryland, several years ago took a regional approach and enlisted neighboring counties to join forces to promote the BioValley Corridor — a specific area designated and marketed for biotechnology

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Brownfields Remediation: *A Tax Cost/Benefit Analysis*

by Mark Tigan

Across the country, the reuse of brownfields is a key strategy for smart growth advocates who promote the full use of existing, mixed-use urban and town centers over the sprawling development of greenfields. In 2002, as part of its ongoing brownfields initiative, Grow Smart Rhode Island, a statewide nonprofit organization, commissioned this author to develop one way of measuring how brownfields' reclamation might affect job creation and resultant income tax generation. These new taxes were compared to taxes foregone, if a state tax credit program for brownfield redevelopment were implemented.

Certain market failures, i.e., "cold" markets, are precipitated by brownfields often due to fear of legal liability, cost of remediation, and reluctance of traditional lending institutions. With some limited exceptions — most often occurring in "hot" real estate markets — brownfield cleanup is often induced by some form of public investment. These "cold" markets require public investment to achieve the multiple goals associated with the growth of public benefit and protection of the public interest. In addition to low interest loans, grants and liability hold harmless agreements, there are an increasing number of taxing jurisdictions examining tax credits as a potential tool to induce brownfield redevelopment. Accordingly, job creation, and the accompanying income tax generation were evaluated relative to a tax credit subsidy. This was an attempt to test one possible public investment cost (the tax credit) against monetary public benefits — namely, income tax forecast growth.

The scope of the study, which was funded by Grow Smart, the Rhode Island Association of Realtors, and Environmental Sciences Services, necessitated the use of existing raw data. This published data enabled an analysis to be conducted within budget and time constraints.

Approach

Overall, the inventory of recent brownfield data is limited. The best data was mined from a survey of 107 brownfield sites completed in 1999 by the Council for Urban Economic Development, or CUED, (now called the International Economic Development Council) and published in a report, "Brownfields Remediation: Performance Evaluation." One purpose of the CUED survey was to assess the job creation potential of brownfield redevelopment and determine the extent to which public funding contributed to the brownfield cleanup and resultant job creation. With the focus on public funding, the CUED report did not break out the total cost of remediation as part of its analysis. However, each survey response was summarized as an appendix in the CUED publication, which permitted an extraction of data necessary to complete the Grow Smart analysis.

Two approaches to this analysis were considered, namely: 1) estimate total cost of potential brownfields remediation in Rhode Island, over time; or 2) examine one project that might be typical in Rhode Island and assess the job and tax impact of that one project, which in turn could be extrapolated over the inventory of the state's brownfields. The author's assumption was that if the typical project proved beneficial to the state, over time, then several projects would only be better. The second approach offered the advantage of not having to inventory brownfields sites and guess at the annual volume of remediation, which would have compounded the difficulty of the analysis.

The CUED survey approach was to examine brownfield remediation as an economic development activity which retains or creates jobs (although the CUED report also cited many other benefits of brownfield remediation, such as combat of sprawl and increase in recreational benefits). Accordingly, this study used job creation as a benefit indicator and the increase in state income tax was computed based on jobs created as a result of brownfield remediation. Retained jobs, a likely effect of any public subsidy, was not used in the computations, as it would be necessary to demonstrate that the jobs would otherwise have been lost if the remediation tax credit was not available (a task too difficult under the scope of the analysis). Also considered important is the likelihood that jobs within the state would be relocated into the redeveloped sites, thus having no net affect on the total statewide job count. For ease of analysis it was assumed that uncounted, but retained, jobs would offset relocated jobs. Nonetheless, the retention

potential is one of a number of benefits likely to be generated by the provision of a tax credit inducement. However, the author did create a separate listing of "difficult to quantify benefits" at the end of the article.

To conduct this Grow Smart analysis, the CUED survey statistics were recompiled. The median cleanup cost per project and median number of jobs created per project were computed, and a reasonable assumption was made that, over time, the survey median would typify — or help predict — the state's experience going into the future. Although a preponderance of CUED survey respondents were from industrialized states (Michigan, Minnesota, Pennsylvania, and New Jersey accounting for a majority), there is nothing indicating that Rhode Island's future experience would be atypical to the survey results, even considering the state's physical size.

The results of the survey interpretation were cross-checked with a 1998 study by EPA of its 121 pilot brownfield cleanup sites. The results were reasonably similar on the principal indicator of jobs. EPA sites revealed a private funding cost of cleanup of $10,138 for every job created. The CUED analysis showed $8,345 of cleanup cost per job created.

