Chapter

9

Types of Economic Development Organizations

I. Public Economic Development Organizations

Public EDOs may be set up in a variety of ways:

- ✓ Independent agencies
- ✓ Regular local government departments
- ✓ Part of the one or more local departments
- ✓ Part of the local government manager or mayor's office

There are also many regional cooperative arrangements among local governments and other economic development organizations.

Public EDOs have different formal and informal powers than private EDOs. For example, they can assemble land, access grants from the state and federal government not available to private EDOs, and can provide public sector funding and tax incentives that otherwise would not be available. Public EDOs encourage economic development through implementation and utilization of:

- ✓ Infrastructure improvements
- ✓ Eminent domain
- ✓ Ownership of land
- ✓ Control of right of ways
- ✓ Zoning and regulatory powers
- ✓ Special permits
- ✓ Special improvement districts
- ✓ Tax increment financing agreements (TIFs)
- ✓ Construction and operation of public facilities
- ✓ Business incentives, both tax and non-tax varieties
- ✓ Business marketing, retention, and expansion
- ✓ Entrepreneurial/minority business assistance

Because they are part of local, city, county, or state governments, public EDOs have access to, and influence upon, government decision makers. Public EDOs can often direct public or political pressure onto other public agencies to improve factors that have become increasingly important to business investment decisions. Clearly public EDOs can play a significant role in forming government policy. Additionally, public agencies can assist economic developers by loosening regulations that are often considered a major stumbling block to development.

Characteristics of an Innovative, Entrepreneurial Public Sector Organization

Catalytic & Facilitating	Anticipatory
Community-Owned	Decentralized
Competitive	Market-Oriented
Mission-Driven	Enterprising
Results-Oriented	Customer-Driven

Source: Osborne & Gaebler (1993)

Types of Public Economic Development Organizations

There are several different types of public economic development organizations: local governments, regional planning organizations, and state economic development organizations.

Local Governments

Local governments are the primary institution for promoting economic development. They are the central initiator of economic development programs through public spending, regulatory powers, and through their promotion of industrial and small business development.

Regional Planning Organizations

Planning organizations are public organizations that are typically responsible for handling infrastructure and transportation issues. They tend to serve larger areas than city or county agencies. Membership is from representatives of the municipalities of a region. Their main responsibilities are strategic planning, information collection and dissemination, and transportation planning. Some regional planning organizations go beyond planning and make investments in infrastructure with state and federal funding. Workforce efforts are often organized at regional levels, both planning and implementation.

State Economic Development Organizations

Typically, state governments are a main provider of economic development through state funds and the receipt of federal dollars. They have broader authority than city governments to issue tax credits, tax abatements, and other incentives to fund initiatives. Their powers include taxing, setting unemployment insurance, and funding major infrastructure and transportation projects. States are involved in business recruitment, both domestic and overseas, technology development, university linkages, workforce development/enhancement, as well as special funding for business development, and export assistance.

Public EDO Structure

Staffing

Public economic development organizations remain the most heavily staffed sector of the economic development field. Typically larger than their private, public-private counterparts, public EDOs can be effective at virtually any size. A 2000 IEDC national survey indicated that metropolitan economic development organizations ranged in size from 235 employees working for the city of Detroit, to two employees in the city of Austin. Most EDOs have between 10 and 45 employees.

Most public EDOs follow civil service procedures when advertising available staff positions. Announcements are posted both in-house and in local, state, and national media, as well as through formal and informal networks. While some organizations prefer to select middle and upper management personnel from a diverse group of candidates around the nation, other EDOs prefer to promote staff members internally.

Organizational Structure

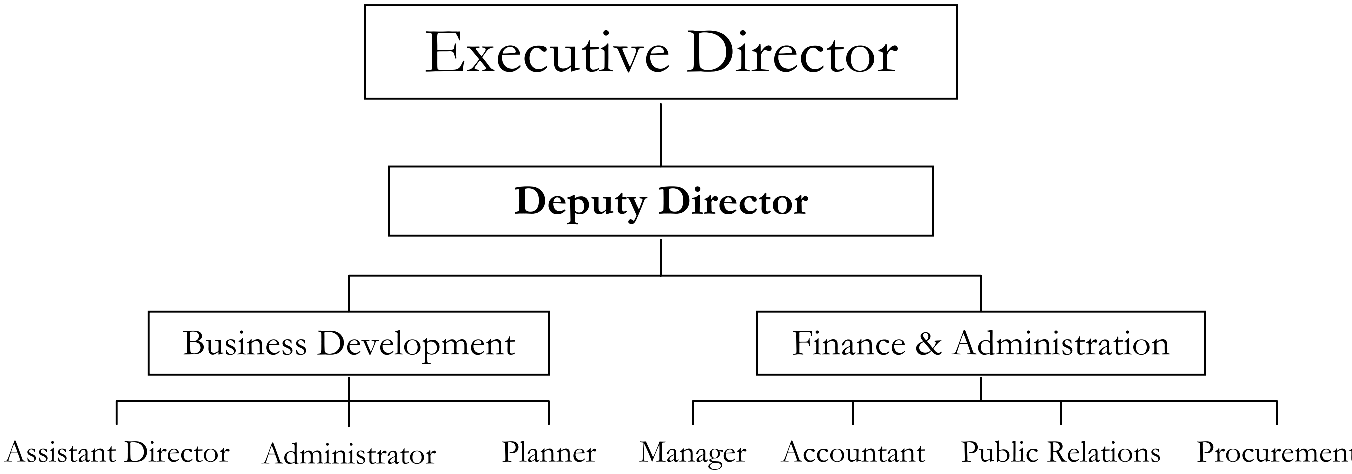
The majority of public economic development organizations are organized into departments or divisions based upon geographical, service, or subject area. The departments are typically organized in a hierarchical structure, with department heads reporting to the organization's top representative, such as an Executive Director. (See sample organizational chart.)

