

Economic Development

INTRODUCTION

Economic development is often thought of as panacea for all the ailments of a town or city, for example, declining businesses or

population, inadequate tax base, low income levels, insufficient public services, eroding infrastructure.

Economic development does help alleviate some of the ailments, but it is NOT something that takes place immediately, and it is not a “quick fix”.

WHAT IS ECONOMIC DEVELOPMENT?

Economic Development is a program, group of policies, or activities that seek to improve the economic well-being and quality of life of a community by creating and/or retaining quality jobs, creating and maintaining broad-based wealth in the community, and providing for a stable community tax base.

In other words, Economic Development creates, retains, and reinvests wealth in a given community.

ECONOMIC DEVELOPMENT PARTNERS

Partners in Economic Development include federal, state, county and local governments, universities and schools, public-private partnerships, private businesses, entrepreneurs, investors and developers, researchers, business organizations, individuals, trade associations, industry leaders, citizen leaders, and landowners.

In our community farmers rely on the research conducted on crops by the local university. Farmers track crop prices and determine what and when to plant. They evaluate the cost to produce a crop which includes fuel, fertilizer, seed, equipment, taxes, land leases, crop insurance and labor. Rainfall, disease resistance and overall sturdiness of the crop is taken into consideration. Brokers maybe used to contract and establish a given price per bushel, but most often grain is stored and sold when prices increase.

Crop sabotage – A man sowed good seed in his field; but while he slept , his enemy came and sowed tares among the wheat, and went his way. But when the blade was sprung up, and brought forth fruit, then appeared the tares also. So the servants of the house-holder came and said unto him, Sir, didst not thou sow good seed in thy field? From where, then, hath it tares? He said unto them, An enemy hath done this. The servants said unto him, Wilt thou, then, that we go and gather them up? But he said, Nay; lest while ye gather up tares, ye root up also the wheat with them. Let both grow together until the harvest; and in the time of harvest I will say to the reapers, Gather together first the tares, and bind them in bundles to burn them, but gather the wheat into my barn. This story was recorded in the first century AD illustrating the kingdom of heaven is likened unto the farmer that sowed good seed. What ever we sow we will reap.

HOW DOES ECONOMIC DEVELOPMENT WORK?

The whole point of economic development is to create wealth in a community from new, sustainable, and culturally acceptable businesses. Wealth is defined as dollars which are exchanged multiple times among people and businesses in a community. The more dollars that are exchanged, and the more times each dollar is traded within the city/community, the more wealth is created.

The two kinds of jobs are: Primary Jobs and Non-Primary Jobs

Primary Jobs are those which are created by manufacturing, professional services, distribution/warehouse, service industry, etc. that produce or sell their services on a regional, state, national or international basis.

Non-Primary Jobs are those which are created in local community by distribution of goods and services outside the community. For example, local grocery store, local service station.

The three main components of Economic Development are Business Retention, Business Expansion, and Business Attraction. We'll address each of these later in the presentation.

WHAT IS COMMUNITY DEVELOPMENT AND WHY IS IT NECESSARY?

Community Development is an essential component of economic development that prepares communities for the type of businesses it wishes to retain, expand, and/or attract.

Essential elements of a good community development program include:

- 1) SOCIAL INFRASTRUCTURE (such as quality government, quality medical care, quality education, affordable city services),
- 2) POLITICAL INFRASTRUCTURE (cooperation and support of political leaders in a pro-business environment, civil rest),
- 3) ECONOMIC INFRASTRUCTURE (low inflation, low material and labor costs, and stable price controls), and
- 4) PHYSICAL INFRASTRUCTURE (streets, water, sewer, technology, and beautification).

FOUR C's OF ECONOMIC DEVELOPMENT

The FOUR C's OF ECONOMIC DEVELOPMENT and COMMUNITY DEVELOPMENT are:

Cooperation – between and among all economic development partners.

Commitment -- requires an obligation in time, effort, energy, patience, and resources.

Competition -- economic development involves competition between communities. It should be viewed as an opportunity for community improvement. Always keep learning and improving from your mistakes and losses.

Capital - it takes financial capital to compete for significant projects.

HOW DOES ECONOMIC DEVELOPMENT WORK?

SOURCES OF REVENUE

Sources of REVENUE for Economic Development activities may include:

1. Real property taxes (taxes on citizens who own homes)
2. Commercial property taxes (taxes on businesses and business equipment)
3. School taxes (taxes on homes and businesses in a school district)
4. Sales taxes
5. Use taxes
6. Inventory taxes (taxes on qualifying inventory)
7. Revenue allocated by a governing/taxing authority's annual budget
8. Contributions from public-private partnerships
9. Contributions from private industry, businesses, and individuals
10. Grants from the government, private endowments, and non-profit charities/foundations

BUSINESS RETENTION

The purposes of BUSINESS RETENTION are to:

- 1) KEEP the successful businesses and industries in a community from laying off employees, going out of business, or leaving the community,
- 2) SUPPORT local businesses in their efforts to expand and grow, and
- 3) PROTECT a community's economic viability. It's much easier to retain and expand an existing business than to attract a new industry.

