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Economic Development Strategies for Recessionary Times: Survey Results from 2009

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Through its economic development surveys, ICMA has been tracking the use of economic development strategies among local municipalities every five years. Business attraction strategies—namely, firm-specific incentives and subsidies—have been the most common strategies reported. However, over the decade of 1994–2004, local governments took a more comprehensive approach, complementing these strategies with strategies to promote business retention and expansion as well as small-business and community development.[1] To these they added increased attention to the importance of accountability measures and the use of written business attraction plans.[2] Local governments have become savvier in their economic development practice.

ICMA's *Economic Development Survey 2009* occurred at a time of great economic uncertainty. Financial markets began crashing in 2008, and by the next year, the "Great Recession" was already leading to business closures and rising unemployment across the United States. As the survey findings reveal, local governments responded by increasing their use of business incentives in an effort to attract business. However, they also maintained support for more comprehensive approaches—business retention and expansion, small-business development, community development, and investments in quality of life.

SELECTED FINDINGS

In response to the recession, local governments' use of business incentives rose from 72% of respondents in 2004 to 95% in 2009.

The majority of respondents (73%) give top priority to programs supporting quality of life (education, recreation, arts and culture), high-quality physical infrastructure (59%), and affordable housing (48%).

Sixty percent of respondents reported using clawback agreements, which require firms to pay back incentives if they do not deliver the promised employment benefits.

At the same time, accountability measures, which had been on the rise, fell slightly.

The challenge in these difficult times is to balance efforts to attract new business with investments in existing local businesses, infrastructure, and quality of life, all the while maintaining accountability. With citizens scrutinizing public expenditures, local governments that apply performance measures to their economic development activities will find greater citizen support.

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Survey Methodology and Response Rate

The *ICMA Economic Development Survey 2009* was sent to chief administrative officers of all municipalities/counties with a population of 10,000 or more in October 2009. Of the 3,283 cities and 556 counties surveyed, 734 cities and 110 counties responded for a response rate of 22% (Table 4–1). Respondents were relatively evenly distributed across all population groups except for the largest and smallest municipalities, which had lower response rates (20% or less). The response rates among central and suburban municipalities were similar (24% and 23%, respectively), but the independent (rural) municipalities had a lower response rate (18%). Across geographic regions, the West North-Central, Mountain, South Atlantic, and Pacific Coast had the highest response rates (over 25%), while the Mid-Atlantic, New England, and East South-Central had the lowest (11%–13%).

Table 4–1 Survey Respondents, 2009

Classification	No. of municipalities/ counties[1] surveyed (A)	Respondents No.	Respondents % of (A)
Total	3,839	844	22
City[1]	3,283	734	22
County[1]	556	110	20
Population group			
Over 1,000,000	34	6	18
500,000–1,000,000	73	14	19
250,000–499,999	116	32	28
100,000–249,999	370	89	24
50,000–99,999	629	157	25
25,000–49,999	784	185	24
10,000–24,999	1,833	361	20
Geographic region			
Northeast	971	112	12
North-Central	1,062	273	26
South	1,081	265	25
West	725	194	27
Geographic division			
New England	361	46	13
Mid-Atlantic	610	66	11
East North-Central	781	187	24
West North-Central	282	86	31
South Atlantic	565	171	30
East South-Central	195	23	12
West South-Central	320	71	22
Mountain	194	58	30
Pacific Coast	531	136	26
Metro status			
Central	849	203	24
Suburban	2,225	500	23
Independent	765	141	18

