**Business Development**

Business development is an essential component of local economic development planning because the creation, attraction, and retention of business activities builds and maintains a healthy local economy. Active business development is required in both good and bad economic times. When our national economy was booming in the recent past, there were still soft areas in fast-growing economies like Silicon Valley, where neighboring East Palo Alto benefited very little from the robust economy. Other areas, such as much of rural Appalachia, saw some improvements in low-wage jobs but little real economic gain. Clearly, many inner-city residents, such as Harlem’s long-standing low-income Black and Hispanic residents, benefited little from the robust New York economic resurgence that welcomed former President Clinton to the community and led to rising real estate prices, pushing longtime renter households out of the community.

No matter how poor a local economy appears to be, however, it still has economic potential internally and opportunities to reach larger external markets. For example, America’s inner cities, which had been in continual decline due to postwar suburbanization, came to be seen as new markets ripe for picking at the end of the 1990s (Cuomo, 1999). This vast potential was first tapped by just a handful of pioneering retailers, but the trend grew exponentially, bolstered by the new urbanism and Smart Growth movements, resulting in the “back to the downtown” movement of housing, headquarters, offices, hotels, and restaurants as well as retail activity. The movement came from local entrepreneurs and national or international developers, businesses, and franchise holders. Today, there is a growing emphasis on stabilizing inner-city economies through deepening the local economic base with industrial activity (Leigh and Hoelzel, 2012).

Retailers and other business can come into distressed communities only if new partnerships can be forged between community and business interests. These new partnerships are developed by public planners in the name of community. Frieden (1990) said the following:

Planners have many compelling reasons for taking on the function of public sector developers. For professionals whose usual complaint is lack of influence, public sector development offers a rare opportunity to get major projects done. For professionals whose usual output consists of planning documents, it provides visible, measurable accomplishment on the ground. And for professionals usually required to have the time-sense of a geologist, it offers the satisfactions of making an impact within a few years.

Getting the projects done poses challenges that many people find exciting. The public sector developer has to mediate between public and private interests in order to find solutions that meet both an economic and a political bottom line. Achieving success means delivering a project that is economically sound and that serves public purposes beyond financial returns. For a planner who wants to influence the character of a city on a large scale, and wants to do it reasonably early in his or her career, public sector development is a promising choice. (p. 427)

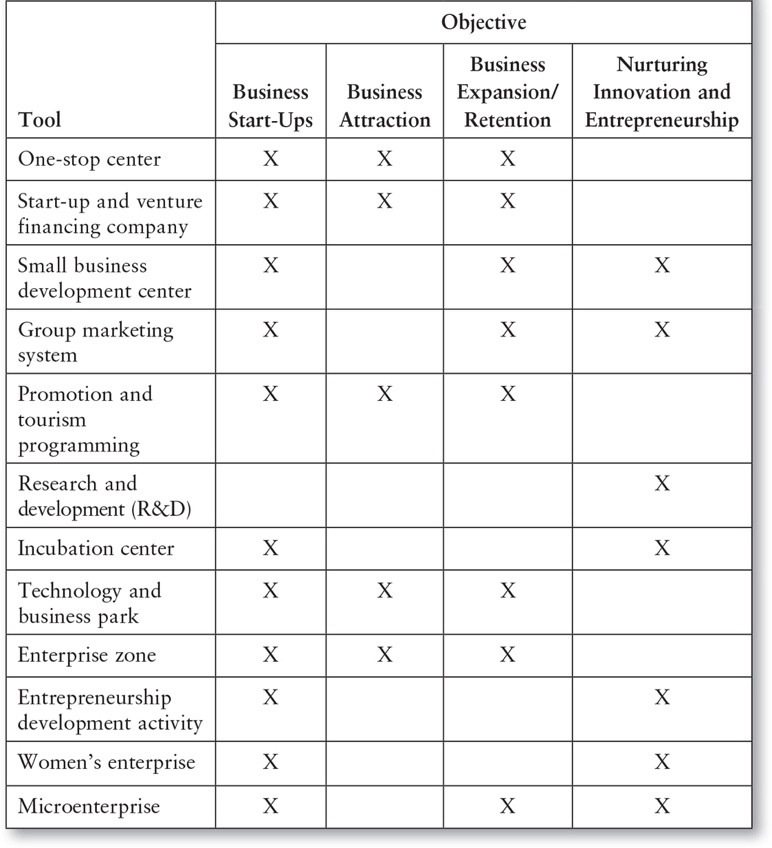
Business development is intended to redress the balance between community as a social construct and business as an instrument of wealth generation for planners. Lockhart (1987) put it this way:

Community [is] more than a bedroom and service annex to alien commercial interests. Such a notion of community begins with the recognition of the crucial role that the building of shared commitments to the common well-being plays in the attainment of social health and individual satisfaction. (p. 57)

In this context, community and business development are merged as a vehicle to mobilize essential community resources for the generation of shared wealth, both in terms of individual and collective well-being and in terms of a stronger set of economic institutions that can compete both locally and globally. Andrew Cuomo (1999), former U.S. Department of Housing and Urban Development (HUD) secretary (1996–2000), articulated this concept: “Increased business investment can transform many inner cities from places left behind by the new economy into places leading the way to economic success—bringing shoppers, billions of dollars in consumer spending, and new jobs to urban America” (p. vii). Even though business opportunities are important to minority communities, this should not lead to the conclusion that small business is the only way to create such opportunities. For example, the 600,000 to 800,000 new U.S. companies created annually include many self-employed workers. The U.S. Department of Labor estimates that nearly 11% of Americans were self-employed in 2009. This includes those professionals who work on their own, such as consultants and actors, as well as people who work from home in association with millions of small businesses. Rates of self-employment are highest among Whites (7.4%), men (8.3%), and older workers (18.1%). These 2009 data reflect a continuing trend (Hipple, 2010).

Regardless of whether we are promoting new businesses or retaining existing enterprises, there are at least 12 basic tools or techniques normally considered central to business development. They include one-stop centers, start-up and venture financing companies, Small Business Development Centers (SBDCs), women’s enterprises, group marketing systems, promotion and tourism programs, research and development (R&D) programs, incubation centers, microenterprises, technology and business parks, enterprise zones, and entrepreneur development courses.

The choice of tools depends on the local business development strategy. Business development strategies can have one or more of four basic dimensions: (1) to encourage new business start-ups, (2) to attract new firms to the area, (3) to sustain and expand existing businesses in the area, and (4) to increase innovation and entrepreneurship within the community. [Table 9.1](https://jigsaw.vitalsource.com/books/9781506363974/epub/OEBPS/s9781506364018.i1934.xhtml#s9781506364018.i1948) illustrates how the tools emphasize the different dimensions. Clearly, they can be mixed together to incorporate several dimensions, depending on the circumstances. In fact, few communities use one tool alone. Most communities use a combination of tools integrated into the total local or community economic development strategy.



**Creating a Good Business Climate**

A “climate” conducive to business development is often created with the participation of local governments and neighborhoods. There are published business climate studies in leading business and professional magazines worldwide. The significance of these studies of states, cities, and metropolitan regions remains clouded. After examining their methods and uses, Rodney Erickson (1987) concluded the following:

There are clearly shortcomings of business climate studies…. Does that mean that we should forget about competitive position and business climate studies? …In my mind the answer is “no.” Whether we like it or not, business climate studies are here to stay…. Good business climate studies can help to focus attention on the particular nature of problem issues and lead to some worthwhile introspection. (p. 62)

Business climate studies receive media attention externally and internally. Citizens feel better about a well-ranked community, whether or not there is a real difference in the economic or social outcomes associated with the subjective measure used in such studies. Most business climate studies measure the comparative aspects of conducting business in one community over another. However, issues in firm location or relocation have more to do with the comparative advantages a city offers for the particular enterprise, such as the nearby location of important suppliers, customers, or scientific information. The key to a good climate is determining what kinds of regulatory and policy tools will facilitate business development for the type of firms that use the locality’s asset base, such as a harbor, university, or supplier. This is not an easy task, but it can be achieved. There is no strict, standard mixture with respect to the kinds of incentives and support programs offered. The main goal is to fit the program to the businesses desired and to be flexible.

Therefore, both local neighborhoods and cities need to look at existing regulations to see whether they “guide development” to the places and types of activities desired or merely prevent those activities considered undesirable. Finally, the issue of environmental outcomes must be considered. The fact that a community has space or facilities for some environmentally contaminating uses does not mean that these should be the best or only industries a community attempts to attract.

**Entrepreneur Development and Economic Gardening\***

\* Georgia Tech graduate students Ellen Anderson, Jason Chernock, and Melissa Mailloux contributed to this section.

An entrepreneurial community strategy seeks to grow local businesses and create jobs from within the local economy. It requires a critical mass of entrepreneurs, strong support networks, and a community that is ready for change and seeks innovations (Lichtenstein, Lyons, and Kutzhanova, 2004).

An entrepreneur, as defined in the *Oxford English Dictionary,* is someone who undertakes a business or enterprise with chance of profit or loss. Put more simply, an entrepreneur is a risk taker. Not all risk takers are successful, however. To be successful, the entrepreneur needs to be proficient in all aspects of decision making. Successful decision making by entrepreneurs involves three skills:

1. *Self-knowledge,* or the knowledge to specify the objective; imagination and analytical ability to focus on the factors that lead to decisive action
2. *Research skills,* necessary for collection of data and foresight to estimate data
3. *Decision-making and implementation skills,* which require computational skills for applying the data to the decision rule and communication skills for formulating implementation plans. In addition, the entrepreneur needs to have delegation and organizational skills to involve and utilize specialists as required.

The entrepreneur’s goal is to “create or capitalize on new economic opportunities through innovation—by finding new solutions to existing problems, or by connecting existing solutions to unmet needs or new opportunities” (Lichtenstein and Lyons, 1996). We highlight here six methods that can be used to foster an entrepreneurship local economic development strategy; these are elaborated on to some extent in other sections of this chapter.1

1. *Develop diverse sources of capital.* This can be local venture capital firms, organized networks of angel investors, and public or private seed capital funds.
2. *Create an enabling community culture.* This should be founded on the entrepreneurs’ common vision for the community’s future, their commitment to giving time and money back to the community, and their willingness to share ideas and information.
3. *Foster networking.* “Consummate entrepreneurs are networkers who thrive in communities. Networks are essential because they link entrepreneurs to potential sources of capital, new employees, strategic alliances, and service providers such as lawyers, accountants, and consultants” (Edward Lowe Foundation, 2002).
4. *Provide supportive infrastructure.* Perhaps most significant is the presence of a local college or university because of its role in education, R&D, and fostering an open-minded, risk-taking local culture. However, more traditional infrastructure, such as transportation and high-speed Internet access, is also important.
5. *Make government entrepreneur friendly.* Local governments that streamline processes work in a spirit of entrepreneurship instead of bureaucracy, so it is easier for local entrepreneurs to do business.
6. *Foster entrepreneurship education.* This education should be targeted to primary and secondary schools as well as adult education. Linking entrepreneurship with education develops human capital and makes this method of economic development more sustainable (Dabson et al., 2003).