If we are Faithful in little will be faithful in much; take care of what you have if you want more! An employer gave three employees money according to their ability to invest in their 401K. The first man received five pieces of gold; the second man two gold coins, and the third man one. The employer went on a journey. The first man traded and invested the money and doubled his earnings. The second man did likewise and doubled his money. The third man dug a hole in the earth and hid his employer's money. After several months the employer returned and asked about the money. The first man who invested and doubled his 5 gold coins received 5 more and was made general manager of 5 plants; the second man who doubled his 2 coins received 2 more and was made general manager over 2 plants. The third employee accused the employer of being a hard man, reaping where he

had not sown and gathering where he had not worked. Then the employee said that he was afraid and went and hid the employer's gold coin in the earth and declared that the coin was his. The employer replied and said you wicked and slothful employee, you knew that I reap where I have not sowed. Why didn't you at least put the coin in the bank to draw interest? Thus the employer took the one coin and gave it to the one who had 10 gold coins and rewarded the two that were wise with their investments. But the one that tried to steal the coin was placed in jail without bail. So it will be in the kingdom of God. Those that do not practice good stewardship and steal from God, will spend eternity in hell.

The person that is given much is expected to give much. Example: If God has given you wisdom and knowledge, invest in others by introducing them to the one that created wisdom and knowledge.

BUSINESS EXPANSION

The purposes of BUSINESS EXPANSION are to:

- 1) ASSIST successful, existing businesses in the community to become increasingly successful and prosperous so that they will create MORE high QUALITY JOBS and generate MORE TAXES for the community, and
- 2) PARTNER with the growing and expanding businesses to attract other businesses to the community.

BUSINESS RETENTION AND EXPANSION PROGRAM

A BUSINESS RETENTION AND EXPANSION PROGRAM:

- 1) ASSESSES the existing and changing needs of local businesses,
- 2) ADDRESSES or REMOVES obstacles that prevent existing firms from operating and/or expanding in the host community,
 - 3) ASSISTS existing businesses in becoming more competitive with businesses outside the host community, and
- 4) PREPARES the community to attract other industries.

BUSINESS RETENTION AND EXPANSION PROGRAMS include:

- 1) Business surveys and visitation programs
- 2) Industry Councils/Industry Roundtables
- 3) Executive Briefings
- 4) Marketing
- 5) Workforce training
- 6) Export Assistance programs

- 7) Locating sites for expansion
- 8) Providing or improving infrastructure
- 9) Zoning variances
- 10) Incentives

(The Parable of the Sower bearing fruit 30, 60 and 100 fold)

*Farmers in our area plant 1 to 1.5 bushels of wheat per acre which will yield 50 to 60 bushels. A single seed can produce 1 to 3 stalks of wheat. The head of a single stalk of wheat contains 30 to 65 kernels of grain. Each kernel is composed of 3 parts – the endosperm which is the starchy interior 83%; the protective coating is the bran 14.5%; and the embryo 2.5% is the portion which will germinate the new plant. All three components are needed to produce a new sprout. * A bushel of wheat will weigh 60 pounds. Under ideal conditions 1 bushel of seed could produce 70 to 80 bushels of wheat for an increase of 7000 to 8000%. Currently the cost of wheat is \$5.00 per bushel, but could go higher. This type of return is incredible, but there are production expenses for fertilizer, herbicides, fungicides, tilling and planting, hauling, etc. Many land owners will share the expense to produce a crop and get ¼ to 1/3 of the profits, but most land owners do not want to share in the risk and will take a flat fee for the land. Land owners in our area are native Texans, but some are from other states and nations. Some of the land owners are from Pakistan, China, Egypt, Mexico and others. Thus if the cost to produce an acre of wheat is \$150 and sold for \$250 to \$300, we have 75% to 100% return on our investment. Just as there are physical laws of sowing and reaping, there are also spiritual laws – “Whatsoever a man sows, that also shall he reap” Galatians 6:7. If we sow kindness we reap kindness, if we sow anger and hatred we will receive anger and hatred. There are four other spiritual laws: The Law of Agreement,*

The Law of Creative Speaking, The Law of Justice, and The Law of Faith. All 5 Laws will help determine your spiritual harvest.

