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BEST HOPE

Business Economic Strategy Teams

for

Hometown Opportunities through Partnerships with Enterprise

A proposal to revive America's distressed communities.

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INTRODUCTION

Communities are people, large complex collections of people. A community's life consists of the activities that its people undertake every day. Such activities include the creation of buildings and public works or other alterations of the natural environment, but these are only a small portion of total activity. Most large scale efforts to address problems in American communities have focused on changing the built environment. However, we must understand that to rebuild our communities, we will need to empower the people who live there. Creating new buildings or repairing worn out infrastructure only solves part of the problem. The root cause of much of our crime, drug abuse, welfare dependency, disinvestment and homelessness is the lack of viable economic opportunities for residents of distressed areas. This lack stems largely from the perception that distressed areas are poor places for investment.

Business investments in a community drive the economic engine which creates employment opportunities for residents and supports improving values for residential property. However, problems such as crime, hazardous material contamination or deteriorating public services make business investments in distressed communities bad risks compared to investments in alternative locations. Since the potential to generate a return in a distressed area is no greater than it is in a green-field location, any business is likely to avoid an investment in a distressed community. To equalize the competition among communities for business activity, the climate for investment in distressed communities must be improved. An incentive to encourage businesses to make new investments in distressed communities could be created by raising the potential for income generation in such places relative to the rest of America. The BEST HOPE program will do this by capitalizing upon government's ability to tax incomes and property values. BEST HOPE is an acronym for Business Economic Strategy Teams for Hometown Opportunities through Partnerships with Enterprise.

Governments generally benefit from the economic success of their citizens, or increased value of property within their geographic limits. By opening the opportunity for a private sector Business Economic Strategy Team to keep a share of the taxes that they can generate by increasing economic activity in a distressed area, BEST HOPE will create a source of return on investment which will be unique to that area. For the Business Economic Strategy Team, this will allow a distressed area to compete effectively with the rest of its region for community building investment.

Much of the BEST HOPE program's success will depend on the empowerment, training and motivation of individual residents in distressed communities. It also will depend upon creation of attractive, safe and investment-worthy living and working environments in the target communities. This will be a new focus for American business. Ordinarily, community development objectives have been the province of government or nonprofit agencies. By making the Business Economic Strategy Team a partner of government, BEST HOPE will permit them to benefit, as government does, from the economic success of people who live and work in their target community.

Most previous attempts to solve the problems of our distressed communities have been unsuccessful. In many areas, there just hasn't been much of an effort mounted at all. Those programs which have produced the greatest long term benefit have shown us that the problems of our communities must be solved by working with individual citizens. Programs aimed only at stimulating real estate development or industrial growth cannot be targeted to those people who are most in need.

Fiscal distress at all levels of government reduces the chance for major new commitments of federal, state or local funds. What is needed to revitalize our distressed communities is a program that can mobilize sufficient resources without straining the government's financial capacity. This program must target resources to the areas of greatest need and encourage participation by those people who have not shared in the benefits of the nation's economic growth. This task requires the combined talents and resources of the public and private sectors. The BEST HOPE program, as outlined herein, provides a mechanism to do just that.

HOW

BEST HOPE PROGRAM OBJECTIVES

The BEST HOPE program's overall goal is to revitalize America's distressed communities and thereby add to the nation's strength and unity. To do this, BEST HOPE must achieve the following objectives.

1. - Harness the creativity, flexibility and drive of private business to improve living conditions and economic opportunities for residents and businesses in distressed communities.

2. - Improve the balance of revenue versus outlays for state, federal and local governments in those same communities.

3. - Provide a mechanism for local government and citizen input to, and supervision of, planning and implementation of the Business Economic Strategy Team's programs and projects.

4. - Assign local government the lead role in organizing BEST HOPE in their community. Enable federal and state participation via enabling legislation and development of mechanisms to track and share taxes levied in the development area.

DEVICES TO ACHIEVE OBJECTIVES

BEST HOPE will not attempt to prescribe complex mechanisms to accomplish the program's objectives. Since each community's resources and opportunities are unique, the BEST HOPE program is designed to allow maximum flexibility and local control. The following devices will constitute the core of the BEST HOPE program.

1. - By enabling action of federal and state governments, create the opportunity for local government to offer a private Business Economic Strategy Team half of the revenue stream generated by local, state and federal taxes levied on any increase in economic activity the Team can stimulate within a targeted distressed area.

2. - Provide a BEST HOPE Area Council to serve as a mechanism for oversight of the Business Economic Strategy Team by residents and business people from the targeted distressed area and by government.