1 For a definition of terms, please see "Inside the *Year Book*," xi.

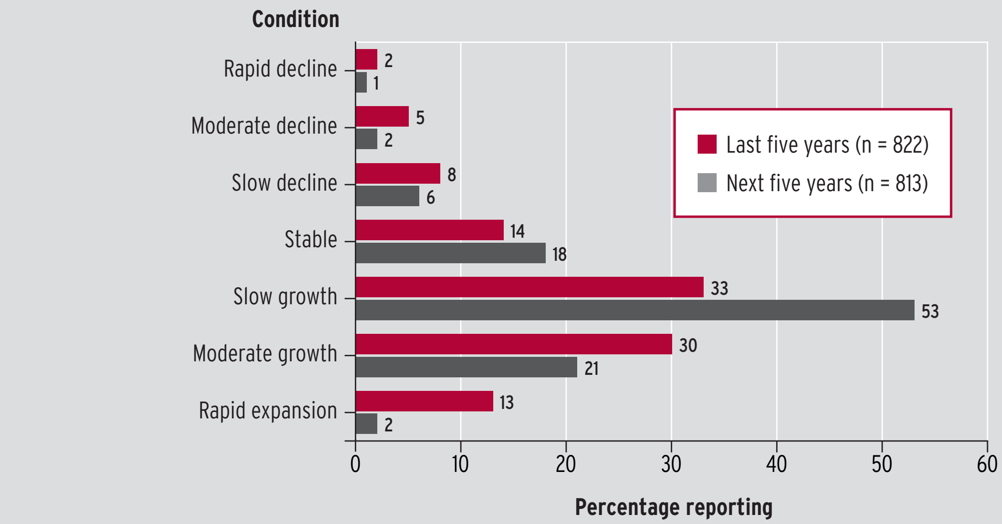
The Economic Base and Tax Revenue

Each year it is conducted, the survey asks local officials what best describes the condition of the local government's economic base over the previous five years and what they anticipate it to look like in the next five years. The results from the 2009 survey are telling. Whereas 43% of respondents described rapid or moderate economic growth over the previous five years, only 23% foresaw rapid or moderate growth in the coming five years (Figure 4–1). The majority, 53%, saw a future of slow growth. Interestingly, however, whereas 14% reported a declining economic base over the preceding five years, only 9% predicted a future of slow, moderate, or rapid decline despite the prevailing recession. Local government leaders are optimistic: they must be, as their tax bases depend upon economic growth.

When asked to identify their local government's primary economic base and the primary focus of its economic development activities, respondents listed retail/services first on both counts (44% and 42%, respectively) (Figure 4–2). Manufacturing, which is still recognized as a leading source of well-paying jobs and a major component of the property tax base, is next, identified as the primary economic base for 29% of respondents but as the primary focus of economic development activity for 34%. Telecommunications is also seen as an important economic development driver: although only 10% listed it as their primary economic base, 27% identified it as the primary focus of their economic development activities.

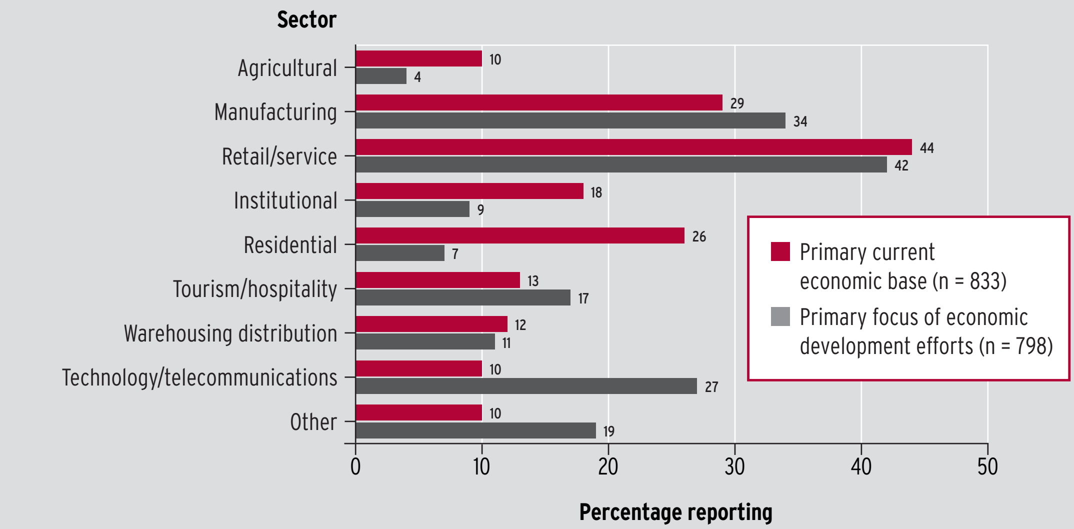
Given that over half the sample is suburban, it is not surprising to find that 26% of respondents described their primary economic base as residential. However, only 7% reported the residential sector to be a primary focus for their economic development efforts. This may be a reflection of the mortgage foreclosure crisis. In a similar vein, although 18% of respondents identified institutions (military, government, universities) as their primary base, only 9% named this sector as a primary focus of their economic activities. Although these institutions provide stable employment, their nonprofit and tax-exempt nature limits their benefit to the local prop-