CUED Survey Summary Findings

- Median project cost of remediation: $383,891
- Remediation cost as a percent of total project cost: 11%
- Median project number of new jobs created: 46

To analyze the cost/benefit of a subsidy to induce brownfield cleanup, the author examined one typical project. If, for example, a 30% tax credit was applied to a the median project cost, the forecast "cost" in foregone state taxes would be about $115,000. Using the state labor department's wage rates for all "private industries," the total new income tax resulting from the number of net new jobs projected is estimated to be about $44,000 for the first year and about $35,000 per year after that, constant dollars. The increase in brownfield redevelopment construction jobs accounts for just under $10,000 in the first year only. For this one typical project, the ten-year accumulative net tax benefit would be $243,614 (reduced somewhat if a discount factor, accounting for time value of money, is applied). Note: A ten-year period was used for analysis, based on a potential liberal carry-forward period of the tax credit benefit; however, the break-even point for the state, if all credits were taken in year one, would occur in about the third year.

As mentioned earlier, in addition to the monetary net benefit of a typical brownfield cleanup, there are other benefits more difficult to quantify; but these are not, by any means, of less importance, especially if smart and sustainable growth is a public purpose goal. For example…

Non-Economic Development Projects: *Housing* — Rhode Island's Housing Mortgage Finance Corporation's March 2002 newsletter reports on a National Association of Home Builder's estimate of 2.4 jobs created for every single-family home built. In addition, material purchases generate sales tax and a new home increases local property taxes. It has been shown by other researchers that a home built closer to urban areas (i.e., where many brownfields exist) cost less in infrastructure to service. *Open Space/ Recreation* — The Rhode Island voters have spoken with their pocketbooks in support of open space bonds. Presumably the preparation of open space and recreational areas, through brownfield remediation, would find wide public support. The CUED surveyed average cost of cleanup, on a per acre of public cultural/recreational basis, was $54,500.

Sprawl Disincentive: Public cost to extend infrastructure into rural areas has been documented. Between 1982 and 1992, farmland lost in the U.S. to development was 13.8 million acres, equal to the size of Connecticut, Rhode Island, New Jersey, and Delaware plus part of Maryland, as cited in the CUED report.

Environmental Health: The removal — or other remediation — of hazardous and toxic materials will help reduce the risk of contaminates leaching into the water systems. Also, reduced exposure to airborne and other pollutants will improve overall environment health.

Property Tax Increase: It is an appraisal axiom: remediation of brownfields will increase the fair market values of the underlying real estate. Naturally, local property tax values will be increased, thus benefitting the municipality and school district in which the cleanup took place.

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BROWNFIELDS REMEDIATION, CONT. FROM P. 11

Retail Sales Tax Increase: In this analysis, the materials component of the remediation cost was figured at about 25% of the total project cost of remediation. In many projects, these material purchases would generate a state sales tax increase (public and non-profit projects may not produce sales tax, however).

Job Multiplier: For every one new job created in manufacturing roughly another two-thirds of a job is created to support that job, according to the U.S. Chamber of Commerce. Interestingly, 43% of CUED survey jobs were in industrial manufacturing. Therefore of the 46 new jobs created by each typical project, if 43% of the manufacturing jobs generated another two-thirds of a job, the actual increase in jobs might be on the order of 20% higher than reported.

Qualifiers

As with any study, the results can be interpreted from several perspectives, and conclusions drawn can vary widely. The data analysis can be subject to error and judgment calls. Hopefully the following discussion demonstrates that the assumptions and approaches used herein are reasonable, albeit conservative.

Assumptions and approaches that could result in **less positive** impact:

- Use of averages would take into account "outliers," which are surveyed projects with large absolute number divergence, either higher or lower than the middle. Use of median is a more acceptable statistical standard when measuring middle-seeking tendencies. The average of the CUED survey revealed fewer jobs created per remediation dollar spent. This would have lowered the forecast of state tax revenue.
- CUED surveyed only completed projects. Therefore, unsuccessful projects would not have been included, as would have been the case if a random sample survey was conducted. However, if a taxing authority only awarded tax credits upon completion, then the survey sampling is reasonable.
- Since housing and recreation/cultural projects were excluded from the data extracted from the CUED survey, the number of jobs would be less and therefore the negative tax impact greater.

