



Department of
Economic Development | **03**





03

Department of Economic Development

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Economic development can create jobs, increase tax revenues, expand existing businesses and attract new ones. It also can worsen traffic jams, gobble up open space, pollute the environment and even make neighborhoods unfriendly to pedestrians.

But citizens do not have to trade in their quality of life to reap the benefits of growth. If economic development agencies adopt policies that encourage the enhancement of existing communities - rather than the creation of entirely new ones - they can make it easier for states to grow while avoiding unnecessary strain on their infrastructure, services and tax base.

Often, that involves restoring places that have fallen on hard times, whether it's through “Main Street” enhancements or brownfield cleanups. Other times, it simply entails ensuring that older communities get an edge in qualifying for tax incentives.

These policies will allow economic development agencies to steer development in a direction that is likely to take advantage of existing assets, to reduce development pressure on open space, and ultimately to save taxpayers' money.

1

Give existing communities priority for economic development dollars**ACTION**

State leaders can revise the criteria that govern the distribution of economic development funds to encourage development within existing communities. The criteria should favor projects that are near transit, involve the reuse of existing structures, increase the mix of land uses in a neighborhood, have a range of densities, provide affordable housing and support walking.

PROCESS

Economic development spending usually falls into one of three categories: 1) "as of right" spending, or money to which a project or locality simply is entitled; 2) geographically targeted subsidies, such as Enterprise Zones or Tax Increment Financing, for which a project must qualify; and 3) competitive-incentive programs, such as infrastructure revolving loan funds.

The first two categories account for the bulk of economic development spending in most states, and legislative approval usually is required to change the criteria for distributing their funds. Competitive-incentive programs could be easier to change because the criteria often can be tweaked administratively.

Rather than changing the criteria for each program, the State can adopt a policy that targets all state investments, including economic development spending, to existing communities and designated growth areas. This was done in Maryland under the Priority Funding Areas Act and in Massachusetts as part of its Commonwealth Capital Program (*see Policy #8, Integrate the state's smart growth criteria into discretionary funding decisions, in the Comprehensive Approaches section*). Such a comprehensive approach helps states avoid piecemeal changes to individual subsidy programs.

EXAMPLE**California's Smart Investments Program**

In 1999, the California State Treasurer's office revised its criteria for the distribution of its investments, along with investments by the state's two pension funds, CalPERS and CalSTRS. The new criteria give priority to investments in existing communities, projects that increase transit use, and those that support historic preservation, the rehabilitation of affordable housing or urban infill.

Between 1999 and 2005, the Smart Investments strategy guided \$24 billion in state infrastructure and pension-fund investments toward smart growth projects and increased development in existing communities.

Smart Investments 2006: Five keys to Smart Investment in California's Future: <http://treasurer.ca.gov/publications/smartinvest/dec2005.pdf>

2

Establish a statewide redevelopment readiness certification program**ACTION**

Many older communities have lost so many people and jobs that they're now considered underdeveloped. Efforts at redevelopment often are complicated by outdated zoning regulations and building codes, inadequate infrastructure, lack of coordinated planning, and an unpredictable and time-intensive development review process. Such problems often deter developers because they raise costs and increase risks.

Older communities can increase the likelihood of redevelopment by updating codes and development regulations, streamlining their development review process and making their planning process more predictable. States can support older communities that reform their development process by certifying them as "Redevelopment Ready"; the stamp of approval can soothe the concerns of developers.

PROCESS

Economic development agencies can take the lead in certifying communities. Alternatively, they can provide grants to other agencies or universities to establish a "Redevelopment Ready Certification Program." In any case, the state planning agency should be involved in the program's development and implementation. One of the first steps should be to establish standards that can be used to evaluate a community's development process and regulations.

Many communities won't be able to meet Redevelopment Readiness standards upon initial evaluation, and are likely to require technical and financial assistance. The certification process can be used to educate local elected officials about how changing codes and development processes can stimulate investment.

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To encourage communities to modernize their codes and development programs, the State could include criteria in grant and loan programs that give points to communities that are certified or are in the process of becoming certified. Points can be awarded as communities hit designated milestones.

EXAMPLE

Michigan's Redevelopment Readiness Program

The nation's first Redevelopment Readiness Program was established by the Michigan Suburbs Alliance in 2005. The program is partially funded by the Michigan Department of Labor and Economic Growth. Seven local governments have been certified to date, with 15 more in process.

To be certified, cities must pass through an eight-step process that includes community visioning, training for public officials, evaluation and streamlining of development regulations and tools, marketing, and plan review processes. State support has increased interest in the program and has enhanced the value of the certification to communities.