Figure 4-1 Past and Projected Condition of Local Economic Development Base, 2009



Note: Percentages exceed 100% because some respondents gave more than one answer.

Figure 4-2 Primary Economic Development Base and Focus of Economic Development Efforts, 2009



Note: Percentages exceed 100% because some respondents gave more than one answer.

erty tax base. Indeed, on average, respondents reported that 17% of their land is tax-exempt (not shown).

Economic development strategy is closely tied to concerns over the local tax base. On average, local governments fund 88% of the economic development budget (not shown), and the goal is to increase the number of local jobs and the tax base. Income and sales taxes are important, but they are procyclical, rising and falling with the business cycle; just over half of the respondents (52%) collect a local sales tax, and only 11% levy a local income tax (not shown). It is the property tax that provides the local government's primary source of revenue (reported by 91%, not shown), and it is normally a stable revenue source. However, the recession that began in late 2007 was caused by a housing bubble, and readjustments in housing prices will cause declines in assessed value, which will lead to declines in the property tax base unless there is economic growth.[3] This is why the fiscal crisis for local governments is deepening even as Wall Street is bouncing back.

Economic Development Strategies for Recessionary Times

Responding to both an economic recession and a public sector fiscal crisis requires balanced economic development strategies. Local governments employ a comprehensive array of such strategies to achieve this—strategies focused on business attraction, business retention and expansion, and small-business and community development.

Business Attraction

Business attraction strategies are usually firm specific and primarily characterized by financial incentives and subsidies. During the decade of 1994 to 2004, there was a gradual shift away from business incentives;[4] however, the 2009 survey data indicate a

Table 4–2 Economic Development Strategies: Business Incentives and Attraction

Strategy	2004 No. using strategy	2004 %	2009 No. using strategy	2009 %
Business incentives				
Total reporting	(N = 562)		(N = 792)	
Total offering business incentives	407	72	753	95
Incentives offered (total reporting)	(n = 396)		(n = 760)[1]	
Tax abatements	226	57	359	47
Tax credits	94	24	164	22
Tax increment financing	231	58	414	55
Locally designated enterprise zones	96	24	199	26
Federal-state-designated enterprise zones	131	33	202	27
Special assessment districts	94	24	202	27
Free land or land write-downs	122	31	215	28
Infrastructure improvements	265	67	434	57
Subsidized buildings	36	9	68	9
Low-cost loans	133	34	205	27
Grants	151	38	270	36
Zoning/permit assistance	271	68	521	69
One-stop permit issuance	164	41	311	41
Utility rate reduction	50	13	62	8
Regulatory flexibility	49	12	109	14
Relocation assistance	69	17	108	14
Employee screening	59	15	85	11
Training support	116	29	192	25
Other	49	12	60	8
Business attraction				
Total reporting	(N = 576)		(N = 805)	
Total seeking to attract new business	566	98	792	98
Strategies used (total reporting)	(n = 537)		(n = 662)	
Participation in industry-specific trade shows/conferences	284	53	418	63
Promotional and advertising activities (e.g., direct mail, CD-ROM, video, other media advertising)	336	63	426	64
Local government representative calls on prospective companies	306	57	449	68
Other	75	14	147	22

Source: Data from the 2004 survey are available on the ICMA website under "Aggregate Survey Results: Economic Development, 2004," at icma.org/en/results/surveying/survey_research/survey_results.