Cities can facilitate the identification of people with entrepreneurial talent and interests and develop them via the creation of social and professional networks as well as through secondary and postsecondary education programs.

Social and professional networks connect business owners with service providers as well as grant access to resources, materials, labor, financing, and new markets. Mentoring, another critical aspect of fostering entrepreneurship, occurs on a voluntary basis. The cost for both networks and mentoring programs is typically small and supports logistical and organizational activities.

Youth business programs can be established in high schools, while entrepreneurial training programs can be established in the junior or community colleges. Some big-city newspapers such as the *Oakland Tribune* in California have sponsored business start-up fairs and training sessions to release local entrepreneurial talents in the resident population.

While it is difficult to compare the budget of an entrepreneurial strategy with those of traditional business recruitment incentive packages, it is clear that the costs of this strategy can be significantly lower than the latter category of economic development expenditures. For example, the incentive packages that seven states offered in 1996 for just a single manufacturing plant ranged from $2.35 million to $12.475 million (Spicer, 1996). In contrast, the 2005 total budget for a Littleton, Colorado, economic gardening strategy (described next) was $600,000, or one quarter of that of the lowest amount spent on a single manufacturing plant by any of the seven states in the mid-1990s.

**Entrepreneurial Community Program: Growing an Economic Garden**

In 1987, the City Council of Littleton, Colorado, decided it wanted to grow jobs by fostering entrepreneurship within the community rather than by recruiting companies to relocate to or expand in the area.2 It developed an economic gardening program based on the idea that business success comes from three places: (1) an ability to adapt to changes while retaining an identity, (2) a sense of self-organization that encourages action at the individual level versus top-heavy organizational structures, and (3) a local culture that favors risk taking, innovation, and diversity (Gibbons, 2005).

Littleton’s economic gardening program has three core activities. First, it provides tactical and strategic information to existing or potential local businesses. This is called “competitive intelligence” (Society of Competitive Intelligence Professionals, n.d.)3 and involves providing information to local Littleton businesses that is usually available only to large companies. The intelligence provided can include marketability studies, the tracking of new products, legal research, and answers to specific business questions.

Second, Littleton has ensured that necessary infrastructure improvements were made for supporting business. This includes not only physical improvements but also ways to enhance quality of life, such as providing enjoyable open space, sponsoring community events, and creating an intellectual framework through offering courses and training to promote competitive business practices.

Third, the entrepreneurial strategy focused on creating connections between Littleton’s business community and outside organizations, including trade associations, R&D firms, think tanks, and academic institutions such as the University of Colorado and Denver University.

Littleton’s Department of Business and Industry Affairs, which created the economic gardening concept, annually assists 200 to 300 businesses with the competitive intelligence aspect of its program (Gibbons, 2005; Hamilton-Pennell, 2004). In the 14 years prior to Littleton’s adoption of economic gardening in 1989, business recruitment strategies attracted a total of 4,000 jobs to the city. From 1989 to 2004, employment grew from 15,000 to 29,000, for a total increase of 14,000 jobs. During this period, *no* money was spent on attracting outside industries (Hamilton-Pennell, 2004). Thus, the number of employees grew by 93%; however, Littleton’s population increased by only 30% from 1989 to 2004. Using business retention strategies, an annual average of 278 jobs was created. With economic gardening, employment grew by an annual average of 1,000 jobs. There are now more than 2,000 companies located in Littleton, the majority of which are small businesses.

**One-Stop Business Assistance Centers**

One-stop business centers are relatively common components of local government today. In many cases, the one-stop center has a small business mediation function located in the office of the mayor, the city manager, or economic development.

The traditional role for a one-stop center is an information center designed to serve as a key contact point between businesses of all kinds and local government. To be a one-stop advice service for businesses, the center must contain information on all planning and development matters of interest and concern to businesses—local economic indicators and labor market statistics, local development plans, land availability, building regulations and permits, all aspects of finance, and other useful business information. It must also be able to make this information available promptly. Clearly, the center’s size will be a function of the size and complexity of the economic zone it serves. In large cities and towns, for example, a one-stop center for businesses might employ several people. In neighborhoods or community-level and rural places, in contrast, it might employ one person on a full-time or even a part-time basis.

A one-stop center is a valuable business development tool. It benefits businesses by eliminating frustrating referrals from one department to another and by saving time that would have been spent—perhaps without result—trying to procure information on local regulations on their own. In addition to assisting businesses, a one-stop center provides valuable services to local government. Statistics from the center can be used as the basis for reports that describe the number, nature, and geographical breakdown of all business requests. The center’s data can also indicate short-term business trends or identify potential business development problems. Moreover, the establishment of an organized professional approach to information dissemination for enterprises strengthens business confidence as well as local governments or neighborhoods.

**Start-Up and Venture Financing Companies and Development Banks**

Small firms constitute the vast majority of all business enterprises. The formation of new small businesses has effectively utilized both capital and human resources, resulting in employment growth. However, few financial institutions specialize in meeting the needs of small enterprises.

A small business is usually formed using venture capital from the entrepreneur and his or her relatives and friends. If the business is successful, growth is rapid, and the available funds are quickly consumed in buying equipment and/or stock. At this stage, growing small firms need venture capital, which will both improve their profitability and lower their risk of failure. The small business owner then usually approaches a bank for finance. However, the existing financial system is not equipped to provide adequate venture capital to stimulate the growth of innovative small-size enterprises. Reasons for this shortcoming include constraints on different classes of institutions, an inability of existing financial institutions to evaluate the asset value of highly technical or market-driven innovation, and a general insistence on physical assets as collateral for loans. Banks are primarily lenders to rather than investors in small business. Their emphasis on financial security requires some small firms with an inadequate security or equity base but sound profit expectations either to seek higher-cost sources of finance or to defer or cancel development plans if such alternative sources are unavailable. Venture capital is available primarily from private investors or stock issues. However, many projects and business start-ups in the retail or community service sectors cannot raise funds via the stock exchange, and there are seldom sufficient active local private investors.

The establishment of a mechanism that allows local people to invest in local businesses is therefore an important business development initiative. This can be done through the formation of a start-up and venture financing company—specifically, a community development finance institution (CDFI). CDFIs are a new class of institution with a variety of roots. Some CDFIs are traditional community development corporations (CDCs) that now, with federal government support, offer venture and equity capital. This business development tool can provide venture capital to selected eligible small firms unable to obtain finances from traditional lending institutions and thereby contribute to local economic and employment development. CDFIs, according to Avis Vidal (1995), are not a substitute for ensuring that conventional finance institutions provide equal access to credit and other services in poor inner-city neighborhoods and rural communities of color—places where that access is now clearly deficient. CDFIs appear to be playing a useful role both in pressing conventional institutions to do this and in demonstrating how to do it (p. 194).

The Northern California Community Loan Fund (NCCLF) is an illustration of this form of investment organization. Headquartered in San Francisco, the NCCLF provides small start-up loans to emerging enterprises in disadvantaged and rural communities. The NCCLF obtains its loan funds from private investors who agree to invest in the fund and forgo the interest return on their funds and from foundations and private corporations interested in socially responsible investments.

Development banks are a larger and more established mechanism to provide capital for low-income and female- and minority-owned enterprises. A development bank is a regular lending institution that devotes its resources to fostering economic development (Parzen and Kieschnick, 1992). A development bank might take the form of a savings and loan, a bank, or a community credit union. There is now an association of 40 institutions forming the National Association of Community Development Loan Funds (now known as Opportunity Finance Network). Massachusetts, New York, and Wisconsin have statewide programs with very similar orientations, and the Ford Foundation’s Local Initiatives Support Corporation (LISC) provides loan funds or capital support for community development or community enterprise funds on a regional basis for some CDCs. By providing venture capital, local development groups become shareholders in the companies in which they invest. A community shares with other stockholders in the success (or failure) of investments; it is therefore vitally concerned with their long-term development. Groups like the NCCLF provide the opportunity for residents within a community to invest in small business and share in its success without the risk of investing in just a single enterprise.

To be successful, a CDFI or other community venture group must invest only in those small businesses, existing or new, that are commercially viable and have the greatest potential. LISCs or similar groups should not invest in businesses that are not commercially viable, even for social reasons. The community investment program must be run by a board of directors made up of commercially aware and experienced businesspeople with relevant business expertise.

In sum, community-based (CDFI) groups should prefer to invest in small businesses that do the following:

* Have an innovation in product, process, or marketing
* Have potential for rapid growth
* Have potential for future sales outside the region
* Can demonstrate sound management skills or, if those are absent, is willing to put them in place
* Are willing, if selected, to establish, with the help of the community, an experienced board of directors to assist in planning the future growth of the business (the composition of this board should complement the skills of the small business owner in financial, marketing, and management)

By using these criteria, a good community venture group can embrace a wide range of innovations or technologies in traditional business areas or in the newer high-tech enterprises. A CDFI, in particular, should seek to support a business, not run it, by holding a share of up to 50%. Moreover, because an investment is worthwhile only if at some stage the investor can get his or her money back, a CDFI must have a method of exit via one of the following:

* Selling its share back to the entrepreneur
* Selling its share to another private investor
* Selling its share through the stock market

Finance—particularly local finance that can stimulate new creative enterprises—is the core of small business development. Therefore, every city or neighborhood that wants to pursue this avenue of business development must be prepared at some level to put its money on the line. Timothy Bates (2000), one of the leading scholars on small business in general and minority small business in particular, warned that we must examine all the euphoria about small business as a good investment. In fact, he pointed out that few minority small businesses are good investments for anyone, including government. Most successful enterprises of this type that pay back loans and investors are Asian small restaurants and similar services employing captive linguistically challenged populations who work in poor conditions and are paid low wages. Even so, many of these enterprises barely provide a living for their owners. Bates (2000) warned that “students of economic development should take note: Honest reporting of small business loan losses is rare in the world of local economic development institutions…. Absent of subsidies, the insistence of government sponsored CDFIs to actively fund high-risk, high-cost loans is a recipe for disaster” (p. 240). Bates is correct in his observations. The concept that small business is the cornerstone of neighborhood recovery in inner-city communities has been somewhat oversold. Bates and others admit that there is room for businesses, both large and small, in the inner city; however, to consider local ownership via small enterprises as the best or only solution is not warranted and is bad advice.

**Small Business Development Centers**

Despite the importance of small businesses as employers and sources of entrepreneurial drive, research evidence suggests that the failure (as distinct from discontinuance) rate among new and small firms is substantial. Poor management is the most frequently cited reason for this. An obvious and arguably cost-effective means of improving the economic performance of the small business sector is to establish SBDCs.

These centers provide management training, counseling or consulting, and research services to small firms, with training as the dominant activity. An SBDC should support the training function in various ways. The center that provides these activities could effectively achieve five interrelated objectives:

* Encourage a higher rate of new business starts with the potential to succeed.
* Reduce the level of business failures.
* Improve the general financial performance and growth rate of the small-firm sector.
* Raise the potential of small firms to create new jobs and improve employment levels.
* Raise the general level of technological innovation and productivity.