3

Consider using tax increment financing or district improvement financing

ACTION

Tax Increment Financing (TIF) is a tool cities and counties can use to help desirable projects become reality. Under a TIF, a local government taps the anticipated benefits of future development (such as increased property tax revenues) to pay for infrastructure improvements or other current expenditures that are critical to the success of the proposed project. TIFs can stimulate private investment by assuring developers that the infrastructure needed to support a proposed development will be built in a timely fashion. District Improvement Financing (DIF) is similar, although it funnels the tax dollars toward redevelopment districts rather than toward improvements for specific developments.

TIFs and DIFs can be used for a variety of purposes, including assisting local governments in revitalizing blighted areas, reimbursing developers for some of their project costs, and shifting some costs that would normally fall on the developer to local government.

When they're used to revitalize economically distressed areas, they can provide a nucleus that spurs more development, which in turn lifts property values and generates new tax revenues.

PROCESS

The first Tax Increment Financing program was put in place in California in 1952. By 1998, similar programs were authorized in 48 states and the District of Columbia. Authorizing legislation is generally required and, in some instances, constitutional amendments are needed at the state level before a city or county can engage in TIF financing.

The next step is for the local government to establish the boundaries of the TIF area, the duration that the TIF will remain in place and the specified "tax increment" that will be used.

EXAMPLE

Massachusetts' TIF and DIF Programs

Cities and towns that wish to set up DIFs in Massachusetts must first be certified by the State Economic Assistance Coordinating Council. DIF districts can be as small as a single parcel or as large as a quarter of a municipality's land. Once a district has been certified, a city or town may use the program to acquire land, build improvements (schools, parks, etc.), or incur indebtedness by pledging tax increments or other project revenues for repayment of debts.

4

Create or support a State Main Street Program

ACTION

Main Street programs are community-driven efforts to revitalize older business districts. Main Street programs are distinguished from other revitalization approaches by their use of the Main Street approach to commercial revitalization, which was developed in 1970 by the National Trust for Historic Preservation.

According to the National Trust, the approach encourages "the rebuilding of traditional commercial districts based on their unique assets, such as distinctive historic architecture, pedestrian-friendly environments, personal services, local ownership, and a sense of community." More than 2,000 communities benefited from Main Street programs between 1980 and 2007,

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with the average reinvestment per community being approximately \$11 million, the National Trust says. The programs are credited with generating more than 370,000 jobs.

PROCESS

Forty-three states have a state Main Street Program. State programs help local Main Street efforts with technical assistance and training, and in obtaining funding from public and private sector sources.

But state programs are often stretched thin. Funding can be provided through the budget appropriation process. Also, many states designate an increment of state tax revenue, such as a portion of the state real estate transfer tax or a conservation tax, to fund their Main Street programs. Washington state's recently established Main Street Trust Fund draws on a variety of funding sources including use receipts from private contributions, federal funds, legislative appropriations and fees for services.

EXAMPLE

Iowa's Main Street Program

The Iowa Main Street Program claims credit for creating nearly 9,000 jobs and for stimulating \$712 million in private investment in downtown buildings since its creation in 1986. Iowa localities compete to receive technical and financial support from the state program.

Selected communities receive approximately \$100,000 worth of onsite visits, training and technical assistance in their first three years. During the startup phase, Main Street Iowa, the National Main Street Center and private consultants provide training for local directors and volunteers. After the startup phase, the state annually invests approximately \$10,000 in each certified Main Street and Rural Main Street community.

Iowa's Main Street Program: <http://www.iowalifechanging.com/community/mainstreetiowa>

5

Increase options for brownfield financing

ACTION

Brownfield cleanup and redevelopment can support development in existing communities, which often has the effect of sparing open spaces from development.

Reducing cleanup and redevelopment costs increases the likelihood that brownfield property will be reused.

States should ensure that brownfield cleanup and redevelopment are allowable activities under their infrastructure and capital programs, and that there are no barriers to using brownfield-specific tax credits and incentives.

PROCESS

Economic development agencies regularly provide loans and grants for capital needs such as land acquisition and provision of infrastructure, but the money often is underutilized for brownfield redevelopment. States could steer a larger share of loans and grants toward brownfield redevelopment by expanding eligibility requirements to cover brownfields or elements of brownfield redevelopment, such as site assessment or site preparation.

In addition to broadly defined economic development incentives, state economic development agencies should examine and refine their brownfield-specific tax credits and incentives. A 2005 study by the Northeast-Midwest Institute identified improvements that can make brownfield financing programs more enticing to developers and business owners. Among the suggestions:

- allow the transfer of incentives and credits from developer to eventual property owner;
- allow developers to defer property taxes;
- forgive taxes for owners of brownfield properties;
- increase the tax credit a developer can receive for redevelopment or cleanup;
- expand allowable uses for Tax Increment Financing to cover delinquent taxes and the removal of contaminants;
- allow the valuation of brownfields to be zero to maximize the tax increment that results from redevelopment; and
- provide developers with a menu of tax credits (property, income, and job creation) so they can tailor the incentives to best meets their needs.