Assumptions and approaches that could result in **more positive** impact:

- In extracting from the CUED survey, it was difficult to deduct the public funding investment (which, over all respondents' project budgets, contributed 23% of total project costs). If this amount were deducted from the total remediation cost, and assuming the taxing authority does not permit taking credits against public investment, the basis for the tax credit would be decreased. Thus, the number of jobs created per project "private remediation" cost would have increased, the result being higher state income tax benefit.
- The CUED remediation cost estimate may have included certain expenses that may not be allowed under some taxing jurisdictions (e.g., certain demolition cost). If the remediation cost went down, median cost would be decreased while not necessarily affecting job creation; hence, more state income tax benefit.
- The CUED publication suggests that creative and flexible brownfield clearance regulations can reduce remediation cost (in fact, this is a major recommendation of CUED report). If remediation cost is reduced, then the tax credits are reduced and the overall benefit increases. It would follow, then, that a taxing authority could reduce the tax impact by increasing regulatory flexibility in cleanup controls.

Future Considerations

If a taxing authority decides to pursue tax credit inducement to foster sustainable smart growth, the following considerations are warranted:

- Tax credits should not be taken on government grants, i.e., double dipping. Some underwriting of the projects proposed for credits will have to be done at the application stage to insure that grants are not purposely allocated away from remediation.
- Since low loans and loan guarantees represent project liabilities and must be repaid, although still a form of governmental subsidy, the credits should be permitted on these financial facilities.
- No duplicate credit should be permitted with other federal tax credits, although they could be combined in the same project. A method of offsets should be developed, similar to the way the Federal Low Income Housing Tax Credit program and historic credit program are currently regulated.
- Precaution could be built into the brownfield tax credit program design. To illustrate, the taxing jurisdiction could: 1) award credits based on ratios of jobs created, open space dedication to public use, or affordable housing units built or rehabbed; and 2) award the

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Gentrification: *Positive or Negative?*

by Carol Townsend, Director for the Michigan State University Center for Urban Affairs in Grand Rapids for the past seven years. Previously, she was Executive Director of the Garfield Park Neighborhoods Association in Grand Rapids for twelve years.

After decades of abandonment and disinvestment, many central city neighborhoods look to the process of gentrification as one of the few ways to revitalize their neighborhoods. City Hall, developers, community development advocates and others have encouraged the movement of middle-income households back to the city. Increasing property values and more household disposable income are welcome signs of economic improvement. So, gentrification can be a positive community and economic development force for older, urban cores.

Often times, however, little thought is given to the effect gentrification has on low-income households. Many of these families will be displaced or bear undue economic hardship in trying to keep their property up to the new standard while paying increased property taxes. Even less consideration is given to those low-income households in years to come who will not be able to find affordable housing in these gentrified neighborhoods. So, gentrification can be viewed as a negative force also.

"Gentrification" is used here to mean the movement of middle- or higher-income households into a primarily lower-income neighborhood. The movement is accompanied by the restoration of dilapidated houses and a general decrease in the number of housing units affordable to low-income households.

Is gentrification good or bad? Should we be in favor of it or oppose it? A study of two neighborhoods in Grand Rapids, Michigan by MSU Urban and Regional Planning practicum students in spring 2002 outlines the issue. They first examined the three sets of "Indicators of Gentrification" developed by Kennedy and Leonard:

■ **Leading Indicators: Areas Most Likely to Experience Gentrification**

- High Rate of Renters
- Ease of Access to Job Centers
- High and Increasing Levels of Metropolitan Congestion
- High Architectural Value
- Comparatively Low Housing Values

■ **Primary Indicators: Strong Signs Gentrification is Occurring**

- Move from Rental Tenure to Homeownership
- Arrival of Individuals or Households Interested in Urban Amenities and Culture
- Increase in Businesses Intended for High-Income People

■ **Secondary Indicators: Less Strong Signs Gentrification is Occurring**

- Change in Racial Composition
- Change in Occupancy Rate
- Change in Income

Each of these indicators was researched to see if they applied to the two neighborhoods being studied. First, some background information on the two study areas.