Although small business training, research, or counseling activities may be provided through any of several alternative organizations, the best form is a specialist institution organized in close association with rather than within appropriate educational institutions (e.g., university business schools, advanced education, and technical colleges).

Another approach is to turn unemployed workers into business owners and operators through a business resource center. The purpose of these centers is to tap the entrepreneurial talents of laid off workers and find niches in the local market in which they might start their own enterprises. Business resource centers are usually started by local service clubs, the chamber of commerce, local employment and training institutes, or even a separate nonprofit development and training company. This type of nonprofit organization is designed to use the skills of the underemployed as a basis for generating new employment using business resource centers. These centers provide the following:

* Practical training in business start-ups
* Low-cost, small premises
* Centralized services, such as photocopying, telephone answering, and accounting
* A big brother or sister for the new business

**Microenterprise**

In 2006, Muhammad Yunus won the Nobel Peace Prize for pioneering the concept of microenterprise supported by the Grameen Bank. The spread of the microenterprise and associated microlending concept is a rare example of the transference of an economic development tool that originated in the developing world to the developed world. In the United States, in particular, both rural areas and inner cities are adopting this tool.

The basic microenterprise concept is to loan funds to a group of borrowers who plan to go into very small labor-intensive businesses in the same community. Microenterprises are usually operated from the home or on the street. They include such enterprises as homemade jewelry or garments, handmade shoes, or specialty foods for restaurants.

Microenterprise programs usually make very small loans to a group of 5 to 10 borrowers, each borrowing under $1,000. The group is responsible for each member making his or her loan payments on time. There is usually some form of prebusiness training and group building before loans are made to potential entrepreneurs. These programs are now in place in many parts of the country, although it is too early to assess their efforts. The programs include the Micro Industry Credit Rural Organization in Tucson, Arizona, and the Lakota Funds on the Pine Ridge Reservation in Kyle, South Dakota. Microenterprise development is not a panacea for the poor, according to Lisa Servon (1999). However, she maintains that the locally initiated nature of microenterprise programs makes them particularly responsive to their constituencies. This local orientation has allowed them to stay flexible, boosting training capacity, broadening or narrowing the target population, increasing loan-size ceilings, and so forth.

**Women’s Enterprises**

One of the most underutilized resources in the nation is the entrepreneurial talent of millions of women. In the mid-1980s, a pioneering organization was established in Minneapolis–St. Paul to assist women of low income and on welfare to start their own businesses. The mission of this organization, called WEDCO (Women’s Economic Development Corporation) and now known as WomenVenture, was to assist women developing small enterprises through an intensive self-help program.

Women Venture has more than 10 affiliate operations around the country. Each is based on a very similar model. Low- and moderate-income women are put through a 7-week intensive training program. The program focuses on assisting them to identify their talents and interests and on building the self-confidence to start a competitive enterprise. The program is rigorous, with few dropouts. Although not all women start their own business, many complete the training with enough confidence to seek work in challenging and rewarding fields.

Servon (1999) has provided an insightful analysis of women’s microenterprises in that they offer a means of changing attitudes more than incomes. At the conclusion of her book of case studies, she remarked, “Perhaps one of the most important things that micro-enterprise programs accomplish is that they help change people’s attitudes by creating forward motion, giving them the hope they need to believe they can take charge of their own lives.”

**Promotion and Tourism Programs**

The tourism industry has grown rapidly over recent years. Communities have favored and continue to promote tourism in the belief that it is a significant economic and employment development tool. However, surprisingly little is known about the economic and employment implications of the tourism industry. Empirical economic studies of the tourism industry remain few in number. Such studies have been hampered by a lack of consistent data, particularly at the regional level. Objective studies of tourism that measure the economic impacts indicate that tourism at a national and state level is not a major industry in terms of its contribution to the gross domestic product or employment.

However, these results obscure the vital fact that tourism is spatially selective. Tourism is not ubiquitously but regionally located. Three types of regions can be recognized with respect to the role of tourism:

* *Regions lacking tourism significance.* These are predominantly rural inland regions with no particular or unique attraction for the public traveling for recreational purposes and towns off the main business travel routes. They include most of the nation’s small towns, particularly those in the Midwest and Southwest. However, even a community without observable tourism significance can alter its destiny by offering an unusual opportunity, such as “weekend on the farm,” or capitalizing on a specific historical event such as the birthplace of a famous or infamous personality.
* *Regions of high tourist significance.* These are areas with substantial scenic wonders and/or excellent climate. They have national and international appeal without increased promotion. They are generally in or near large metropolitan areas. Among those that come to mind immediately are such places as Yosemite National Park in California; San Francisco, California; or Miami, Florida.
* *Centers of some tourist interest.* These are places that have tourism as a component of some other major economic activity. Southern California’s film and television industry provides this form of tourism or recreation opportunity.

Although tourism can be an asset, it does not provide the solution for most of the regional or urban areas currently in a state of low growth or decline and should not be promoted as an economic recovery solution. Indeed, research on regional economics indicates that local demand for goods and services is more important than visitor demand. Even in those instances in which the tourist industry has been a major source of growth or decline, there is some doubt that it has ever reached a level of economic importance equal to that of the local permanent population growth. If this is the case, it follows that local planning authorities might focus more on attracting permanent residents—retirees, business managers, and the like—than on seeking to boost tourism from distant places as a source of economic and employment development. Of course, the need for social and physical infrastructure development to keep pace with the rate of population growth must be borne in mind. In sum, for the majority of American communities, tourism is best seen as one component of an economic development strategy rather than as the entire strategy itself.

To be successful, a tourism program of any kind must be well planned and managed. It must have explicit objectives, such as business development, as well as the active support of all local parties with an interest in and effect upon tourism. It should be planned around specific themes, such as business conventions for the industries identified in the region’s industrial development strategy. It should also be targeted toward specific populations, such as nonlocal businesspeople, and be promoted and marketed in the places of residence of these populations.

**Research and Development**

A dominant feature of today’s economies is the knowledge-intensive high-tech enterprise. World market competition requires nations to develop value-added and research-intensive products to remain competitive. As a result, technological developments require an increased knowledge base for industry cultivation. The microcomputer industry, which both receives and supplies information, is a prime example of the use of intelligence as a product. But many other new information and telecommunication-related technologies exert profound influences on traditional production technologies. Indeed, it can be said that all tomorrow’s industries will be knowledge intensive or they just will not exist at all.

An economy is emerging based on new environmental industries, biotechnology, and information technology (IT). Since the first edition of this book in 1989, for example, the cellular telephone business has emerged and now dominates telecommunications marketing. Many other start-up industries need a place to begin. They require a community interested in mixing uses, such as housing and retail. Communities that provide the right atmosphere for start-up firms will attract them. If they nurture these firms by providing the right kind of atmosphere, they can become the headquarters for new companies or the centers of revitalization of older ones.

Local communities are well placed to identify their target technology sectors and activities. Moreover, those investments should be directed toward developing infrastructure to suit new firms. Improved links between universities and other research organizations, as well as industrial and business companies, should be encouraged and more joint funds established by companies and universities for common research and new product commercialization.

Inventors need a supporting environment during the crucial period between the conception of a new idea and its development to the point at which it can be taken to the venture capitalist. The lack of a supporting environment during that critical period can result in many fine ideas never taking off. Incubation centers (also known as “incubators” or “technology development centers”) are intended to provide this supporting environment. They provide low-rent workplaces and are usually located adjacent to educational institutions, which provide small inventors with equipment, facilities, and advice on business management and work support from student assistance to put together business plans and approach venture capitalists. Other centers can be found within some technology and business parks.

Technology and business parks, in this context, refer to parks that house commercial activities rather than R&D activities. They usually cover several acres and have the following general features:

* A campus-style physical environment
* A mixture of ownership and management, ranging from government to the private sector
* A frequent association with some form of university- or science-oriented establishment
* Low-density development with high-quality buildings
* Specific criteria for the eligibility of prospective occupants to ensure that all the activities within the park are compatible with each other

The technology and business park development is still a relatively recent strategy, so it is difficult to draw any significant conclusions about its likely success. However, ingredients for success apparently include the following:

* Adherence to a carefully thought-out and very specific development objective, including type of desired activities
* Availability of good management and entrepreneurial skills
* Access to venture capital and the accompanying advice on how to use it
* Involvement of the private sector in planning the development
* Presence of meaningful community support

Other locational elements that appear to be influential include transport access, the availability of skilled labor, an attractive living environment, proximity to appropriate research facilities, and the presence of a suitable major manufacturing enterprise that acts as a catalyst. These findings are derived from a range of empirical studies on technology parks. It is important to note that these studies commonly suggest that the development times for technology and business parks are varied—generally 10 to 20 years.

**Enterprise Zones**

An enterprise zone is a defined area in which planning controls are kept to a minimum and attractive financial incentives are offered to prospective developers and occupants.

The concept of enterprise zones was introduced in the United Kingdom in the late 1970s based on the Hong Kong record of increased job attraction through reduced regulation. They were designed as a last, desperate measure to be tried only on a small scale in depressed areas where conventional economic and employment development policies and tools had failed to arrest decline. An underlying assumption is that the removal or streamlining of certain statutory and administrative controls will encourage entrepreneurs to create or expand businesses, providing the jobs and taxes that distressed areas so badly need.

To achieve this objective, policymakers need to emphasize labor-intensive industries that match the skill levels of potential workers. This can be achieved by offering strong wage subsidies in addition to tax relief packages and land.

Thirty-seven states have created enterprise zone legislation. Louisiana has 750 enterprise zones, and in Ohio, virtually all of Toledo and Cleveland have been declared enterprise zones under state legislation. Federal legislation provided for between 50 and 100 enterprise zones during the Clinton administration. Although enterprise zones have many advocates, the jury is still out on their real benefits. Recent studies indicate that enterprise zones do generate jobs only because of the concentrated attention of policymakers and not entirely because of the incentives provided by localities or states (Green, 1991; Rubin and Wilder, 1989). However, the few assessments of the latest wave of enterprise zones in Harlem and Detroit indicate renewed retail and commercial activity. In Harlem, Magic Johnson, Old Navy, and Starbucks are now part of the retail base. In Detroit, General Motors is headquartered in the city center, along with two new professional sports parks and a gambling casino—all of which were lured by packages of tax and enterprise zone incentives.

Nevertheless, policymakers need to avoid thinking that tax giveaways are the only or best tool to generate new economic activity. Policymakers also need to be careful about the temptation to view enterprise zones as potential for high-tech parks, ignoring any relation between the employment structures of high-tech firms and the skill levels of the local workforces. Other disadvantages of zones of any kind are that large developers and well-established corporations are likely to be the major beneficiaries. Such areas also place an unfair burden on existing commercial taxpayers outside the zones.