EXAMPLE

Wisconsin's Blight Elimination and Brownfield Redevelopment Grants

The Wisconsin Department of Commerce uses Community Development Block Grant to support brownfield redevelopment. Local governments are eligible for up to \$500,000. Funds can be used for site

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assessments, environmental investigations, cleanup, asbestos and lead paint abatement, building renovation, demolition and infrastructure improvements. To qualify, a site must have a redevelopment plan that indicates how it will be reused in a way that benefits the community.

Wisconsin's Brownfields Initiative: <http://www.commerce.state.wi.us/CD/CD-bfi-programs.html>

6

Establish a "smart sites" program

ACTION

States should establish an Internet-based "smart sites" program to market land they have an interest in developing. Economic development agencies often offer online databases of sites available for commercial development. Making sure that such databases include sites that the State would like to see developed can ensure that they won't be overlooked by site selectors.

A "smart sites" database should include meaningful information on site characteristics, as well as federal, state and local incentives available for redevelopment. Providing such information raises awareness about incentives that can support cleanup and redevelopment.

In addition, state incentives should be targeted or redirected to smart sites. This could be done by revising the criteria of state incentive programs, such as infrastructure loans, to make sure the programs reward projects on designated "smart sites."

PROCESS

The first step in developing a "smart sites" program is to establish criteria that define what a smart site is. The criteria should capture locations where the State would like to see development activity occur and where the State would be willing to provide financial support. If the smart sites qualify for state funds or receive priority in the distribution of state funds, they'll be marketable.

Smart sites should include brownfields, greyfields (such as declining shopping malls and strip centers), vacant lands, underutilized historic properties, parking lots, and sites that already are served by transit and other infrastructure.

The State should develop an inventory of potential smart sites. This can be done by using the GIS resources and

will likely require coordination among state agencies that have property information. Regional, county and city governments, as well as colleges and universities, could help as well.

Additionally, the economic development agency can solicit landowners to provide information about their properties. Linking state incentives to smart sites would likely increase the willingness of property owners to submit their property for inclusion.

EXAMPLE

New Jersey's Site Mart

New Jersey's Site Mart is an online database that provides information on brownfield properties to developers. Property owners who list their sites are eligible for financial and technical assistance from the State to redevelop their properties. The site also contains a message to property owners inviting them to list their sites even if they are not planning to sell in the near future.

New Jersey's Site Mart: <http://www.njsitemart.com/>

7

Help universities and hospitals grow in place

ACTION

Universities and hospitals are fixed assets that can fuel economic growth and create good jobs, most often within metropolitan areas. Helping major "med and ed" institutions grow in place is likely to spur highly desirable development nearby.

It can be difficult, however, for a community to leverage the opportunities created by either a university or a hospital if there are strained relationships between the institution and the community, a lack of available land for growth, little coordination between the institution's planning and the community's infrastructure spending, and disinvestment in the immediately surrounding area.

Such barriers can be overcome by establishing nonprofit, community economic development corporations to facilitate collaboration between major institutions and the community. This has helped "eds and meds" grow and provide jobs in a way that is balanced and responsive to their neighbors and community partners and that catalyzes area-wide investment.

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PROCESS

Most state economic development agencies provide venture capital to technology businesses. Similarly, many economic development agencies provide capital that could be used to help establish nonprofit, community economic development corporations.

While both types of investments support job creation, the latter differs in that it is a place-based economic development strategy. The objective is to provide seed money to cover the initial administrative costs of the organization and support some planning activities.

The State can also help “eds and meds” grow by providing funds for infrastructure, neighborhood and campus planning, brownfield assessments and cleanups, and even market analysis. The economic development agency and other state agencies could change the criteria of their discretionary and capital spending programs to allow nonprofit community economic development organizations to qualify for those state funds.

EXAMPLE

New York's Buffalo-Niagara Medical Campus

The Buffalo-Niagara Medical Campus (BNMC) is a non-profit corporation in downtown Buffalo, N.Y., that consists of the region's premier healthcare, life sciences research and medical education institutions. The institutions on the campus have been instrumental in shepherding a revitalization of the city's medical district and establishing it as a recognized center for biotechnology. According to the BNMC website, each year, the institutions spend approximately \$600 million and more than 8,000 people currently work on the campus every day.

New York's Buffalo-Niagara Medical Campus: <http://www.bnmc.org/>

8

Increase access of local governments and non-profits to economic development funds

ACTION

Traditionally, economic development agencies use money to help businesses expand or to lure businesses to the State. Local governments and nonprofits draw on the

economical development funds less frequently because they lack access to them or knowledge about them.