1 Because the request for respondents to indicate which incentives their local government offers was posed separately rather than limited to those respondents who had reported in a prior question that their local government offers incentives, the base for this question includes seven respondents who had responded negatively to the prior question.

significant rebound in their use. In 2004, 72% of local governments used business incentives,[5] but in 2009, 95% reported using them (Table 4–2). The survey data suggest that, confronted with the most severe economic recession since the Great Depression, local governments have reverted back to business incentives in an effort to attract firms for both the tax base and jobs.

However, tax abatements are not the primary business incentive strategy: use of tax abatements dropped from 57% of the sample in 2004 to 47% in 2009. Instead, the primary focus is on zoning and permit assistance (69%) to facilitate the development process. Infrastructure improvements remain the second most important business incentive strategy (57%), but their usage dropped 10 percentage points from 2004—possibly owing to fiscal stress. The American Recovery and Reinvestment Act (the stimulus bill) was not passed until February 2009, so investments in infrastructure as a result of this bill may not have occurred in time to be reflected in this survey. The less expensive business attraction strategies, such as calls on companies, promotional and advertising activities, and participation in trade shows, all rose slightly in the 2009 survey.

Business Retention

Since the late 1980s local governments have recognized that local economic development and job creation largely depend on the success of local businesses.[6] Business retention programs focus on retaining businesses that are already in the community.[7] Partnering appears to be the most common strategy: local governments are most likely to partner with the chamber of commerce and other nongovernmental organizations in these efforts (84%) as well as with other local governments (56%) (Table 4–3). Surveying local businesses is the second most common strategy (62%), followed by business roundtables (42%). Recognition of the need to promote business clusters and industrial districts has risen to 33% of respondents in 2009 as compared to 26% in 2004. Planning has increased as well. In 2009, 27% of respondents reported having a written plan as compared to 24% in 2004. Use of revolving loan funds is down slightly (from 31% to 24%), but this may be a result of the general shortage of capital available during the financial crisis (see discussion of barriers below).

Small-Business and Community Economic Development

Small businesses, a source of innovation in our economy, are very independent. However, they are also fragile, and three out of five fail within the first five years,[8] which makes it difficult for local governments to reach out to this group. In general, support for small businesses is lower than the level of attention given to business retention: only 16% of local governments have written small-business development plans (Table 4–4)

Table 4–3 Economic Development Strategies: Business Retention

	2004		2009	
Strategy	No. using strategy	%	No. using strategy	%
Total reporting	(N = 549)		(N = 778)	
Have business retention plan	129	24	209	27
Strategies used (total reporting)	(n = 523)		(n = 709)	
Surveys of local business	313	60	435	62
Business roundtable	247	47	299	42
Revolving loan fund program	161	31	170	24
Ombudsman program	114	22	195	28
Local business publicity program (community-wide)	175	34	216	31
Replacing imports with locally supplied goods	15	3	42	6
Export development assistance	62	12	71	10
Partnering with chamber, others	421	81	594	84
Partnering with other local governments	272	52	394	56
Business clusters/industrial districts	138	26	235	33
Other	50	10	62	9

Source: Data from the 2004 survey are available on the ICMA website under "Aggregate Survey Results: Economic Development, 2004," at icma.org/en/results/surveying/survey_research/survey_results.

Table 4–4 Economic Development Strategies: Small Business

Strategy	2004 No. using strategy	2004 %	2009 No. using strategy	2009 %
Total reporting	(N = 531)		(N = 782)	
Have small-business development plan	90	17	121	16
Strategies used (total reporting)	(n = 346)		(n = 505)	
Revolving loan fund	167	48	203	40
Small-business development center	190	55	214	42
Business incubator	100	29	132	26
Microenterprise program	63	18	67	13
Matching improvement grants–physical upgrades to business	98	28	179	35
Vendor/supplier matching	29	8	52	10
Marketing assistance	117	34	187	37
Management training	72	21	85	17
Executive on loan/mentor	35	10	57	11
Other incentives	77	22	101	20

Source: Data from the 2004 survey are available on the ICMA website under "Aggregate Survey Results: Economic Development, 2004," at icma.org/en/results/surveying/survey_research/survey_results.

compared with 27% that have business retention plans. But small-business development is important—especially in low-income neighborhoods, in rural communities, and among immigrants. Small firms are also important to maintain viable Main Streets. Thus, actual support for small-business programs is higher than the percentage of local governments with small-business development plans would suggest.