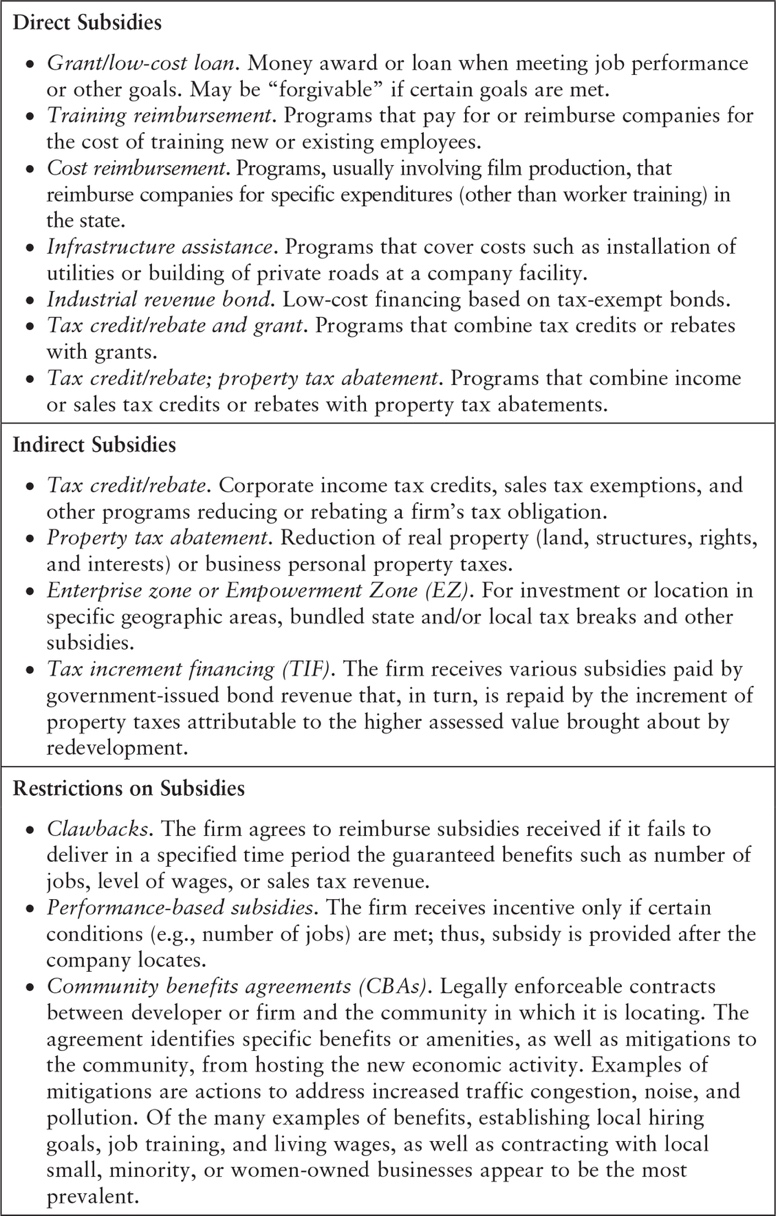
**Incentivizing or Subsidizing Local Economic Development?**

*Many people call subsidies “incentives,” but that’s not really accurate. An incentive motivates someone to do something they would not have done otherwise. A mountain of evidence suggests that development subsidies are often abused by companies that would have done exactly what they did anyway. “Subsidy” is also a more accurate description of what an aid program does when designed and used well: taxpayers subsidize companies to cover the additional cost of building where they serve a public purpose but could not afford to locate without public assistance. Subsidies of this type have what’s called a “but for” clause that companies must meet, proving that but for help from the subsidy, the project would not happen at the site.*

*—Good Jobs First, n.d.*

As this quote implies, *economic development incentives* is the predominant terminology used when describing public efforts to attract firms to specific state and local economies. However, *subsidy* is the more accurate descriptor for the majority of attraction efforts because it is not standard practice to prove that the firm requires public assistance in order to be able to locate on the site. Further, what cannot be proved until after the firm chooses its location is whether the subsidy actually did influence the location or whether it was provided because it was designated as an entitlement that all relocating or expanding firms receive. Concern about the potentially unnecessary use or overuse of subsidies has long been raised, accompanied by increasing calls for transparency and accountability for their use. A major advancement on this front occurred in the United States in the second half of 2015 and will be discussed subsequently.

Subsidies provided to firms can take the form of direct or indirect expenditures, and they come in many forms. Examples of direct expenditures can be purchasing land or making infrastructure improvements for the specific benefit of the firm. Indirect expenditures are typically tax expenditures—that is, tax revenue the government does not collect from the firm. A description of the key categories of subsidies is provided in [Table 9.2](https://jigsaw.vitalsource.com/books/9781506363974/epub/OEBPS/s9781506364018.i1934.xhtml#s9781506364018.i1994).



In the United States, it has been estimated that state and local incentives to businesses cost taxpayers over $70 billion each year (Dolan, 2015). Opportunity costs can be incurred when subsidies (either direct or indirect expenditures) are provided to firms. For example, when a firm is offered a reduction in property taxes as an enticement to locate, this can lower the amount of funds a local school system receives since property taxes are the primary funding source for schools (at least in the United States).

A recent analysis of 4,200 economic development incentive awards made in 14 states found 70% of the incentive packages and 90% of incentive dollars went to large companies. These were defined based on meeting one of three criteria: having more than 100 employees, not being independently and locally owned, or having 10 or more establishments. The study authors recommend excluding large recipients from receiving incentives and instead investing in what small and large businesses alike could benefit from: job training, education, and transportation. Further, small businesses would benefit most from having better access to capital and higher paid local jobs that increase consumer purchasing power (LeRoy et al., 2015):

Governors and state legislators routinely praise small businesses for their contributions to economic growth and job creation, but states actually give big businesses the dominant share of their economic development incentive awards.

The quote just given is from the founder of Good Jobs First, Greg LeRoy. Good Jobs First is a national policy resource center focused on accountability in economic development. Its work in tracking subsidies has been nationally and internationally recognized.

In [Table 9.2](https://jigsaw.vitalsource.com/books/9781506363974/epub/OEBPS/s9781506364018.i1934.xhtml#s9781506364018.i1994), the third category, “Restrictions on Subsidies,” summarizes efforts to ensure that communities and local businesses are protected when subsidies to firms do not provide the expected economic development benefits.

**U.S. Versus International Perspectives**

In the United States, incentives are provided by state and local governments and development authorities. States and localities make the choice to participate in the business of providing incentives, but if they decide they don’t want to engage in a bidding war with another location, then they risk losing out on a new firm that could have substantial economic benefit.

Such bidding wars are frequent. They are typically managed by site consultants under contractual obligation not to reveal the industry client they are assisting in finding a new location. As a consequence, states and localities frequently don’t know the actual firm they are trying to attract, who their competitors are, nor what level of incentives they must out-compete.

Further, obscuring the subsidization of firm location is the state and locality practice of maintaining secrecy during—and even after—the negotiation process for incentives to the prospective firm. This may be an actual requirement of the firm evaluating the location. But other factors may motivate this secrecy, such as to reduce the possibility landowners might seek higher-than-market rates for properties needed for land assembly to accommodate a potential firm’s site needs. Even when the negotiations are concluded, the amounts of subsidies that were offered or implemented if the negotiated deal was successful may not be revealed or tracked to determine if they met the conditions of the deal.

The practice of secrecy and failure to monitor outcomes is going to change significantly as a result of the recent action of the Governmental Accounting Standards Board (GASB; 2015). The GASB has issued a formal statement (Statement 77) that establishes financial reporting standards for tax abatements offered by state and local agreements. From the definition that follows, it can be seen that economic development incentives and subsidies are what the GASB (2015) labels as tax abatements:

A reduction in tax revenues that results from an agreement between one or more governments and an individual or entity in which (a) one or more governments promise to forgo tax revenues to which they are otherwise entitled and (b) the individual or entity promises to take a specific action after the agreement has been entered into that contributes to economic development or otherwise benefits the governments or the citizens of those governments. (p. 2)

To meet the GASB (2015) new standards, state and local governments will be required to disclose the following:

* Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients.
* The gross dollar amount of taxes abated during the period.
* Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement. (p. 3)

Good Jobs First sees Statement 77 as “a breakthrough against inequality” because it will allow the public to assess whether providing subsidies to the corporate sector results in under-funding essential public services such as K–12 education, transit, critical infrastructure, and fire and police protection. Ellen Harpel, president of the firm Smart Incentives, has observed that elected officials and community groups are demanding better data on incentive use from their economic development organizations. She has advocated that “incentives should be used to accomplish community goals—not just to win a deal” (Harpel, 2015).

The European Union and Australia offer two examples where government seeks to prevent what is called “poaching” of firms between localities offering subsidies. To dampen subnational competition, the European Commission has a strong centralized control system, while Australia developed a voluntary agreement in 2003 among subnational governments of five Australian states not to poach firms from each other (Markusen & Nesse, 2007).

In the EU, subsidies are not to be used by member states unless they contribute to the goals of the EU as a whole. The European Commission requires advanced notification of all planned subsidy agreements.

Poorer areas of the EU can provide larger subsidies than richer ones, and the most prosperous regions are prohibited from giving any aid at all. Governments can thus only give support to firms in proportion to the disadvantage of the region. (Dadash, 2013)

Australia’s sixth and fastest growing state, Queensland, refused to be part of the agreement when it was initiated and subsequently renewed in 2006. The agreement did not actually control the use of tax cuts and other incentives; it simply prevented multinational recruitment competition among cooperating states. Further, it supported transparency and accounting principles by states agreeing to provide annual reports. The agreement ended in 2011 after New South Wales and Victoria refused to renew the deal, making it unfeasible for the remaining states (Dunckley, 2011).

Two case studies of subsidy use are provided in this chapter. In Economic Developments 9.1, a case study of how the city of San Francisco provided subsidies to Twitter and other high-tech firms in exchange for community benefits is described. In Economic Developments 9.2, an example of how the European Union enforced its policies on improper provision of subsidies to the U.S. multinational corporation (MNC) Starbucks is profiled. The case illuminates how an MNC can manipulate its supply chain to maximize tax and subsidy benefits.

**Economic Developments 9.1: #Subsidizing Twitter\***

\* Research assistance for this case study provided by Heon Yeong Lee.

*We have about 350 employees. And based on our current growth trajectory, we can’t stay on the two floors that we currently have. So, at some point we’re going to have to look at other options.*

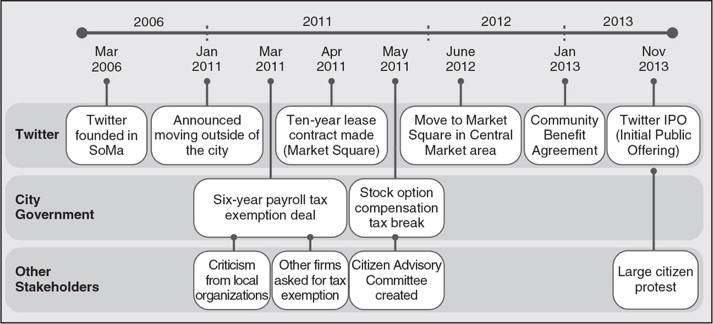
—Carolyn Penner, representative of Twitter, January 13, 2011

Twitter Inc. is a technology company that provides an international social network service. It began in San Francisco in 2006, and quickly grew into a social media giant with 302 million active users and 3,900 employees. Its estimated revenue was $1.4 billion in 2014.