3. - Assign the Business Economic Strategy Team a first option to purchase any surplus property located in the target area and owned by any local, state or federal agency.

How will BEST HOPE work? The program is designed to create an incentive for private investment in economically depressed areas through government's sharing of the new tax revenues that result from increased economic activity in those areas. This activity will be generated by investments made under the direction of the Business Economic Strategy Team selected by the local government and charged with revitalization of the target area. By adding income from the new tax stream to the conventional sources of return on investment, BEST HOPE will magnify the private sector's opportunity to profit from investments in the human and capital resources of distressed communities. This greater opportunity to generate revenue will permit the distressed community to compete effectively with other areas as a location for new business activity.

Incomes of new residents moving into the community also will be part of the potential revenue stream. Thus, BEST HOPE will provide an incentive for investments that make the community more desirable as a place to live. This should help to stabilize the local housing market and expand the customer base for local businesses.

PROCESS

1. Identify the Target Area

Having been given the power to initiate BEST HOPE by federal and state laws, a local government would identify a target area meeting the criteria defined in the enabling legislation. (See the WHERE section of this paper, beginning on page 6.) Delineation of the target area would involve documentation of distressed conditions and an inventory of available resources, such as surplus public property or active economic development and job training programs. Local taxing authorities would be notified of the impending project, as would state and federal revenue offices.

2. Create BEST HOPE Area Council

A BEST HOPE Area Council, including representatives of target area residents and businesses, would be elected by voters residing in the target area. The local government would set the size of the Area Council between 5 and 21 members, taking account of the population of the target area and any need to represent divergent groups or points of view. The Area Council would be elected by registered voters residing in the target area. Eligible members of the Area Council would include target area residents and persons having a 50 percent or greater ownership interest in any business or real property located in the target area. The local government may choose proportional representation as a selection and voting mechanism for Area Council members, to assure a voice for all points of view.

3. Select Business Economic Strategy Team

After the election of the Area Council, a request for proposals would be issued by the local government. Private sector teams would submit their credentials and outline their relevant experience. They should also document their financial capability and demonstrate an understanding of the needs and potential of the people in the target area. A selection process carried out by the local government and Area Council would identify the Business Economic Strategy Team. A two-thirds majority of the local government's legislative body would be required to select any Team other than that recommended by the Area Council.

4. Enter Project Agreement

The Business Economic Strategy Team would be assigned a ten year "franchise" to stimulate investment in the land, citizens or businesses of the target neighborhood. The conditions of this "franchise" would be documented in a BEST HOPE Project Agreement between the local, state and federal governments and the Business Economic Strategy Team. The Project Agreement would identify the base year and methods for computation of the original level of government revenues, and the method to be used for calculation of revenues to be shared between the various governmental entities and the Team. Timing and other terms of tax sharing payments would be precisely defined in the Agreement. Approval of the Project Agreement by the local governing body, acting on the recommendation of the Area Council, would constitute the beginning of the ten year "franchise" period. The Project Agreement would be renewable once by mutual content of the participating parties. Thus, the maximum program length would be twenty years.

5. Develop Strategic Plan

Within one year of the Project Agreement's approval, the Team would be required to produce a strategic plan for the target area revitalization program. This plan would be developed with input from the Area Council and the local governing body. It would include measurable performance objectives to gauge the Team's efforts and progress in coming years. The Area Council would provide local input to the Business Economic Strategy Team during the planning process. The Area Council would also certify its approval of the Team's plans to the local, state and federal governments.

6. Implement Strategic Plan

Upon the Area Council's approval of the Strategic Plan, the Business Economic Strategy Team would commence its development program. With the general guidance of the Plan, the Team would have a great deal of flexibility to pursue and/or modify its program to achieve the greatest benefit.

The Business Economic Strategy Team would have the first option to purchase any tax reverted or government surplus properties in the target area. The purchase price would be the lowest legally defined price for sale, as set by any agency holding title to the property. Such purchases of tax-reverted land could take place only after there is no further chance of redemption by prior owners. Any profit from the resale or rental of this property would accrue entirely to the Business Economic Strategy Team which also would share in any tax revenues generated by such a sale or rental.

The Team also would have access to all government services, facilities and funding sources which are available regularly in the community. These may include job training programs, infrastructure improvements, financial assistance, or enhancements to public services. Tax abatements, if deemed necessary to trigger new investment by the Business Economic Strategy Team and the local government, could be made available. However, a tax abatement would reduce the Team's revenues, as it would ordinarily for state or local government.

