

# Sustainable Economic Development: Investments in People, Place & Business

Elizabeth Agyeman-Budu, Becky Gitonga, Clint McManus, Derek Moretz, Marcelina Valdes, & Xue Zhang

December 2014

## A SUSTAINABLE FRAMEWORK

Across New York State, local governments use economic development policies to create jobs and increase their tax base in order to provide quality public services. Currently, New York State's (NYS) economic development strategy follows an unhealthy regime of tax incentives, casino development and willful neglect of the state's largest workforce development program: the public school system.

An alternative to the State's short-sighted strategy can be found in many local governments' pursuit of community-based economic development, which invests in the people, the physical places, and the local businesses within a municipality.

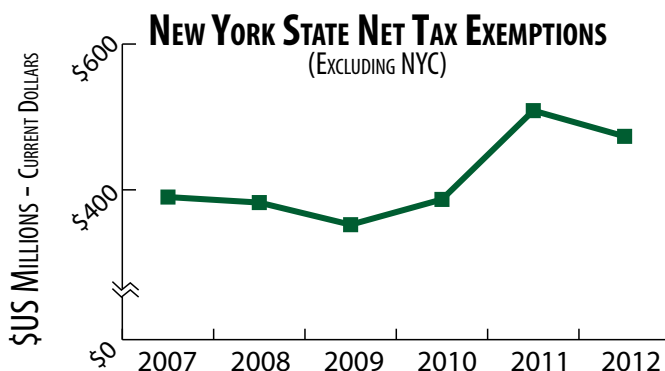


Our simple “People, Place and Business” framework is the foundation of sustainable economic development policy. Economic development research supports this framework, acknowledging that businesses thrive in places with a strong workforce, safe and attractive neighborhoods, and local business support.<sup>1</sup> We identify four economic development practices that embrace the “People, Place and Business” framework: (1) Anchor Institutions, (2) Land Banks, (3) Neighborhood & Business Associations and, (4) Social Entrepreneurship.

## FINANCING ECONOMIC DEVELOPMENT

In recent years NYS increased state tax abatements by more than \$100 million outside of New York City.<sup>2</sup> Tax abatements forgo short-term revenues to attract new businesses to an area. Conventionally, tax abatements apply to particular local taxes, but the new START-UP NY program exempts qualified businesses from all taxes for 10 years and up to 10,000 new employees from

income taxes over the same period.<sup>3</sup> Concerns have been raised about the scope of abatements and the potential of START-Up NY to increase jobs.<sup>4</sup>



Source: Author analysis of IDA spending 2007-12, NYS Comptroller

Some municipalities in NYS also utilize Tax Increment Financing (TIFs), which assists in development by issuing public debt underwritten by the development's future taxable property value. Similarly, PIFs, or Payment in Lieu of Taxes (PILOT) Increment Financing, encourage development via bonds backed by PILOTS. PIFs - relatively common in NYS - have been used in Buffalo and central NY to create the Lakeside Commerce Park and the Marcy Nanocenter. In NYS, the local Industrial Development Agencies (IDAs) issue many of the public bonds. However, newly issued debt for projects dropped to around \$500 million in 2012 after a peak of more than \$2 billion in 2007.<sup>5</sup> TIFs/PIFs and tax abatements are not always successful in reaching public goals. Measures of accountability and “clawback” to return public dollars for failed projects are critical to ensure taxpayers achieve value for public investment.<sup>6,2</sup>

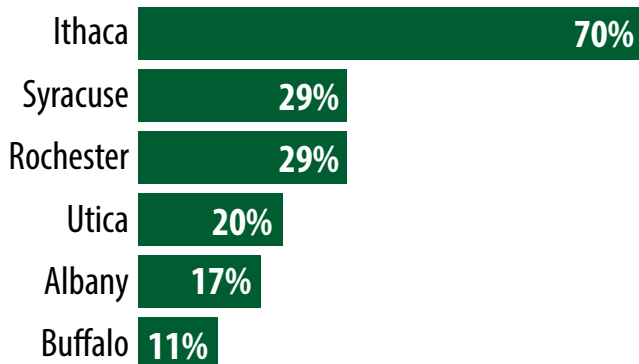
## 1. ANCHOR INSTITUTIONS

Anchor Institutions are non-profit or corporate entities with geographic ties to a certain location and, thus, an incentive to invest in their community. Universities and medical centers, referred to as “Eds and Meds”, are the most relevant anchor institutions due to their size and economic reach. In NYS, these institutions accounted for an 18.9% share of the economy and employed 1.674 million people in 2009.<sup>7</sup>