Example 2 - Cotton Production: A 50# bag of cotton seed will cost \$150. Farmers apply 10 to 11 #'s of seed per acre. Thus one 50# sack of seed will cover 4.5-5 acres. Each acre planted will average 1 (500#) bale. Each cotton stalk will average 15 bowls and each bowl has 4 locks and contains 16 seeds. If we multiply 16 seeds x 15 bowls we get 240 seeds per plant. Farmers estimate that there are 4300 seeds per pound. The farmer surveyed has the land owners share in at ¼ the cost and receive ¼ the profits. The cotton gin charges \$55 to pick up the cotton and process it. The cost to produce a bale of cotton is roughly \$100 + the land owners fee. If cotton sells for \$0.55/#, a bale of cotton will bring \$275. The land owners get \$68.75 less expenses and the farmer gets \$206.25. Under normal conditions the farmer surveyed will make 96.25% return on his investment. This is based on a 60+ hour work week.

BUSINESS ATTRACTION

BUSINESS ATTRACTION is based upon healthy BUSINESS RETENTION, BUSINESS EXPANSION, and COMMUNITY DEVELOPMENT.

It is often very slow and pain-staking

It requires diligent efforts over extended periods of time

It requires vision and planning

Marketing efforts produce leads

Only a very few leads become active projects

Only a very few active projects become actual facility locations

WHY DO COMPANIES LOOK FOR NEW LOCATIONS?

Companies often look for locations to move an existing industry or build a new industry because:

They have grown too large for an existing location

The existing location is unfriendly toward business

The costs of doing business is high compared to other locations

The lack of support and/or interest from the existing host community

The need for another facility to support existing or increasing customer demand

*(TESTIMONY #4 about Discipline – godly discipline at first causes pain but produces fruit and righteousness ...)
What makes the farmers in our area successful? They work hard and are ethical in all areas of business and smart. They seek God for wisdom and take the seventh day of the week to rest. The fruit of this is love, joy, peace, long-suffering, gentleness, goodness, faith, meekness, and self control.*

THE SITE SELECTION PROCESS

The SITE SELECTION PROCESS is a long process of ELIMINATION in which a team of company representatives disqualify sites, buildings, and communities from ongoing consideration based upon both TANGIBLE and INTANGIBLE criteria. TANGIBLE criteria are stated project requirements. TANGIBLE criteria often include:

Facility type (manufacturing, distribution, assembly, market to be served, expansion of existing facility, etc.)

Geography (southwest, northeast, far northwest, east coast, south, etc.)

Utility Requirements and available infrastructure

Environmental constraints

Labor skills needed

Available community development factors

Site and building requirements (including zoning issues and building requirements)

Unions (present or not present? desired or detested?)

Costs (labor, in-bound raw materials, out-bound finished products, transportation, taxes, utilities, construction etc.)

Initial screening through the internet or existing companies in the community, or a third party

Ongoing screening as additional information and data is transferred

Visit to the location, necessitating a unpublicized welcome by top political and business leaders from the community

Offered incentives

INTANGIBLE criteria often include:

- 1) Community Spirit (Sense of being wanted),
- 2) Community Cooperation (Between public/private),
- 3) Honesty and Integrity of community's political and business leaders, and
- 4) The prospective company's perception of the community's treatment of its existing industries.

(TESTIMONY #5: JUDGEMENT – white vs. gray? We think we're truly "white", until we are compare us to something that is "brilliantly white", and then we appear at best gray or ashen.)

YOU CAN'T CHANGE WHAT YOU CAN'T CONTROL

The community CAN control some factors in the site selection process. These often are:

Community Development factors

The community's eager responsiveness towards new businesses

Incentives

Finding creative solutions to issues/barriers

Following up on promises and commitments with interested businesses

The community often can NOT control all factors in the site selection process such as:

The geographic location of Community

Topography of site

Size and shape of site

Size and shape of an available building

Cost of site or building not owned by the community

Personal preference's) of the decision-maker's)

SEEK to maximize your advantages, minimize your disadvantages, change what you can, and seek to attract companies for which you have a strategic fit.