7. Share Government Revenues with Business Economic Strategy Team

When the Business Economic Strategy Team's program produces results in the form of increased tax revenues, the governments which collect those taxes would divide them with the Team. The Team also would be entitled to retain the full amount of any conventional return on its investment. Tax sharing would be conditioned only upon an annual certification by the Area Council that the Business Economic Strategy Team was performing satisfactorily, within the performance criteria established by the Strategic Plan. This certification would enable the various governmental entities to release the Team's share of annual tax collections.

In its certification process, the Area Council also will review the annual budgets, plans of action and performance measures for the Business Economic Strategy Team's activities. During the year, the Area Council would meet at least monthly with the management of the Team to review progress and transmit input from target area residents or business people.

FURTHER THOUGHTS ON PROCESS

Since new tax revenues would be shared equally between the Business Economic Strategy Team and the public taxing authorities, BEST HOPE will allow government to reap some immediate rewards for its participation in the program, rather than having to wait for many years or to settle for "spinoff" benefits.

A Business Economic Strategy Team may profit from its investment in the people of the target area, as well as the real estate. The Team will work with any positive change agents to reach, enthuse and empower individual citizens to invest their efforts in themselves and their neighborhood. The Team will prosper by helping and encouraging people to pursue their potential as contributors to the common good. This new focus of business attention should help to break the psychological barriers that prevent many residents of depressed areas from acting to improve their own prospects. Unlike many government assistance efforts, a Business Economic Strategy Team will not have to work within narrowly defined program limitations. Thus, it will be able to address all obstacles that an individual may need to overcome on the way to economic self determination. With a business taking an active interest in his or her success, the self worth of each area resident will be confirmed in a way that welfare or make-work programs just cannot match. BEST HOPE will allow private enterprise and government to look at people in distressed areas as resources, not problems.

Since the Business Economic Strategy Team's revenue stream is tied to that of residents and businesses in a specific geographic area, it will be important to keep people and companies in that area, as well as to attract new ones. Thus, the quality of life for people in the target area will become a high priority for the Team, resulting in efforts to make the target area more attractive for old and new residents. New residents will add to the resource mix, and taxes on their income will contribute toward the Team's revenues.

Income taxes on jobs which are simply relocated into the target area from elsewhere, or tax on employment created outside of the target area by businesses headquartered therein, would not be credited to the Business Economic Strategy Team. To discourage mere "gentrification" of the area, it may be advisable to deduct from the shared taxes as much as the entire incomes of people who move out of the target area due to increased costs of living there.

While income expansion for neighborhood residents is the most likely approach to produce an early financial return for the Business Economic Strategy Team, great long term potential lies with generation of new capital investment in the target area. This would include new business locations, expansion of existing firms, and stimulation of the local real estate market. Each of these activities can produce a return for the Business Economic Strategy Team as well as for participating government entities. BEST HOPE will make improving the investment climate of the target areas an objective for both business and government, enabling the optimum employment of under-utilized human and capital assets.

WHERE

Distressed communities may be America's most intractable problem. These include inner city neighborhoods and remote rural areas where unemployment is the norm, disinvestment is rampant, jobs and residents are moving out, and community institutions are dying in place. Drug use and crime are often epidemic in these places, largely because local youth see those activities as an attractive alternative to anything else around them.

BEST HOPE's enabling legislation would define eligibility criteria to be used for identification of target areas, which could be defined most conveniently as Census Block Numbering Areas or larger units. As a suggestion, a target area could be required to meet at least four of the following seven distress indicators:

1) an unemployment rate of 25% or more;

2) expanding lists of abandoned or tax reverted land and/or buildings;

3) declining population, as documented by the most recent U.S. Census;

4) a declining ratio of tax base per pupil in the public school system;

5) more businesses being discontinued that started in the area;

6) incidence of crime 25% or more above the average rate for the community or region;

7) median household income levels which are less than 75% of the county median, or state median if the target area is an entire county or group of counties.

These indicators can be documented readily, using existing government statistics. Furthermore, progress toward improving these conditions will be measurable as a result of collecting the same statistics in the future.

RETROSPECTIVE

We Americans have some huge tasks ahead of us and some serious obstacles to overcome as we pursue them. Clearly, one task we must address is the rejuvenation of our economically distressed communities. Many places in the United States, urban and rural, offer very little of the American dream for their residents. For those people, the good life that they see others enjoying on television is not the reality that they experience every day. Unfortunately, their environment does not offer very many clues to tell them how to achieve that good life. In many inner city areas, the only people who seem to have "made it" are the ones who are dealing drugs, not exactly the role models we'd like to present.