East Hills

The East Hills study area is located within the Fairmount Square Historic District, bounded by Cherry Street and Lake Drive on the north, Diamond Avenue on the east, Wealthy Street on the south, and Eastern Avenue on the west. The buildings in this historic district exemplify a variety of residential, commercial, and institutional architectural styles found in Grand Rapids during the period from 1860 to 1935. Italianate, Queen Anne, and Prairie Style homes are among the housing types present. A number of individually outstanding buildings remain in the area. The Fairmount Square Historic District is an intact example of the type of neighborhood that developed as the city's streetcar routes were expanded to provide quick and inexpensive transportation to suburban residents. The neighborhood experienced major decline in the period from 1960-1980 but has seen recent improvement. The improvement includes a decline in the crime rate and a slight increase in the rate of homeownership. The East Hills Council of Neighbors is an active neighborhood association representing this study area.

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South East Community Association (SECA)

The SECA study area is bounded by Wealthy on the north, Lafayette on the east, Franklin on the south, and Division on the west. Laborers, craftsmen and middle management are the historical occupants of the SECA neighborhood, whose buildings are of the same vintage or slightly earlier than the East Hills neighborhood. By the 1920s, lower-income residents of Grand Rapids called the portion of this neighborhood west of Jefferson Avenue home. The population of Black residents became prominent in the SECA neighborhood in the 1960s. Racial tensions at the time seemed to brand the neighborhood with a negative image. Successive decades saw the loss of about half of the SECA neighborhood's structures and much of its population. In recent years, though, the SECA area has experienced a population gain, a growing Hispanic presence, and new efforts to revitalize the neighborhood. The South East Community Association is an active neighborhood association representing this study area.

Gentrification Findings

The indicators of gentrification were applied to the East Hills and SECA study areas. Exhibiting characteristics consistent with the leading indicators, the East Hills and SECA study areas can be viewed as being likely to experience gentrification. The two areas have a proportion of rental housing that is much higher than the Grand Rapids average and have had housing values which are markedly lower than those of the rest of the city. The location of the study areas allow for easy access to downtown and suburban employment centers via city streets, nearby freeways, and some public transportation. Increasing congestion in the metropolitan area makes these centrally located neighborhoods even more attractive. Structures within the study area neighborhoods possess architectural values that cannot be found in newer neighborhoods.

Turning to the primary and secondary indicators of gentrification, one may conclude that the process of gentrification is underway in the East Hills study area. Contrasting the trend of the city as a whole, this study area has seen rising homeownership rates. Reversing a decade-long trend, the East Hills study area and bordering neighborhoods show an increasing proportion of whites. Meanwhile, the occupancy rate for all housing in this study area has climbed impressively in the last ten years after an extended period of decline. According to a visual survey (conducted by the Planning students), three-quarters of the study area's structures appear to have undergone some form of rehabilitation or maintenance in the last few years. Both the median household income and the market values of properties in the East Hills study area have increased at rates greater than the city of Grand Rapids. Individuals who are interested in urban amenities and culture have arrived, while businesses that cater to those groups and to high-income people have appeared along Cherry Street.

Many of the businesses now present in the East Hills study area do not cater to lower-income individuals. Neighborhood commercial services, such as groceries, convenience markets, drugstores, and automobile service shops, are presently absent. Previously, these types of uses could be found along Cherry Street. For example, a meat market located at 955 Cherry Street in the 1970s was replaced by an art gallery by 1995, and subsequently replaced by computer consultants. The property at 966 Cherry Street was an auto repair shop in the 1970s, was vacant in the 1980s, and then became a gallery in the 1990s. Antique stores arrived along Cherry Street in the 1980s and galleries and home decoration stores entered in the following decade. While a few of these businesses are well established, most of the current businesses began operation on Cherry Street after 1995.

If the same framework of primary and secondary indicators is used, the SECA study area does not appear to have entered the gentrification process. Rehabilitation of homes has been limited and vacant parcels of land are abundant. The businesses currently operating in the community are not indicative of those found in gentrifying areas, and new businesses have not opened in the neighborhood. The median household income of the study area is only growing at a rate roughly equal to that of the city. Yet, gentrification may not be far off for the SECA study area. The occupancy rate of housing has been slowly rising, and redevelopment can be noted in surrounding neighborhoods.

Racial Changes

Although considered a secondary indicator, change in racial composition is noteworthy in the two study areas since a decade-long trend is now being reversed. In 1990, blacks accounted for over 62% of the East Hills population and 81% of the SECA

population. In 2000 those figures dropped to 45% in East Hills and 64% in SECA — significant declines.