The subsidy deal (see [Figure 9.1](https://jigsaw.vitalsource.com/books/9781506363974/epub/OEBPS/s9781506364018.i1934.xhtml#s9781506364018.i2018)) between Twitter and the city of San Francisco was initiated soon after the company’s January 2011 announcement that it planned to leave the city. An agreement on a subsidy deal was reached only 2 months after Twitter’s announcement. The incentive package provided a payroll tax exemption and additional public services. The package was granted under the condition that Twitter move to the city’s economically distressed downtown neighborhood of Central Market. Subsidies given to the company were originally estimated to be $22 million, the largest provided to a company within California between 2007 to 2011 (Story, 2012).

Success in retaining Twitter, as well as other technology firms who subsequently became eligible to take advantage of the payroll tax exemption, is estimated to have contributed at most 5% of new city jobs between 2010 and 2013 (City and County of San Francisco, 2014a). Subsidizing the retention created strong concerns about gentrification around Twitter’s relocation site and provoked protests by city residents against housing displacements, increased living costs, and the unfairness of subsidization.

**Figure 9.1** Timeline of Subsidy Deal



Source: Figure created by Heon Yeong Lee

The deal between Twitter and San Francisco was made amidst high unemployment rates and stagnation of the city’s real estate market due to lingering effects of the Great Recession. In response to a $483 million annual budget deficit, the city had also made cuts in its payroll and public services. San Francisco’s unemployment rate was 9.2% in 2010, but the city proved resilient, as indicated by a 6-point drop in unemployment to 3.2% by 2015 (U.S. Bureau of Labor Statistics [BLS], 2016).

The creative and knowledge industries played a significant role in the city’s economic recovery. These industries were stable during the recession and had stronger employment growth than any other industry (City and County of San Francisco, 2014b). Information technology (IT) accounted for 21,000 or 31% of jobs created in San Francisco between 2010 and 2013 (Mandel, 2014). Seeking to internalize the benefits of this growing sector, city government implemented new policy initiatives (e.g., summer internships, public school–tech firm partnerships) under the leadership of the tech-friendly city mayor, Ed Lee.

**Regional Competition**

There is strong competition for high-tech firms in the Northern California region (Avalos and Delevett, 2013). San Francisco’s success over the region’s traditional high-tech industry hubs has been attributed to its abundant urban amenities and closer relationships to the IT market (Vekshin, 2014). Because social media and mobile app companies seek proximity to clients, competitors, and their venture capital providers, they tend to prefer San Francisco over traditional industry hubs and have significantly increased the demand for premium office space. Even large firms, who build campus-style office complexes in traditional locations due to greater land availability, have been opening branch offices in the San Francisco Bay Area to take advantage of the urban environment and broaden their appeal to young tech employees.

**Payroll Tax System**

San Francisco has had an unusual corporate tax structure called the payroll tax system that levies taxes on employers based on employee compensation.\*\* Currently, San Francisco’s payroll tax is 1.5% of total payroll expenses; these include salaries as well as other compensation such as commissions, stock-based compensation, and property issued in exchange for the performance of service. San Francisco’s payroll tax system was implemented in 1970. Typically, the rationale for a municipal payroll tax was to ensure that workers who commute into a city—and the businesses that employ them—pay their fair share of the public services provided by the city. However, the payroll tax has been criticized as an impediment to economic growth because it is seen to discourage new firms from locating as well as existing firms from expanding employment. It is particularly problematic for technology start-ups. These start-up companies frequently develop new business ideas and innovative technologies before they have concrete monetization plans. They also need to hire staff before they begin to make a profit, and the payroll tax makes it harder for the start-up company to show a profit and be attractive to investors (Steinmetz, 2014). The payroll tax can also discourage growing technology firms’ location in the city because their successes in creating initial public offerings (IPOs) would incur large amounts of payroll tax from the stock options given to motivate and retain staff.

\*\* Between 2014 and 2018, a phased replacement of the payroll tax with the gross receipts tax is occurring. See <http://sfgov.org/sf/sfbiztax>.

**Downtown Neighborhood Revitalization**

Rather than give tax credits to just one firm, which could be viewed as discriminatory, San Francisco designated a new tax exemption district around the Central Market and Tenderloin neighborhoods—San Francisco’s economically distressed downtown area. Central Market was once a commercial center of the city, but its significance declined in the late 1960s and early 1970s.

Before Twitter’s relocation, the city government was attempting to revitalize the area by establishing public–private partnerships, giving low-interest loans to local small businesses, and supporting local arts groups. However, success was limited. For example, the storefront vacancy rate was recorded at 31% in 2010, and it was expected to worsen because major tenants, including Bank of America’s data center, planned to leave this area. Retail services for neighborhood residents and workers were lacking, and street crime, panhandling, and lack of foot traffic discouraged revitalization efforts (Committee of Supervisors, 2011).

**The Subsidy Deal**

The initial proposal included an ordinance for a new payroll tax exemption for 6 years and was submitted to Twitter in early February 2011. According to the ordinance, a business moving into or already located in the Central Market and Tenderloin areas is eligible to be exempt from payroll expense tax on additional employees for a maximum of 6 years. Twitter would still pay the payroll expense tax for its existing 350 employees. In addition to the payroll tax exemption, the Office of Economic and Workforce Development promised to give Twitter additional city services to address concerns about relocating to an economically distressed area, including extended foot patrol and additional express public transportation services.

**Economic Outcomes**

The result of an initial fiscal impact analysis of the new legislation reported a total of $22,032,000 dollars would be transferred to Twitter under the conditions that Twitter hired an additional 2,650 employees and paid a $102,000 average annual salary until 2013. The city also expected to spend $162,000 for initial one-time administrative work and $186,000 for annual audits. The cost for additional city services, such as extending policy patrol and additional public transportation services, were not included in the initial analysis (Committee of Supervisors, 2011). Based on the fiscal analysis, the city would forgo 12.7% of Twitter’s 6 years’ tax responsibility.

Due to the pressure from existing high-tech businesses, the city legislated another tax break ordinance in May 2011, which gave a tax exemption for stock option compensation.

After the relocation of Twitter headquarters, 17 other technology companies, including Zendesk, Spotify, One Kings Lane, and Yammer, also moved into the revitalizing area mainly because of the tax exemption benefits. However, other companies, like Uber, Dolby, and Square that moved near Twitter headquarters did not take any tax breaks. The number of new jobs created by these technology companies has been estimated as between 6,000 to 10,000, according to LinkedIn, a business-oriented social networking service provider.

As a result of new firm location, total payroll tax collected in the Central Market and Tenderloin areas increased 648% from 2010 to 2013, a significantly higher rate than the city’s overall average (City and County of San Francisco, 2014a). Neighborhood-serving retail businesses, however, did not appear to benefit strongly from the new jobs created, experiencing only a 10% growth in taxable sales compared to 25% for the city overall (City and County of San Francisco, 2014a).

The clustering of the tech industry in San Francisco also brought about an influx of high-tech supporting service sectors. Venture capitalists, who traditionally concentrate in Silicon Valley, moved to San Francisco to be closer to new start-ups and entrepreneurs. Of the $26.8 billion venture capitalists invested in California companies in 2014, 41% was invested in San Francisco–based companies (Somerville, 2015).

**Gentrification**

The Central Market area added new high-rise luxury residential buildings to house the influx of high-income knowledge workers. A number of older buildings with long-deferred maintenance, and that provided low-income housing, have been renovated into either luxury residential buildings or office spaces. Check cashing shops and shuttered storefronts are now replaced by upscale businesses such as cafes that sell $65 beers (Steinmetz, 2014).

Those displaced have found it impossible to attain affordable housing locations inside the city, due to the high cost of renting and home ownership. The median housing price was $813,000 in 2014 (Levy and Levy, 2014). Further, nonprofit organizations previously serving the local community are being pushed out by rising rents (Bowe, 2013).

Public pressure has led to the development of more community benefits agreements (CBAs). In the Central Market area, six companies, including Twitter, signed new CBAs with the Citizens Advisory Committee.

**Case Study Insights**

Compared to conventional subsidization cases, the subsidy deal the city of San Francisco provided to Twitter has three distinguishing characteristics. First, the incentive package was provided to the headquarters of a relatively new and fast growing technology company, rather than for an existing industry. Second, the package was provided to retain a locally incubated company, rather than to attract external investment. And third, the incentive package was distinguished by its requirement for the company to relocate to a downtown, high-poverty neighborhood.

It’s been estimated that each new high-tech job in a metropolitan area creates five additional local jobs in other industries (Moretti, 2012). Thus, inducing high-tech industries into economically distressed areas can create significant growth. From a place-based perspective, San Francisco’s subsidization deal for Twitter and other IT firms could be deemed a great success.

At the same time, subsidizing high-tech industry can create significant gentrification effects. High-paid tech workers drive local real estate booms and introduce consumption patterns supporting new upscale retailers, cultural services, and goods. In a study of the 50 largest metropolitan areas, San Francisco had the second highest inequality (Berube, 2014).

The growth induced by the subsidized high-tech firms pushed out existing low-income residents and replaced them with high-income knowledge workers. Existing retail services and nonprofit organizations that previously served low-income residents were priced out of the area. Low-income residents did benefit from new job growth, but the low-skilled and low-income jobs to which they had access could not provide them with wages high enough to continue living in the area. Thus, from a people-based perspective, the outcomes of the Twitter subsidization deal are mixed and cannot be seen to advance the principles of sustainable local economic development (SLED).

**Economic Developments 9.2: Roasted by Regulation: Starbucks Coffee’s Selective Tax Advantages in the Netherlands\***

\* Research assistance for this case study provided by Ashley Bozarth.

The European Union has established specific policies to regulate tax incentives offered by member states to reduce unfair competition within the EU region. These polices provide a level playing field among states—more so than most other countries around the world without regulatory policies in place. According to both the 2007 Treaty on the Functioning of the European Union (TFEU) and the more recent “Guidelines on Regional State Aid for 2014–2020,” EU countries are not allowed to produce legislation that artificially lowers taxes paid by companies, as this would give certain countries an unfair competitive advantage over other member states. Further, the Organisation for Economic Co-operation and Development (OECD), made up of members from the European Commission and other countries including the United States, updated transfer pricing guidelines in 2010 to prevent intrafirm monetary transfers among subsidiaries that might produce unfair advantages within corporations. Transfers must follow an “arm’s length principle” so that taxable revenue should not be less than what it would have been under traditional tax legislation. Based on these guidelines, the European Commission monitors and regulates both incentives offered by member states and the tax structure of multinational companies locating in those states (European Commission, 2013). The case below on Starbucks demonstrates how these mechanisms are applied.