“Eds and Meds” promote local economic development through five main channels: Human resources (employment), real estate development, investment, business incubators, and local purchasing.<sup>8</sup> They have a broad and direct impact on people, place, and business. However, despite their many benefits, anchor institutions cost municipalities. Non-profit organizations like “Eds and Meds” are exempt from paying property taxes. In NYS real property taxes account for 44% of local government revenues and non-profit exemptions account for \$112 billion, or 14% of exempted property value, with some cities more affected than others.

### NON-PROFIT PERCENT OF TOTAL EXEMPT PROPERTY VALUE



Source: New York State Office of Real Property Tax Services, 2013<sup>9</sup>

What can local governments do to ensure the benefits generated by “Eds and Meds” exceed their costs in terms of tax expenditure? Based on experiences from NYS and elsewhere, local governments can:<sup>1</sup>

1. Consider alternatives to compensate for property tax exemptions:
  - Agreements for Payments in Lieu of Taxes (PILOTS)
  - User fees for municipal services and special assessments
  - Services in Lieu of Taxes (SILOTs)
2. Promote good practices (Cleveland, Ohio)
3. Generate a collaboration plan with anchor institutions (Baltimore, Maryland)
4. Collaborate with other levels of government and anchor institutions to obtain funds and provide public services (Syracuse, NY)

## 2. LAND BANKS

Land banks are not-for-profit corporations which acquire, manage and sell vacant, abandoned, and tax-delinquent properties with the help of grants from local, state and federal entities. They acquire properties to stimulate economic revitalization (commercial and mixed development), provide affordable housing, create new public spaces (Community Grade/Green Space program), invest in neglected neighborhoods (side lot programs), and decrease environmental pollution. At the start of 2014, there were eight land banks in NYS located in Erie/Niagara Counties, Broome County,

Suffolk County, Greater Syracuse, the Capital Region, Chautauqua County, Rochester, and Newburgh.<sup>10,11</sup>

NYS land banks prioritize acquisition of property, but lack the long term obligations and authority to manage those properties. Land trusts, on the other hand, are private corporations with long-term supervision and responsibility for property redevelopment. In 2010, NYS had 97 land trusts. Conservation land trusts aim to protect ecology, while community land trusts manage lands to benefit community residents. Municipalities could encourage cooperation between land banks and land trusts to promote neighborhood revitalization.

## 3. NEIGHBORHOOD & BUSINESS ASSOCIATIONS

Neighborhood & Business Associations are formal and informal intermediary organizations which play a significant role in promoting economic development through collective action to achieve what neither the public nor the private sectors can achieve on their own. These associations range from traditional Business Improvement Districts (BIDs) to less formal community-based or grassroots organizations. Their valuable associational qualities incorporate a community focus into the private market sphere and are crucial in encouraging neighborhood revitalization and the creation of entry-level jobs. Community business associations can serve as an alternative medium for promoting grassroot-level development which refocuses economic development from the conventional downtown districts to smaller neighborhood commercial districts.

## 4. SOCIAL ENTREPRENEURSHIP

Social Entrepreneurship promotes innovations that combine the skills of the non-profit and for-profit fields, and aim to solve social problems. It serves as a transformative engine of job creation and economic growth<sup>12</sup> while also providing otherwise unavailable opportunities to individuals experiencing physical, mental, educational and economic disadvantages.

For example, the Coffee Connection in Rochester utilizes coffee cafes to provide skills training, employment opportunities, and support programs for women recovering from substance addiction. In Cleveland, Ohio, a collaborative effort between the municipal governments, a foundation, employee association, hospitals and universities initiated worker owned cooperatives to create living-wage jobs for six low-income neighborhoods in an area known as Greater University Circle.<sup>13</sup> These cooperatives include green houses, laundry services and solar energy provision and employ 81 people in those distressed neighborhoods.