The problems of America's cities and poor rural areas are not new. As a nation, we have tried to address them many different ways. We have had some small successes and numerous failures. It seems that every year the poorest parts of the country fall farther behind, as people and capital are attracted to a fortunate set of hot spots In those places, the induced prosperity generates oversupplies of new homes, offices and manufacturing space which then tax the abilities of our financial markets. All of this leaves the people in our distressed communities stuck at the back of a long line, waiting for help.

What puts this issue in a new light in the 1990's is the overwhelming obstacle of the federal deficit, and its compounded result, the national debt. Worries about the nation's debt burden complicate efforts to address any problem, foreign or domestic. A government which has been accustomed to dealing with problems by throwing money at them is shackled by the accumulated impact of its past efforts.

It is in this context that the BEST HOPE program is offered as a new proposal for rebuilding America's most distressed urban and rural communities. Business Economic Strategy Teams will focus the efforts of local, state and federal governments and private investment groups. Day to day management of the Teams will be in the hands of the private sector partners. Business Economic Strategy Teams will be charged with creating new economic opportunities for those parts of American communities which have been left out in the economic mainstream. BEST HOPE will be a true public-private partnership, with both parties sharing in the risks and rewards of community development.

Business Economic Strategy Teams will invest in the people, businesses, land and buildings of economically depressed areas to generate a return from new economic activity. The opportunity for return will be achieved by sharing government's ability to raise revenue by taxing incomes and property values with the Business Economic Strategy Team in each BEST HOPE project area. The sharing of government's taxing power makes it possible to produce an immediate return for public and private interests from new economic growth. This will greatly improve the climate for business investment in the targeted areas. Thus, BEST HOPE can generate a major positive impact in distressed areas by stimulating private investment **without budget busting front-end expenditures by any unit of government.** BEST HOPE will encourage businesses to work with the residents of distressed areas in ways that will improve their incomes and quality of life.

Local government's role is pivotal to the BEST HOPE process. However, local government can not act without federal and state passage of enabling legislation. It also requires development of programs that will enable all levels of government to track the tax revenues generated in the target areas. The participation of the federal and state governments is critical for this program to succeed, because federal and state taxes on income are the most likely revenue sources to show early increases as residents of the target neighborhoods are brought back into the work force.

The typical Business Economic Strategy Team is likely to be a consortium of businesses with expertise in finance, real estate, job training or placement, and marketing. Numerous other skills could be helpful to such an entity. Since there are few similar opportunities for businesses at present, it is likely that new ventures will be created to respond to the BEST HOPE program.

The labor pool to be tapped by such ventures will include people with experience in economic development, social services or employment training programs. It is likely that these new ventures will include many people who are already located in or near the areas to be targeted.

What are the chances that distressed area residents would get involved in BEST HOPE? Since the Business Economic Strategy Team's revenue depends on the economic success of area residents and businesses, the Team will eagerly pursue their participation. Many current programs intended to benefit such people offer assistance on a take-it-or-leave-it basis. Aggressive pursuit of "prospects" by companies which are focused on each person's abilities, rather than his or her shortcomings, should help to result in widespread participation by target area residents.

Further, distressed area residents will be partners in the BEST HOPE effort. They and their neighbors will have a voice in the process which decides what the BEST HOPE program will attempt in their community through the BEST HOPE Area Council. If the program isn't meeting their expectations, they will have the opportunity to say so and to suggest how to fix it. The Area Council's certification is required for the Business Economic Strategy Team to receive tax sharing payments. Thus, the views of area residents will be important input to all parts of the Team's program. This element of local citizen control is a significant feature of BEST HOPE that should result in active participation by distressed area residents.

Will people make the effort to break out of dependency on public assistance or to strive for something better than the dregs of their local job and housing markets? One's answer to this question will depend on one's belief in the attraction of the American dream. BEST HOPE is rooted in the belief that almost everyone, given the chance, will do anything in their power to improve their lot. People in all sorts of situations strive to be better off than their parents were, and to provide their children with a better selection of life's opportunities than they have had. Residents of distressed communities are no different. It is the people's constant striving to improve their lot that has made this nation as great as it is. That greatness is based on continuous effort, and in those unfortunate places where such effort has fallen down, all public enterprises have fallen with it. By improving the opportunities for people and businesses to succeed, BEST HOPE will rekindle the effort to improve even the most distressed communities in America. Whenever BEST HOPE succeeds, the benefits will be shared by the nation as a whole.