HIGHLY EFFECTIVE COMMUNITIES

HIGHLY EFFECTIVE COMMUNITIES:

1. Make a favorable first impression to interest businesses
2. Know their community (product) and their competition
3. Listen to the prospect
4. Deliver a winning presentation
5. Maintain confidentiality
6. Differentiate themselves from their competitors
7. Know when to be persistent and when to be patient

ECONOMIC DEVELOPMENT INCENTIVES

If you or your competitor(s) are currently NOT offering incentives, be very careful about the new precedents you set IF and when you start to offer incentives. ALL incentives DECREASE A BUSINESS'S COST OF DOING BUSINESS. Incentives are often in the form of:

1. Tax Abatement -- Reduced property tax rate over a period of years for companies moving to or expanding in a community.
2. Tax Increment Financing -- Finances the front-end costs of development by allowing the incremental increase in tax revenue from the development pay for the public investment needed to realize the development.
3. Government Legislation -- Authority that one or more governing bodies may establish and provide for the administration of one or more programs, including programs for making loans and grants of public money and providing personnel and services of the community, to promote state and local economic development and to stimulate business and commercial activity in the community. Authorization may allow communities to create nonprofit corporations that promote the creation of new and expanded industry and manufacturing activity within the community. The nonprofit development corporations operate under the guidance of a volunteer board of directors and paid staff.
4. Cash Grants – Cash payments made to a company after the company has performed its contractual obligations according to an executed Performance Agreement.

5. Inventory Tax Abatement – Reduced property tax rate over a period of years for qualifying inventory.

6. Special Development Zones – The offer of certain tax reductions or tax credits for businesses locating in a designated area or hiring people with special needs.

7. Special Trade Zones – Special trade zones in which businesses are exempt from paying import/export duties, inventory taxes, and/or other local (and other government) taxes.

8. Special Funding for Research and Development – Funds reserved specifically to support strategic, “high value” projects that will have a very significant multiplier impact on the community. Such projects usually: a) create new, high quality, high-tech/emerging tech jobs, b) lead to commercial, medical, technological, or scientific breakthroughs, c) stimulate or spur new advancements in higher education, d) make significant capital investments, e) result in “spinning off” or starting many new businesses, and/or e) attract similarly related new businesses and jobs to the community.

THE USES OF INCENTIVES

INCENTIVES may be offered to:

1) “Buy down” (decrease) the price of land, buildings, equipment, facilities, improvements and other expenditures related to

manufacturing, industrial development, research & development, recycling, warehouse/distribution centers, corporate headquarters facilities, closed or realigned military bases, and large commercial/retail development projects.

2) Decrease the cost of construction for a new or expanded facility, reimburse a company for quality jobs created, and pay for existing and/or new employee training.

3) Partner in infrastructure development for water supply facilities, site improvement work (grading and drainage), and utility installation (water, sewer, gas, electric, and internet).

4) Improve a community’s quality of life, including parks, schools, professional and amateur sport and athletic facilities, tourism and entertainment facilities that create new primary jobs.

Ethics are critical for our success in the marketplace and every individual involved has to determine his or her spiritual condition. Internal corrosion of lying, cheating, stealing, anger, pride, greed, and destruction hinders our relationship with others and God. There is only one solution to handle the corrosion in your life. Here is a testimony of a person who has found the solution: Recently, my company had gone through two rounds of reduction in force (RIF). That’s a nice way of saying people lost their jobs. God had been telling me to consistently pray for the leadership above me and to trust in Him. Miraculously, not one of my employees nor myself was impacted by the RIF. Following the layoffs, the company then went into a series of reorganizations. In the natural, things still looked bleak. There were new manager to employee ratios that had to be met and I didn’t have enough people directly reporting to me to justify my own position. There was talk of demotions for those managers who were left to lower level managers and even back to non-manager, individual contributor status. Again, God laid upon my heart to pray for the leadership above me and to trust in Him. When the new

reorganization was announced, yet another miracle had happened. I still had my entire team intact and I was now reporting to my former boss' boss. My former boss and I were now peers and my team and I were directly underneath a tier higher Vice President. My team was not only the only team in the technology area that didn't lose a team member through this process, but together, we moved higher in the reporting hierarchy. God is faithful. Even when the outlook was hopeless in the eyes of man, obedience and trust in God granted unmerited favor and blessing.

(TESTIMONY #6 -- PANDORA'S BOX and it's relationship to SIN in our lives; our condemned state and why we need Jesus! Once a community starts to use incentives and figuratively opens Pandora's Box, all communities have to use incentives to remain competitive; this is analogous to the pervasiveness of SIN in our lives through Adam.)

PERFORMANCE AGREEMENT

The payment of ANY incentives should be made:

BEFORE the company purchases a site

BEFORE the construction of any new facilities

AFTER both the company and the community have executed a Performance Agreement

AFTER the company has performed and completed all obligations outlined in the Performance Agreement.

AFTER the company annually reports requested information to the community (such as a schedule of planned payroll, newly jobs created, and/or its level of capital investment).

NOTE: EVERY Performance Agreement should include provisions to protect the community in the event the company fails to comply with the pre-stated commitments and obligations (for payroll, jobs created, amount of capital investment, inventory investment, etc.)

For more information on Economic Development contact the:

International Economic Development Council

www.iedconline.com