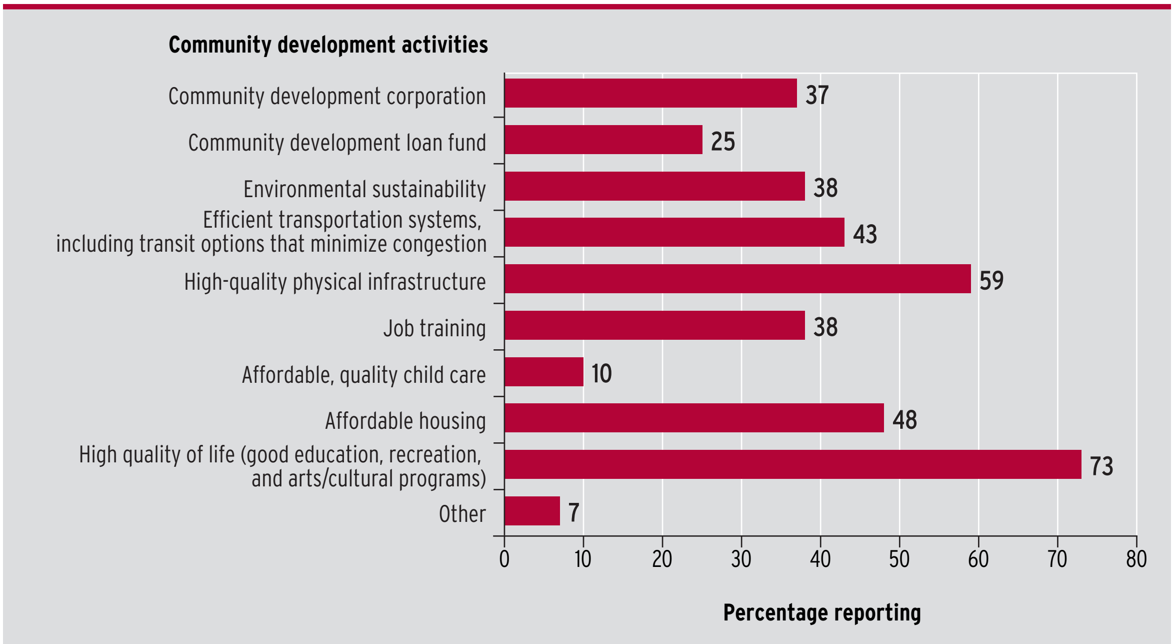
The most common activity among local governments in support of small businesses is funding a small-business development center (42%), followed closely by offering revolving loan funds (40%)(Table 4–4). But both of these are down from percentages reported in 2004. Marketing assistance, reported by 37% of respondents, and business incubators, found among 26% of respondents, may also help small firms survive. And local governments can provide matching improvement grants for physical upgrades that enhance the appeal of downtown streets to consumers and residents. This form of public-private partnership, which can help beautify downtown streets and increase small business viability, increased from 28% in 2004 to 35% of respondents in 2009.

Along those same lines, local governments are giving attention to a broader array of community development activities to enhance economic welfare. Richard Florida's *The Rise of the Creative Class* (2002) has drawn attention to the role that amenities play in attracting and retaining a high-quality workforce.[9] Communities now compete to be the "best place to live." But more recent research shows that it is investment in the fundamentals—schools, physical infrastructure, and social services—that makes communities more economically vibrant over the long term and supports their well-being.[10]

The majority of respondents (73%) in 2009 reported that their local governments give top priority to programs supporting quality of life (defined as social services: good education, recreation, and culture and arts programs) (Figure 4–3). Next in importance are high-quality physical infrastructure (59%) and affordable housing (48%). Many communities' zoning rules limit the production of affordable multifamily housing, but the 2009 survey shows that, from an economic development perspective, affordable housing is a critical component of local economic development strategy. Local government support is also strong for efficient transportation systems, including transit (43%), and for environmental sustainability (38%).