Headquartered in Seattle, Washington, the multinational Starbucks Corporation roasts, markets, and sells specialty coffee around the world and currently operates in 70 countries. There are more than 12,000 stores in the United States, approximately 1,900 in Europe, the Middle East, and Africa (EMEA), and around 3,300 in the China/Asia Pacific (CAP) region. In 2013, Starbucks Corporation earned $14.9 billion in gross profit, or $8 billion in posttax net profit (NASDAQ, n.d.). Of that revenue, 74% was in the Americas, 8% in the EMEA region (mostly in Europe), and 6% in the CAP region.

This case illustrates the complex structure of Starbucks’ multinational corporation (MNC) that appears to have evolved in response to incentive opportunities. Both Starbucks Coffee BV and Starbucks Manufacturing BV are subsidiaries of Starbucks Corporation and located in the Netherlands. *BV* stands for the Dutch phrase meaning *private limited liability company*. The former, Starbucks Coffee BV, is the headquarters of the EMEA region and houses its intellectual property (IP) rights for coffee bean roasting recipes in the British-based Starbucks entity, Alki Limited Partnership (LP; European Commission, 2014).

According to Starbucks’ corporate guidelines, Starbucks Manufacturing BV must pay Alki LP a royalty for IP rights to produce and deliver coffee around the EMEA region. Starbucks Manufacturing BV roasts, distributes, and sells coffee and food to Starbucks outlets throughout the EMEA region. It receives its raw green coffee bean supply from the Starbucks Swiss subsidiary, Starbucks Coffee Trading Company SARL, the French phrase for *limited liability company* (European Commission, 2015).

In June 2014, the European Commission began investigating allegations that Dutch tax authorities and Starbucks Corporation negotiated an advanced pricing arrangement (APA) for Starbucks Manufacturing BV, starting in 2001, which violated the OECD “arm’s length principle” and TFEU guidelines. Investigators found that Dutch authorities formed special tax rulings allowing Starbucks Corporation the flexibility to create tax avoidance strategies that shifted taxable revenue outside of the Netherlands and decreased the company’s overall tax burden (European Commission, 2014).

First, Starbucks tax advisers artificially marked up the price by 20% for the raw green coffee beans purchased from Swiss subsidiary Starbucks Coffee Trading Company SARL. Tax advisers justified this adjustment by considering Starbucks Manufacturing BV to be only a “contract manufacturer,” an intermediary in the production process. The company paid a higher premium for the raw green coffee beans to the Swiss company to account for their absorbing more risk from sourcing the beans. However, investigators found that the Swiss subsidiary does not physically handle the beans and that Starbucks Manufacturing BV is completely responsible for the roasting and manufacturing of the coffee beans. The cost markup for raw materials does not take into account Starbucks Manufacturing BV’s actual risks of the raw material inventory and therefore artificially raises the payment to the Swiss subsidiary (European Commission, 2014).

Second, royalties paid to Alki LP are based on coffee roasting recipe instructions, a concept of IP scrutinized by the European Commission. Further, the royalties do not align with the economic value of the IP rights based on Starbucks Manufacturing BV’s annual sales. Instead, royalty payments fluctuate annually based on the profits of the subsidiary and increased from 1 million euros in 2010 to 12 million euros in 2011. If coffee and service material sales increased within the Netherlands, tax authorities adjusted royalty payments to Alki LP to transfer outside of the country the extra revenue gained. According to Dutch tax code, revenue transferred to Alki LP was not considered direct payment to the Starbucks Corporation in the United States and, therefore, not liable to Dutch corporate income tax. The European Commission’s investigations also found little information about Alki LP itself, which seemingly had no registered employees or recorded financial statements. It was absorbed into another Starbucks subsidiary shortly after investigations began (Alderman, 2015; European Commission, 2014).

In October 2015, based on OECD and TFEU guidelines, the European Commission ruled that Dutch authorities indeed granted economically unjustifiable and selective tax advantages to Starbucks Manufacturing BV that shifted a large part of its revenue abroad and significantly lowered taxable profits. This decision requires the Netherlands to recover the **€**20 to **€**30 million in unpaid tax revenue from Starbucks Manufacturing (European Commission, 2015).\*\*

\*\* Starbucks Corporation will be appealing the case, arguing that it has followed all tax laws and international guidelines.

**Figure 9.2** Starbucks Tax Avoidance Strategy



Source: © European Union, 1995–2015.

The ruling occurred in parallel with other European Commission investigations of MNC tax avoidance schemes such as Apple Inc. in Ireland and Fiat Chrysler in Luxembourg. The investigations address the growing concern over countries providing tax loopholes for multinational companies and unfairly increasing their competitive advantage over regions in the European Union with high unemployment and sluggish growth.

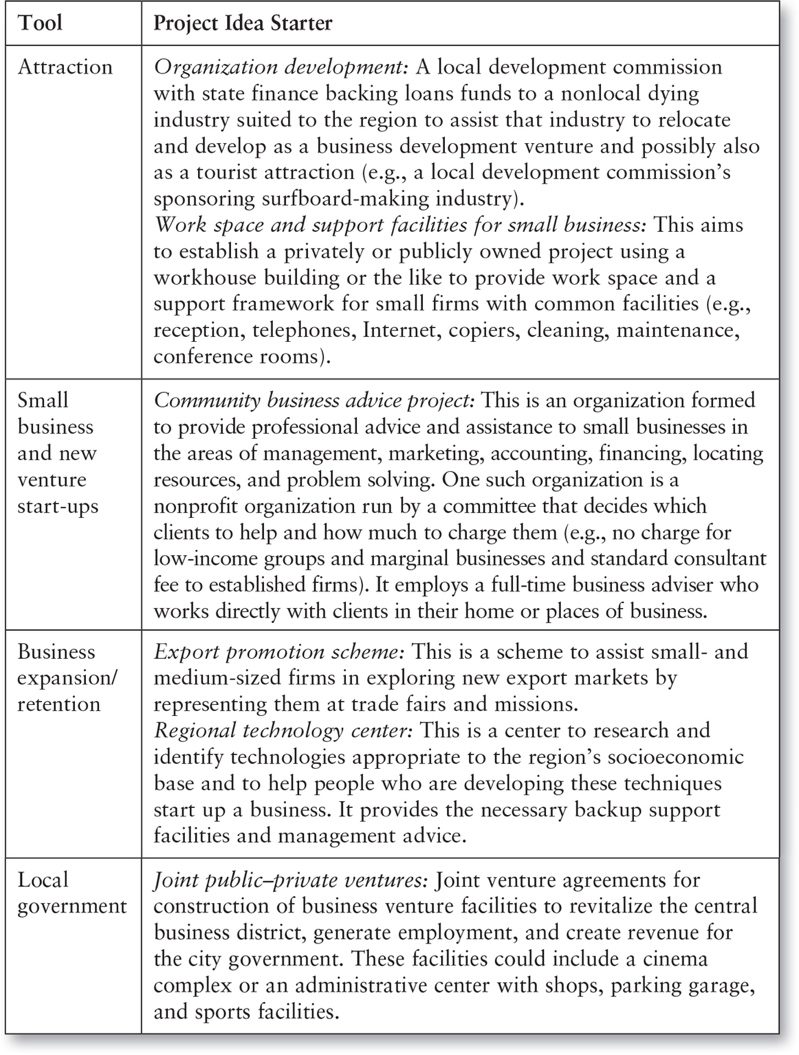
Since the European Commission regulates EU state behavior rather than that of MNCs, all of these cases directly target the incentive-friendly tax rulings of the countries themselves and not the strategies of the global firms. Antitrust Chief Commissioner Margrethe Vestager stated the following in reference to the Starbucks ruling:

Tax rulings that artificially reduce a company’s tax burden are not in line with EU state aid rules. They are illegal. I hope that, with today’s decisions, this message will be heard by Member State governments and companies alike. All companies, big or small, multinational or not, should pay their fair share of tax. (European Commission, 2015)

While work is left to be done, the EU stringent regulations on tax exemptions and subsidies provide more mechanisms than most incentive policies around the world to reduce unjust competitive advantage and promote a more level playing field among member states.

**Conclusion**

Business is the engine of economic development. All business originates from a sense of opportunity to serve or gain. Irrespective of the motivation to start a business or maintain it, this motivation can be hampered or retarded by the actions of communities or local governments. No business wants to be where it is not wanted. However, communities need to consider carefully the types of businesses they want to host. Linking economic and employment objectives to the types of firms in the locality is an essential task for the community. (See [Table 9.3](https://jigsaw.vitalsource.com/books/9781506363974/epub/OEBPS/s9781506364018.i1934.xhtml#s9781506364018.i2059) for a sampling of business development project starters.)



Businesses, and particularly small, new, innovative businesses, may become the large firms of the future. It was not that long ago that Microsoft was a small firm, but now it is a giant subject to antitrust action. Microsoft is a significant component of Seattle’s economy. Bill Gates could have gone elsewhere. On the other hand, around three out of every five small businesses started will fail. Further, even if a small firm has an excellent business plan, if it is poorly capitalized, its survival chances will be very low.

The means communities use to grow, attract, and retain firms will depend on what resources are available. The most important factor in firm location is knowing the area’s assets as well as having the correct attitudes and infrastructure to support the firm. Every community must develop special activities and tools to build the right type of infrastructure for the development and the employment it wants. Chasing tourists or high-tech firms should not top the agenda unless the community is particularly well situated for this form of economic development. The most important activity is building soft infrastructure, such as information and finance, to make the community attractive and supportive to enterprise. In essence, the community must become entrepreneurial in the use of its resources if it wants to grow, attract, and retain firms as a major component of its economic development strategy. See Economic Developments 9.3 through 9.5.

**Economic Developments 9.3: TARGETing Retail Gaps in a Low- to Moderate-Income City\***

\* Research assistance for this case study provided by Patrick Terranova.

The city of Azusa is one of eight San Gabriel Valley foothill communities of Los Angeles County, California. It has 45,000 residents and 13,000 households, most of whom are Hispanic. Fewer than 20% of Azusa’s residents over 24 years of age have earned college degrees (the state average is 30%; U.S. Census QuickFacts, Azusa, California, n.d.). Compared to the other seven foothill communities, Azusa has the lowest home ownership rate and median housing sales price (City of Azusa, 2010). Azusa has had difficulty competing with surrounding communities due to declining neighborhoods, falling property values, reinvestment activity, as well as increasing crime and rental property turnover. This was particularly the case for its retail economy, in which sales per capita in Azusa lagged behind those of the Los Angeles region by more than $2,000.

A 2006 study found Azusa’s leakage of retail sales amounted to nearly $20 million (Klingensmith and Strother, 2006). The study calculated the market serving index (MSI) for each retail category. The MSI is a form of location quotient in which the proportion of firms for Azusa in a specific retail category is compared to the proportion for the larger retail market of which it is a part, in this case, the Los Angeles metropolitan area. Several retail categories for Azusa had MSIs of zero—that is, there were no retailers within the city limits. Among these categories were nursery and garden centers; men’s clothing stores; hobby, toy, and game stores; book, periodical, and music stores; office supplies, stationery, and gift stores; and department stores. Other categories in which sales were lower than estimated demand included women’s clothing stores, jewelry stores, furnishing stores, and shoe stores. From identification of these retail gaps, Azusa concluded its retail economy could best be strengthened by attracting a large value retailer such as Target (see [Figure 9.3](https://jigsaw.vitalsource.com/books/9781506363974/epub/OEBPS/s9781506364018.i1934.xhtml#s9781506364018.i2069)). While Target normally looks for a more urban and upscale market than that found in Azusa, the city approached Target and was able to convince it to open a store due to several factors.