States can advance their own growth objectives, however, by allowing local governments and nonprofit organizations to apply for state economic development funding of smart growth projects.

Economic development funds can support a range of activities, such as the provision of infrastructure, brownfield assessment and cleanup, marketing, land assembly, planning, and property acquisition or demolition, all of which can be used for community building.

PROCESS

Economic development agencies should inventory their programs to identify grants, loans, tax credits and technical assistance that can be used to support community building and smart growth efforts. The inventory could be expanded to include agencies that address community development, the environment, housing, natural resources, planning and transportation. Efforts should then be made to ensure that local governments or nonprofit organizations are eligible for the relevant programs.

The inventory's results - along with such vital information as application deadlines and program contacts - can be packaged together online or in brochures as a “smart growth toolbox,” and distributed to local governments and nonprofits. A single application for funding should also be developed to make it possible for communities to apply for all programs in the toolbox at one time.

Economic development agencies can also help communities gain access to state funds by designating staff members as “community caseworkers” to help local governments figure out which programs will work for them and to help with funding requests.

EXAMPLE

Michigan's Cool Cities Initiative

Michigan's Cool Cities Initiative focuses on expanding the state's economy by encouraging communities to develop diverse working and living environments that can attract a talented workforce. Communities compete to become “Cool Cities.” The designation entitles them to \$100,000 to develop and implement a smart growth plan and gives them access to more than 100 types of grants, tax credits, loans and services from different state agencies.

Michigan's Cool Cities Initiatives: <http://www.coolcities.com/>

9

Promote access to healthy foods**ACTION**

States should promote access to healthy foods. Healthy, affordable food is not readily available in many communities, especially in those that are rural or in low-income urban areas. This lack of access to healthy food contributes to obesity and poor overall health.

PROCESS

There are many ways that states can promote access to healthy food, but a key step is to educate business owners. States can provide business development assistance to store owners, vendors, and farmers on a range of business practices including accounting, marketing, and product management. For example, states can target small-scale food retailers in low-income communities, providing them with financial and technical assistance in exchange for their commitment to improve their selection of healthy foods or make other changes to better meet the needs of local customers.

States can also work to link small grocers with local farmers. By connecting farmers market associations with existing markets, states can help locally grown, healthy food get into food retail outlets. Participating farmers are able to sell more products in more outlets, while sharing costs for transportation and storage.

Farmers markets can play an important role in providing access to healthy food. States can encourage farmers markets to locate in low-income communities by providing grants and space. In order to best serve low-income shoppers, farmers markets should be encouraged to accept electronic benefit transfer cards. States can provide electronic benefit transfer systems to farmers markets, as well as coupons to participants in the Women, Infants, and Children (WIC) program and to seniors that can be used to purchase fresh fruits and vegetables at farmers markets.

EXAMPLES**Pennsylvania's Fresh Food Financing Initiative**

In 2004 the Pennsylvania Department of Community and Economic Development teamed up with three Philadelphia-based nonprofits — The Food Trust, the Reinvestment Fund, and the Greater Philadelphia Urban Affairs Coalition — to establish the Fresh Food Financing Initiative, a statewide financing program designed

to attract grocery stores to underserved urban and rural communities. The Fresh Food Financing Initiative leverages capital and private sector investment to provide grants and loans that offset the higher costs of developing new stores and refurbishing existing stores in low-income urban and rural areas.

The Food Trust: <http://thefoodtrust.lightsky.com/>

New York's Farmers Market Nutrition Program

New York's Farmers Market Nutrition Program provides checks to low-income, nutritionally at-risk families enrolled in the Special Supplemental Nutrition Program for Women, Infants, and Children (WIC) and Senior Nutrition Programs. The checks are redeemable for fresh fruits and vegetables at participating farmers markets.

New York's Farmers Market Nutrition Program:
<http://www.agmkt.state.ny.us/AP/agsservices/marketing.html>

California's Farmers Market Electronic Benefit Transfer Program

California's Farmers Market Program started as a demonstration program in 2003 to support Electronic Benefit Transfer in nontraditional markets, such as farmers markets, produce stands, and similar open-air markets. The Farmers Market Program is now implemented statewide, and current participation includes farmers markets, individual produce stands, fish vendors, and flea markets. This successful program continues to grow in participation.

New York's Farmers Market Nutrition Program:
<http://www.ebtproject.ca.gov/farmers.aspx>

Help Desk

The following resources are available on our Web site at <http://www.govinstitute.org/policyguide/EconomicDevelopment/helpdesk.html>

Reports

Michigan's Cool Cities Initiative: A Reinvestment Strategy; Tax Increment Financing – Can You? Should You?, Squire and Sanders

Organizations

National Trust for Historic Preservation Main Street Center; Good Jobs First; CEO for Cities; Northeast-Midwest Institute