More traditional community development approaches, such as job training, community development corporations and loan funds, are still important but are no longer the key focal points for public investment. Child care is a target of community development investment among only 10% of local governments, but 14% (not shown) use economic development tools (grants, loans, business assistance) to support child care. Given the lack of affordable, quality child care in most communities, child care providers, who are themselves small businesses, would benefit from economic development attention.[11]

Figure 4–3 Local Government Support of Community Development Activities, 2009



Barriers, Participation, and Competition

Cost and availability of land continue to be identified as the top barriers facing economic development (Table 4–5). However, with the ongoing economic crisis, the 2009 survey finds that lack of capital has replaced the lack of building availability as the third most common barrier, reported by 50% of respondents compared to only 36% in 2004. The economic crisis has actually eased some of the other barriers: for example, the constraint on building availability, cited by 45% of respondents in 2004, dropped to 37% in 2009. Similarly, only 15% of respondents reported the high cost of housing as a barrier—down from 20% in 2004. As the foreclosure crisis deepens, however, affordable rental housing may become more of a concern for cities. Meanwhile, respondents who perceived the high cost of labor as an economic development barrier also decreased slightly from 11% in 2004 to 8% in 2009. Traffic congestion fell by about eight percentage points from 2004, but this could be a result of both the recession and the increased community development attention to transportation issues noted above.

Although quality of life was given high priority under community development investments, only 6% of local governments reported poor quality of life as a barrier to economic development. This may be because higher attention has been given to quality-of-life issues over the last few years. Quality of life has many components, and one special focus in the 2009 survey was access to affordable, quality child care. Only 6% of responding governments saw inadequate child care supply as an economic development barrier, and yet studies around the country have shown that most communities lack an adequate supply. Indeed, in surveys of economic developers in New York and Wisconsin, this lack was cited as a barrier by the majority of respondents.[12] This suggests that a broader array of participants may be needed in the economic development process to ensure that the full range of economic development concerns is addressed.

ICMA's economic development survey tracks which local constituencies participate in the economic development process. In 2009, almost 90% of local governments surveyed reported that their city governments participate in this process (not shown); more than 65% indicated the involvement of chambers of commerce; and over half reported that county governments are involved in developing their local strategies (53%). Other commonly identified participants include economic development corporations (44%), private business/industry (40%), regional organizations (38%), citizen advisory board/commission (36%), public-private partnership (36%), and state government (34%).

Interlocal competition has been a concern in economic development policy as local governments may bid against their neighbors to attract firms, which leads to a "race to the bottom." Efforts to promote more regional collaboration to avoid destructive local competition were noted over the 1994–2004 decade.[13] As shown in Table 4–6, the 2009 survey reflects a slight increase in interlocal competition among close neighbors (nearby local governments and those within the same state), and a slight decrease in competition with governments in surrounding states, other states, and foreign countries. Given the ongoing economic crisis, the fact that proximate competition slightly increased while competition from distant sources became less important shows that local governments are competing with other local governments to promote economic development.

Table 4–5 Economic Development Barriers, 2004 and 2009

Strategy	2004 No. reporting (A)	2004 % of (A)	2009 No. reporting (B)	2009 % of (B)
Total reporting	564	100	796	100
Availability of land	324	57	417	52
Cost of land	298	53	425	53
Lack of building availability (due to space or costs)	253	45	297	37
Inadequate infrastructure (e.g., no fiber-optic cable, water and wastewater)	156	28	226	28
Lack of skilled labor	97	17	140	18
High cost of labor	62	11	67	8
Lack of affordable, quality child care	–	–	47	6
Limited number of major employers	180	32	271	34
Lack of capital/funding	201	36	399	50
Taxes	101	18	161	20
Distance from major markets	87	15	129	16
Lengthy permit process	72	13	99	12
Environmental regulations	124	22	181	23
Citizen opposition	123	22	183	23
Lack of political support	57	10	86	11
Declining market due to loss of population	28	5	72	9
High cost of housing	115	20	119	15
Poor quality of life (inadequate education, recreation, and arts/cultural programs)	29	5	50	6
Traffic congestion	132	23	119	15
Other	106	19	94	12

Source: Data from the 2004 survey are available on the ICMA website under "Aggregate Survey Results: Economic Development, 2004," at icma.org/en/results/surveying/survey_research/survey_results.