First, countering the weak retail market indicators was the fact that Azusa has two universities, Azusa Pacific University and Citrus College, with a combined student population of more than 20,000. This effectively increases Azusa’s consumer base by 50%. Locating near the two college campuses would significantly add to retail sales, since Target carries product lines with particular appeal to the college market.

Second, the regional transit system called the Metro Gold Line planned to add two Azusa stops. The city proposed to locate Target at one of these stops developed as a transit-oriented development close to the colleges. Because the Gold Line would connect Azusa with neighboring cities, including Pasadena and Los Angeles, Target would help fill a gap in Azusa’s retail needs as well as draw in new consumers from outside communities upon completion of the light rail extension (Klingensmith and Strother, 2006).

**Figure 9.3** Target Azusa



Source: Photo by Austin Gordon, senior economics major, Azusa Pacific University; Ken Rhinehart; http://www.iwillride.org/?p=917.

Third, the city assembled the land for the store using its redevelopment authority and sold it to Target at less than cost. It also paid for the streetscaping of the site.

Several issues about the project arose during the planning phase, including the desire to preserve trees near the site; concern about nighttime lighting and visual cohesiveness with the surrounding area; the need to prevent theft of shopping carts; air quality and noise impact of delivery trucks, along with the relationship of delivery entry points in relation to the planned Metro line; and traffic flows and parking needs (City of Azusa, 2011).

Target submitted plans and technical specifications for the building in April 2009. The plans addressed many of the issues raised. The property’s exterior was built to blend in with the Spanish architecture of nearby city hall and the greater community. The building itself is identified as a “unique” Target due to its alternative layout and appearance from the traditional big box, single-level store models. Because the site’s footprint is limited to a single city block, designers had to be creative in maximizing its utility. The store has two floors, with the shopping level located above a ground-level garage with more than 400 parking spaces (Gresham, 2010).

Target opened ahead of schedule in 2010. In addition to its usual product line, the site contains a pharmacy, a fresh grocery, an alcohol selection, a Pizza Hut, and a Starbucks. Councilman Uriel Macias declared the successful recruitment of Target a “crowning achievement” in Azusa’s rebirth (Tedford, 2010). Pointing to the city’s effort to use the store as a cornerstone for future economic development and additional foot traffic, he said, “Our downtown has completely changed from what it used to be. It used to be something you would drive by. Now it is a destination point” (Tedford, 2010).

Economic and Community Development Director Kurt Christiansen (2012) believes Target provides a win-win for the city: Not only is it a convenient one-stop shop for residents with limited transit options, but it also provides additional tax revenue as well as revenue from increased municipal electricity and water sales. Another benefit worth noting is that Target invests 5% of its income from the Azusa store in grants to local schools, the library, nonprofits, and supporting city sponsored events. The store has also provided much-needed jobs to the city; Target hired 225 employees, making it the city’s ninth largest employer. All in all, the project has helped to address Azusa’s retail leakage, provided jobs for the local economy, and assisted in the commercial revitalization of Azusa’s downtown.

**Economic Developments 9.4: Mobile Entrepreneurs: Portland Food Carts\***

\* Research assistance for this case study provided by Patrick Terranova.

“Street food” is an urban industry that has thrived because of rather than in spite of the Great Recession. Benefitting from lower overhead costs and greater flexibility than that of a restaurant, food carts have been an emerging sector in cities across the country. With hundreds of food carts and strong city policy support, Portland, Oregon is a leader in this mobile entrepreneurship movement that creates jobs, public revenues from business licenses and sales taxes, and demand for supplies often locally provided. Many food truck operators hope ultimately to open up brick-and-mortar businesses when they accumulate the necessary start-up capital.

In Portland, many of the food carts operate in “pods” of several carts clustered together in open spaces, especially along the edges of surface lots and vacant parcels. As of December 2010, Portland was home to 25 of these pods, one of which had 30 carts. Planners have welcomed this arrangement as a way to activate public space. Food carts generate pedestrian activity and encourage interaction among customers in common outdoor spaces. Like other forms of street vending, food carts provide a viable temporary use of land that that may ultimately have more permanent development when economic conditions are more favorable. Food carts can also contribute to urban safety by providing another set of eyes on the street, as illustrated by the New York City street vendor whose presence is credited with thwarting the attempted 2010 car bombing of Times Square.

While many of Portland’s carts operate in parking lots or on temporarily vacant land, some developers have begun incorporating space for permanent pods in private developments. The first and perhaps most well known example is Roger Goldingay’s Mississippi Marketplace. Goldingay’s parcel of land had been slated for condo development prior to the recession. Goldingay built a market center instead and included a 10,000-square-foot lot specifically designed to accommodate 10 food carts, covered seating, electrical outlets, and recycling bins.

A study of Portland street food found that food carts benefitted local economic development because they fostered entrepreneurship and microenterprise, street vitality, and social interaction among consumers. Commissioned by the Portland Bureau of Planning and Sustainability and conducted by graduate urban planning students at Portland State University, the study found Portland’s food carts provide an important opportunity for immigrants to become entrepreneurs, as roughly half of the street vendors surveyed were born outside the country. Citing the desires to be independent, to eventually open up a restaurant, to be a cook, and to have a flexible schedule, food cart operators were found to enjoy their trade and the relationship they have with customers.

Among the 78 vendors surveyed in the study, 63% agreed that street vending was a good way to earn a living to support themselves and their families. According to the study, start-up costs for a high-end food cart are less than half that of a small brick-and-mortar business with a single employee. While there are lower barriers to entry for food cart entrepreneurs starting a business, finding financial and other assistance to do so still proved to be a challenge for many vendors. Only 18% of vendors surveyed received any job training for their venture. About half of the food cart owners obtained start-up capital from family members and from their own savings. Eight percent utilized a home equity loan, and only 2% received financial assistance from an outside organization. Many never pursued bank financing. This suggests a role for community economic developers if there is a desire to grow the industry.

Another Portland State University study, “Food Carts as Retail Real Estate,” assessed the impact of food carts on local economic development (Chastain, 2010). In 2010, 461 licensed food carts paid an average monthly rent of between $300 and $550, accounting for combined yearly rents of between $2 and $3 million dollars. Food cart operators spend between 13% and 14% of their revenues on rent. Much of this rent revenue benefits private property owners, as food carts often occupy private land. The study made rather wide-ranging estimates for job creation—between 500 and 1,800 local jobs—and total sale revenues of between $14 and $23 million.

While some restaurant owners believe the nearby presence of food carts can help business by increasing area foot traffic, others are concerned they have a negative effect on their business. Citing fewer government regulations and lower permit fees and overhead costs, many brick-and-mortar restaurant owners view food carts as unfair competition, cannibalizing business from restaurants. The Oregon Restaurant and Lodging Association states that carts should be categorized as restaurants and be subject to the same fees. Because food carts are technically mobile vehicles, permit holders do not pay personal property taxes on kitchen equipment like restaurants do. When business is bad in one area, cart owners may be able to relocate to a new area.

On the other hand, food cart business is subject to weather conditions, as 65% of food cart patrons walk to make their purchases from the carts. Further, the food cart customer base is also more vulnerable, as the carts do not have fixed, permanent locations. Finding a location for their business can be a key challenge for food cart operators.

While street food vendors have always operated in various cities across the country that allowed their activity, urban food carts are emerging as a significant new economic development in entrepreneurship. The food carts provide an eclectic range of choices in a retail food economy dominated by chains and brand names. Consequently, they can contribute to locality development and a community’s sense of place.

**Economic Developments 9.5: Small-Town Ideas Spur Big-Time Manufacturing Growth\***

\* Research assistance for this case study provided by Ashley Bozarth.

Many cities and towns around the country have struggled with shrinking manufacturing bases. In 2009, two Chrysler plants closed in St. Louis, resulting in the loss of thousands of city and regional jobs. Yet 80 miles south, the town of Perryville, Missouri, with a population of just over 8,000, has managed not only to maintain but also to actually grow its manufacturing base. Today, approximately one out of three workers in the town is employed in manufacturing. Perryville’s success can be attributed to a series of innovative policies as well as a more than 50-year-old public–private partnership that established the town as a center of business attraction and expansion.

Up to the mid-20th century, Perryville was, like many other small American towns, dependent on a single industry. In this case, it was shoe manufacturing. When its two shoe factories shut their doors in the 1950s and the town lost hundreds of jobs, Perryville’s economy lacked the resiliency that comes with industry diversification and quickly began to decline. In response, the Perryville Chamber of Commerce voted to form the Perryville Development Corporation (PDC; n.d.), a move that has been lauded as quite progressive (Sweet, 2012).

This established a public–private partnership where the PDC acted as separate entity to buy and sell land and recruit businesses with the support of the chamber of commerce.

To finance its establishment, the PDC sold 20,000 shares of stock at $10 each. It used this initial funding to purchase 24 acres of land that it sold to the partnership’s first investor, Gilster-Mary Lee. A small baked goods company, Gilster-Mary Lee converted one of the old shoe factories into its manufacturing center, aided by investments from the PDC. The PDC remained a coinvestor in Gilster-Mary Lee by buying stock in the company. Gilster-Mary Lee has grown from a start-up business of 25 employees into a company employing 1,600 in the region today. Since the 1950s, the PDC has recruited and invested in a diverse array of companies including Toyoda Gosei Missouri (TGMO), a supplier of high polymer auto parts, Sabreliner, a company specializing in refurbishing old aircrafts, and Solar Press, a commercial printing firm. The PDC became a not-for-profit organization in 1997 and is financed through sales of stock, plus interest income, farm income, and rental income from a speculative building.

Perryville applied other strategic policies to attract and retain manufacturers such as tax increment financing (TIF), tax abatements, and infrastructure development at minimal cost to businesses. Thanks to these supportive strategies, the large and diverse manufacturing base has remained and provided stable, long-term jobs to residents. Perry County boasts one of the lowest unemployment rates of all counties in Missouri and has had consistently lower unemployment than the United States as a whole. In 2012, Perry County’s unemployment rate was 4.2% compared to the nation’s 7.9%, and in 2015, it was 3.4% compared to the 5% national rate (Homefacts, 2015).

Perryville is strategically located along the regional thoroughfare Interstate 55 and is also near one of the few Mississippi River crossings in the area. Many small towns, however, also have such locational advantages. Above all, it was the collaborative and innovative economic policies and partnerships that the town created in response to economic decline, which subsequently led Perryville to become a nationally recognized model for industrial diversification and manufacturing growth.