## CONCLUSION

The four policies featured in our report represent a range of community-based economic development strategies, most of which offer multiple and complementary community outcomes (see chart below).

**New York needs a balanced approach to economic development that moves beyond tax abatements and casinos to investment in the people, places and businesses that already exist in our communities.** Local governments can lead the way in promoting a more comprehensive approach to economic development.

Policy Goals & Outcomes	Policies				Who benefits?		
	Anchor Institutions	Land Banks	Neighborhood and Business Associations	Social Entrepreneurship	People	Place	Business
Provides workforce training	X	X	X	X	●		▲
Offers gainful employment	X	X	X	X	●		▲
Creates affordable housing	X	X		X	●	■	
Facilitates real estate development	X	X	X	X	●	■	▲
Reduces reliance on social services				X	●		
Encourages financial self-sufficiency				X	●		
Fights social problems (e.g. substance abuse)	X			X	●	■	
Increases access to health care	X				●	■	▲
Supports public safety		X	X	X	●	■	▲
Promotes local purchasing	X		X	X		■	▲
Enhances competition			X	X			▲
Sparks stakeholder cooperation	X	X	X	X	●	■	▲
Activates community participation			X	X	●	■	▲
Promotes environmental responsibility		X	X	X		■	
Maintains infrastructure	X	X	X		●	■	▲
Reinvests in neighborhoods	X	X	X	X	●	■	▲

**Footnotes** 1. For a description of recent economic development research on these topics, please see our full report at [www.mildredwarner.org/restructuring/fiscal-stress](http://www.mildredwarner.org/restructuring/fiscal-stress).

2. Office of the New York State Comptroller (ONYS). (2014). Annual Performance Report on New York State's Industrial Development Agencies. Retrieved at <http://osc.state.ny.us>.

3. New York State Department of Taxation and Finance (NYS DOTF). (2013). SUNY tax-free areas to revitalize and transform upstate New York program (START-UP NY program). Retrieved at <http://tax.ny.gov>.

4. Subramanyam, Nidhi. (2014). Can START-UP NY jumpstart the Upstate economy? Community and Regional Development Institute. Retrieved from: <http://cardi.cornell.edu/cals/devsoc/outreach/cardi/publications/research-and-policy-brief-series.cfm>

5. Data from Office of the New York State Comptroller (ONYS), 2014. Retrieved at <http://osc.state.ny.us/localgov/index.htm>.

6. Kerth, Rob, & Baxandall, Phineas. (2011). Tax Increment Financing: The Need for Increased Transparency and Accountability in Local Economic Development Subsidies. Retrieved at <http://smartgrowthamerica.org>.

7. Fiscal Policy Institute. (2014). State of Working New York: Employment trends, an uneven recovery (Draft).

8. Brophy, P.C. & Godsil, R.D. (2009). Anchor Institutions as Partners in Building Successful Communities and Local Economies. Retooling HUD for a Catalytic Federal Government: A Report to Secretary Shaun Donovan. Baltimore, MD: Penn Institute for Urban Research.

9. New York State Government, Office of Real State Property Tax Services. (2013). Municipal Profiles. Retrieved November 19, 2014, from <http://orpts.tax.ny.gov/cfapps/MuniPro/index.cfm>

10. Erie Land Bank includes the cities of Buffalo, Lackawanna, Tonawanda and Erie County. Syracuse Land Bank includes the city of Syracuse and Onondaga County. Schenectady Land Bank includes the cities of Schenectady, Amsterdam and Schenectady County.

11. <http://www.communityprogress.net/blog/years-land-banking-takes-shape-york-state>

12. Wolk, A., 2007, Social Entrepreneurship and Government; A New Breed of Entrepreneurs Developing Solutions to Social Problems. RootCause: Cambridge MA

13. Bradley, Bill, June 12, 2013, Cleveland's Evergreen Cooperatives Finding Better Ways to Employ Locals, Keep Cash Flow in Town. Retrieved at <http://nextcity.org/daily/entry/clevelands-evergreen-cooperatives-finding-better-ways-to-employ-locals-keep>