Table 4–6 Economic Development Competition, 2004 and 2009

Type of competition	2004 No. reporting (A)	2004 % of (A)	2009 No. reporting (B)	2009 % of (B)
Total reporting	540	100	781	100
Competition in attracting investment				
Nearby local governments	414	77	606	78
Other local governments within the state	364	67	535	69
Local governments in surrounding states	300	56	396	51
Other states	298	55	416	53
Foreign countries	152	28	176	23
Other	14	3	7	1

Source: Data from the 2004 survey are available on the ICMA website under "Aggregate Survey Results: Economic Development, 2004," at icma.org/en/results/surveying/survey_research/survey_results.

The Importance of Accountability

Local governments recognize the importance of accountability in economic development policy. The vast majority, 85%, have instituted performance agreements as a condition for providing business incentives (Table 4–7), and over 70% conduct cost/benefit analyses prior to offering business incentives. From 2004 to 2009 we see a small rise in the percentage of governments that do not use performance agreements (11% to 15%) or cost/benefit analyses (25% to 28%). These may be governments that are using incentives for the first time. Experienced governments have learned that the use of incentives without performance measures in place limits effectiveness and can lead to more citizen opposition. Given the potential for abuse in business incentives, it is important that these governments employ accountability measures. Setting clear expectations up front is important, but so too is measuring the effectiveness of the business incentives after investment. In 2009, 92% of respondents reported that they measure the number of jobs created, and 62% reported measuring the amount of money invested in construction materials and labor. The 2009 survey also included a new question regarding clawback agreements, in which firms are required to pay back all or part of the local government subsidy if they do not deliver the promised employment benefits, and 60% of respondents reported using such agreements. This shows that local governments are concerned that the community receives a return on public investment.

Table 4–7 Accountability Measures, 2004 and 2009

Accountability measures	2004, %	2009, %
Performance agreement as a condition for providing business incentives	(n = 390)	(n = 717)
Always	61	56
Sometimes	28	29
Never	11	15
Cost/benefit analysis prior to offering business incentives	(n = 387)	(n = 713)
No	25	28
Yes	75	72
Measure of the effectiveness of business incentives	(n = 390)	(n = 721)
No	16	29
Yes	84	71
If yes	(n = 326)[1]	(n = 501)[1]
Amount of jobs created by the new business	90	92
Amount of money invested in construction materials and labor	63	62
New dollars invested in land	48	43
Company revenue/sales	32	32
Cost/benefit analysis	45	52
Number of new business relocating or expanding in jurisdiction	47	41
Other	11	9
Use performance measures to assess the effectiveness of its economic development efforts	(n = 533)	(n = 701)
No	67	52
Yes	33	48
If yes	(n = 173)[1]	(n = 327)[1]
Input measures	31	28
Output measures	69	53
Efficiency measures	47	41
Clawback agreement	–	60
Other	20	9

Source: Data from the 2004 survey are available on the ICMA website under "Aggregate Survey Results: Economic Development, 2004," at icma.org/en/results/surveying/survey_research/survey_results.

1 Percentages exceed 100% because respondents were able to check off multiple answers.

Conclusion

The *ICMA Economic Development Survey 2009* was conducted at a difficult time for most local governments. The financial crisis and meltdown on Wall Street was felt in communities all across America. The well-being of both local economies and local government budgets is intricately tied to the economy. Frozen real estate markets, rising foreclosure rates, and rising unemployment translate into reduced revenue for local governments at a time when citizen demand for services is increasing. Local officials want to use economic development policies to boost the local economy, but tax incentives do not build the tax base in the short term and may not lead to sustained employment gains in the long term.[14] Governments that pursue a balanced strategy that addresses the needs of local firms (retention), small businesses, and local residents (quality of life) may have the best chance of weathering the economic storm. High-quality public services ensure a high quality of life and a favorable climate for economic growth. A comprehensive economic development strategy appears to be the best approach for improving a community's economic well-being.

Notes

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