**PLED Problem Solving 9.1: Community-Based Business**

“The bankers aren’t interested. They tried this in the early 2000s, but they had a high rate of loss.” The speaker was the head of the new government-guaranteed bank program. Reunion, a community business development bank, recently had approached local commercial banks seeking participation in a loan program to finance new inner-city ventures. The Reunion Bank was making overtures to use the commercial bank’s community reinvestment funds for community purposes. The commercial banks they were approaching had tried inner-city loan funds in early 2000s and were disappointed in the loan losses.

These previous commercial, small, and minority business loan funds suffered from a number of major shortcomings. These funds often employed weak loan criteria and had little or no oversight. Bank managers showed little concern when the loss rates began to mount. In recent years, however, new community-oriented funds have emerged that reflect what administrators have learned from past mistakes. Although the community development banks are a new instrument, they have shown considerably greater success in their repayment rates.

The Reunion Bank’s loan committee has identified nine new projects across the city that illustrate the success of the community development bank concept. One of the best examples of community-oriented loan programs is the Business Development Corporation of Centerville (BDCC). The emphasis of the BDCC is on Hispanic entrepreneurship to provide jobs for the area’s unemployed population. Although capitalized with nearly $1.5 million in city funds, the first years of BDCC were disappointing, in part because the group followed the Small Business Administration (SBA) model. Community representatives, inexperienced in banking, made decisions. By the third year of BDCC in business, the loan loss rate was reported to have reached nearly 60%.

In that year, the city restructured the loan committee to include banking professionals, and a former commercial bank official was brought in as executive director. Then the development corporation’s record of success began to change. During a 3-year period, BDCC made 32 loans to small businesses, mostly in the range of $15,000 to $75,000, with 3- to 5-year repayment schemes. Today, only three of the loans are in default.

Four key factors have made the new loan funds effective:

1. *Professional criteria.* It is important to use strict criteria in financing decisions. These criteria include the applicant’s experience in the field, his or her investment of capital, and a convincing business plan.
2. *Careful monitoring.* Close monitoring and identifying if management assistance is necessary is essential to success and requires keeping to a manageable volume of loans.
3. *Training and technical assistance.* These offerings should complement basic entrepreneurship and, in most instances, be required of loan recipients.
4. *Involving others.* Most of the new loan funds, unlike their predecessors, will not fully fund the business start-up. For example, the BDCC will provide financing for only up to one third of the total monies needed, thereby requiring applicants to find other private sources. The involvement of other lenders provides additional analysis of business plans, as well as enables BDCC to leverage its available loan funds.

The new success of BDCC in recent loan making suggests it can become a major antipoverty force if only it can hold true to entrepreneurial values: creativity, decentralization, and market discipline.

The Cadillac Foundation has become interested in minority lending. The foundation directors, chaired by John Jonas, have directed the staff to consider forming a loan guarantee plan for community development banks. Cadillac wants to support loans to the homeless on a model similar to the Hispanic enterprise programs. How would such a program be designed by the community development bank, or is this just too risky? Mr. Jonas is adamant about introducing a microloan for the homeless, but how would you devise a program using all of the methods detailed previously to move the homeless from their current status to self-sufficiency?

**PLED Problem Solving 9.2: A Small Town Determines Its Own Destiny**

Steelnet’s dream evaporated almost overnight. The Midwest Iron Range community, located on a two-lane county road in the northern Great Lakes region, began for just one reason: a low-grade iron ore called taconite. The Reservation Mining Company built the town in 1939 expressly for its workers, who earned good wages, financed their houses on easy terms through an employee credit union, and often had money to burn.

For years, Reservation’s taconite mine, a joint venture of the Inland and Republic steel companies, was the most productive in the world. But decline in the U.S. steel industry and competition from other taconite sources finally closed the mine, decimating the town that at its peak was home to 30,700 people. Lacking proximity to anything but its iron mines, Steelnet had to scramble for economic survival. So did its residents—many of whom left as unemployment soared to 85%. The rapid exodus cut the population from more than 30,000 to today’s 12,300. The average housing price plummeted to less than $15,000 per single-family home.

Steelnet could have become a ghost town. When the mine reopened a few years later, it recalled just 100 of its 1,500 former workers. What has kept the town alive—and optimistic—is the tenacity of its citizens and the mayor, Don Cole, a retired mine foreman. A smile and an easy laugh are part of the salesman’s repertoire, and Cole is a salesman for Steelnet. His first priority was to train the town to market itself through a program launched by the state’s Department of Energy and Economic Development. Named Star Cities, the program is designed to highlight and strengthen the state’s most aggressive local development programs.

The certification requirements to become a Star City would daunt many small cities, but Steelnet had one key asset: a pool of unemployed volunteers who combined their talents to make the town a Star City in a record 4.5 months. The achievement won it visibility among state officials, which paid handsome dividends later.

The Steelnet city council also formed the Steelnet Area Development Association (SADA), inviting joint efforts with a nearby township that shares the same school district. Cole and the council never planned to settle for a passive role, even though a small board of citizens assumed control of economic development efforts. The same civic enthusiasm that had achieved a speedy Star Cities designation enlisted 435 individual and 29 business members to sustain SADA projects and committees.

Mayor Cole joined the search for funding sources. He recalled an effort to solicit foundation officials who had never heard of Steelnet and had no idea where it was or why they should care. Cole was a good salesman. He was able to attract foundation grants that provided $55,000 for the city’s revolving loan fund, targeted for small business loans to local people who could not qualify for bank credit. Steelnet’s skilled but largely unemployed workforce would become its main source of entrepreneurial talent for these loans.

Because the city had relocated its offices to a retail/office complex in a converted school building, the old city hall became an ideal trial site for SADA efforts. A Community Development Block Grant (CDBG) financed renovation of the building, while SADA loans allowed a pool table manufacturer and a small software games products firm to occupy it. SADA has relied heavily on board members’ personal knowledge of loan applicants in taking risks. Yet the 20 SADA loans have shown a perfect repayment rate. The city did less well at first, however, in trying to attract new businesses from other areas. On the bright side, Reservation Mining’s steady decline offered new opportunities for the reuse of abandoned buildings. A rubber tire plant, expanding to fill the Firestone disaster tire needs, located in a building formerly used by a pneumatic drill manufacturer. The city owned this facility, having purchased it for only $500,000. The new Kelos tire plant is being leased from the city for nearly $50,000 per year, and the tire plant is expected eventually to create 60 new jobs. Two other firms that will also locate in Steelnet to make use of the rubber for auto racing and high-speed windshields may add twice as many jobs by the end of the year.

Steelnet’s strategies finally seem to have paid off. This little town didn’t give up or die. There is a lesson here for many small towns dependent on natural resources or a single industry.

One of the union leaders is opposing the plan for the reuse of the mining facility by an outside firm. He argues that outsiders are nonunion and that these union-busting firms are the cause of Steelnet’s problems. Joe Bartowski, a former union steward, argued that “we should loan some of that money to ourselves and reopen the rubber plant ourselves. After all, we worked in it before,” he said. “Who knows the market and the products better than we do?” Mayor Cole thinks Joe is a little crazy. “Working in a place ain’t like running it.” Who is right? Maybe they both are for different reasons. Or is there something in what Joe says that can be used by Steelnet before they let the new firm in?

**PLED Problem Solving 9.3: An Incubator as a Revitalization Tool**

When the Kanter Corporation, a metal fabricating company, abandoned a 73,000-square-foot facility on three acres of land one mile north of Jonesboro, Kanter gave the land and buildings to the city for $1. Jonesboro originally wanted to use the facility for a new community college, but a feasibility study showed this would not be financially prudent. The Greater Region Economic Development Foundation then asked the city council to allow it to investigate the site’s suitability for an incubator facility.

Canton was able to obtain a Small Cities Block Grant to perform a feasibility study. The study, which included a building and site evaluation, marketing strategy, and incubator plan and program, came back favorable to an incubator facility. The Greater Region Economic Development Foundation obtained a $70,000 matching grant from a private donor and a $70,000, 5% loan from the city, with repayment beginning in 3 years. In addition, the city charges the incubator no rent. The $70,000 from the city is money that the city would have needed to spend on security, maintenance, and so forth for the incubator building if it had remained empty.

The Women’s Economic Development Corporation (WEDCO) Center will run a business incubator for women-owned firms in Canton. Women who want to rent or lease space may do so only after they have completed a special training program organized by WEDCO. The incubator offers newly established businesses the opportunity to rent space at below-market rates and have access to free telephone receptionist services, secretarial services, business management assistance, custodial and maintenance service, and a business technical library. In addition, the businesses have an opportunity to network with each other. Most of the entrepreneurs at WEDCO Center either are first-time female business owners or are moving to the incubator from their garage, basement, or barn.

The WEDCO incubator currently houses eight businesses, including a manufacturer of wooden playground equipment, a company that sells bagged ice to convenience stores and bait shops, a firm that makes tools for air conditioner repair, and a computer services business. Lake College also plans to relocate its Business and Industrial Institute to the incubator. The institute will offer 50 different programs, including technical manual writing, computer training, management training, and blueprint reading. Each business in the incubator will be entitled to one free class. The Lake College programs are developing into an entrepreneurial training institute for businesspeople in the area.

The primary function of the incubator’s operating committee is to screen applicants. More prospective tenants are rejected than are accepted. The major criterion for acceptance is the business’s ability to create jobs for women, either now or in the future. The incubator is not promoting professional people or service sector businesses that offer limited job creation, emphasizing manufacturing and information processing businesses.

The incubator staff assists approved businesses to prepare a business plan and steers them in the direction of local lenders who have been extremely supportive in lending start-up capital to incubator businesses. Each company occupies 500 to 2,000 square feet at a rental rate of $3 per square foot per year. Leases can be for up to 5 years, but no business has signed on for more than 2 years, hoping to move to larger quarters by that time. The incubator is expected to create 120 jobs and currently has a 65% occupancy rate, ahead of the 15% predicted by the end of 1 year of operation.

The community goals of the incubator are to create jobs and ownership for women. Some of the incubator businesses may be able to move to the city industrial park in a few years to help revitalize this city-owned, underutilized facility. By the third year of the incubator’s operation, it should be self-sufficient and able to begin repaying the city loan.

The mayor and Regional Development Foundation are now in the process of calculating the return on investment (ROI). They are unfamiliar with the appropriate methods to use. The building with improvements is valued at $1 million. Most of the rental spaces will rent at less than market rates, as discussed earlier. A consultant has been hired to assist making the calculations; however, the committee wants to provide the consultant with the parameters for the study before it commences. What are the variables that need to be considered, and how will the city know if it is in fact making both a social and economic profit?

**Notes**

1. The first five methods have been identified from the work of the Edward Lowe Foundation (2002), a nonprofit organization devoted to developing entrepreneurship. The sixth is drawn from recent work by the Corporation for Enterprise Development (Dabson et al., 2003).

2. The official title it gave to this effort was the New Economy Project.

3. Defined by the Society of Competitive Intelligence Professionals (n.d.; now Strategic and Competitive Intelligence Professionals) as “a systematic and ethical program for gathering, analyzing and managing external information that can affect your company’s plans, decisions and operations.”

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