Market Values of Selected Properties

Although not listed as an indicator of gentrification, certainly increases in property values should be considered. Market values in the East Hills and SECA study areas increased at a rate greater than the city as a whole. The Grand Rapids City Assessor's office determined the rise in residential property values based on recent home sale prices. Citywide, residential property values increased by 8% from 2000 to 2001. In that same year, residential property values rose by 22% in the East Hills study area and surrounding blocks, while homes in the SECA study area and bordering neighborhoods experienced about a 20% rise in value.

Conclusion

The process of gentrification brings much needed revitalization to dilapidated central city neighborhoods. It also brings conditions that adversely affect low-income households. These positive and negative forces within the process of gentrification must be balanced.

More thought must be given to developing tools/programs that can assure affordable housing will remain in a gentrifying neighborhood. This demands both short-term and long-term strategies. The short term must accommodate current low-income homeowners who will struggle to maintain the appearance of their homes to keep up with the improvements occurring around them. Efforts must also be made to keep property taxes and other such expenditures affordable.

Long-term strategies must include provisions for permanent, affordable rental housing. Few tools or incentives currently exist to accomplish this. The goal is to create mixed-income neighborhoods — not areas that are only available to one income or another. Every household should have the opportunity to live near employment or family members — no matter what their income.

Gentrification can be a powerful process for accomplishing neighborhood redevelopment and bringing new economic life to previously disinvested areas. It can also cause great stress to low-income households and exacerbate the affordable housing crisis that currently exists. The challenge is to balance the two. The solution will test the viability of the concept of mixed-income neighborhoods.

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tax credit after certification of performance. Excluding housing and open space/recreational, the use of a threshold minimum of one full-time equivalent (FTE) job created for dollar value of credits provided would insure minimum economic development purposes were met. For example, the U.S. Department of Housing and Urban Development uses $50,000 per FTE created or retained. However, reducing this ratio to induce greater job creation would force the future projects to be in line with this study's forecast, and by doing so, eliminate concerns over using the CUED survey's "typical" project to forecast the future.

Conclusion

Throughout the country there is growing interest in reclaiming contaminated brownfields, many of which are in urban areas in need of redevelopment. Not unlike many public-spirited initiatives that achieve multiple public purposes, project funding requirements exceed available resources. To address this funding shortfall, some taxing jurisdictions have enacted — or are now considering enacting — tax credit programs to induce private sector investment in brownfield redevelopment. Often these initiatives are prompted by the involvement of neighborhood or non-profit groups such as Grow Smart Rhode Island. After examination in Rhode Island, it appears that over time the cost of a state income tax foregone by a brownfield tax credit is outweighed by both quantitative monetary and qualitative social benefits. Whether the tax credit is a sufficient incentive to redevelopment remains to be seen. In all likelihood, any tax credits will need to be combined with other governmental subsidies to address the more troublesome brownfields.

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For further information, see these web sites: www.growsmartri.com, www.iedconline.org, www.brownfieldsredevelopment.com

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industries. Several decades ago the county purchased a tract of land that now serves as a biotech research park and it created a special zoning category — life sciences activities — to support the development and clustering of biotechnology businesses.

Summary of Approaches

Communities must consider several factors when they design and implement technology-based economic development programs and policies. Each community's approach reflects its unique needs and vision — but some principles apply to almost every locality.

- **Collaboration.** This is a requirement. Technology-based economic development is just too big for one sector of the economy to implement. University, government, private sector and other related organizations must be involved in the overall effort. University research alone will not do it; government policy alone will not do it. Successful development requires collaboration among the sectors to support technology and innovation.
- **Infrastructure.** Littleton, Colorado, defines three levels of infrastructure: basic, quality of life, and intellectual. Building supportive infrastructure is a necessity early in the development of programs and policies. Technology businesses are unlikely to locate in communities without supporting physical infrastructure and knowledge infrastructure, including necessary telecommunications capabilities, physical sites in which to locate, and knowledge infrastructure encompassing educational and research resources.
- **Business environment.** To foster an environment in which technology businesses can thrive, the government's regulatory and policy structure must be favorable. This includes ensuring a fair and expedient permitting process.
- **Community development.** Technology-based economic development must be integrated with overall community development. Planners must be sensitive to local land use planning and other community development activities. If an influx of technology-related activities produces negative impacts for residents (such as a lack of affordable housing and traffic congestion), the new development will not be considered successful. Community development must take place in concert with business development if balanced and desirable growth is to be achieved.

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