The organizational structure contributes to the success of the economic development initiatives. Many managers believe that their structures helped them streamline processes, promote staff collaboration, facilitate operations, encourage departmental specialization, and deepen the staff's knowledge base.

EDOs either have a horizontal (having a small number of organizational layers) or vertical (having more organizational layers) organizational structure. Many managers maintain that horizontal structures allow for greater employee creativity and ingenuity, while a vertical structure creates greater internal accountability and hierarchy. A simplified organizational structure allows staff to talk to decision makers, fostering organizational transparency and management accountability.

Tasks are allocated to the appropriate department(s), which cooperates on cross-departmental efforts. Some typical city and county departments include business development, business finance, community or commercial development, real estate development, and project development. City agencies tend to be larger and have more divisions than their county-level counterparts. City EDOs also tend to deal with zoning and housing issues more than county EDOs.

Sample Organizational Chart



Coordination across Departments

Fostering coordination between departments is essential for a strong EDO. Open communication and cooperation between staff members can help prevent "turf disputes." Some public EDOs are small enough that inter-departmental efforts are easily managed. However, larger organizations may find that special efforts must be made to maintain the communication channels that foster inter-departmental coordination. For example, a large organization may benefit from regular meetings of the executive committee and city council. Some EDOs allocate projects across departments to encourage staff to cross department lines to meet project needs.

Some effective coordination techniques include:

- ✓ Top-level management meetings
- ✓ Telephone conversations
- ✓ Memoranda
- ✓ Daily interaction
- ✓ Electronic mail
- ✓ Departments that build on each other's work in consecutive project stages.

Potential Problems

There are a number of potential pitfalls that EDO managers should be aware of, including:

- ✓ Duplication of work between departments
- ✓ Staff may make assumptions about what others are responsible for
- ✓ Poor coordination of department efforts
- ✓ Ability to build consensus, but difficultly in spurring action
- ✓ Poor communication or coordination with field offices
- ✓ Duplication of mission and/or efforts between area EDOs

On the positive side, several managers assert that as long as intra-staff communication is good and team-building efforts are taking place, things tend to work well. Several managers advocate getting staff together as a group on a regular basis so that employees can get to know others and their projects. As one manager stated: “You tune up your car, why not tune up your staff?”

Governance

A city/county economic development organization can be governed by an executive office, city council, or by a probate judge and county commissioners. A local economic development agency can benefit when placed within the local executive office, allowing access to the city manager or mayor. This does not necessarily mean, however, that an agency located outside the executive office will lack the political support it needs for its work.

Either way, if the economic development department becomes over-politicized, it will suffer from credibility problems. There are two main ways a department can be governed, council-manager or mayor-council.

Council-Manager Government

The council-manager form of government combines the strong political leadership of elected officials of a council or other governing body, with the managerial experience of an appointed manager. In this system the elected council hires a professionally trained manager on the basis of education, training, and experience to oversee the delivery of public services determined by the council. Power is concentrated in the elected council, which performs duties such as approving the budget and determining the tax rate.

This system has become the most popular form of local government for communities with populations containing more than 5,000 people. This system is preferred because of its “constructive, creative, and practical attitude toward social problems and deep sense of responsibility for solving those problems. It encourages open communication between citizens and their government.”

If the elected council becomes dissatisfied, the manager can be fired by a majority of the council, consistent with local laws, ordinances, or employment agreements with the council.

Mayor-Council Government

Mayor-council governance concentrates power in the elected mayor. The “strong mayor” not only serves as the community’s political leader, but also is responsible for daily administration of public services. Elected by community residents, the mayor is selected on the basis of voter appeal. This governance system heavily relies upon citizens electing a mayor who is not only skillful at the political election process, but also an efficient manager.

An IEDC survey of mayors of 20 major American cities revealed that the mayor does not appoint most economic development advisors. However most mayors appoint people to other boards and city government agencies, such as planning commissions, councils, task forces, boards of directors, and redevelopment authorities. These appointees act as liaisons between the mayor’s office and their agencies to keep everyone informed of economic developments.

The mayor learns about the issues from many sources, including:
- ✓ Business roundtable meetings which include top city business CEOs
- ✓ Informal business networks
- ✓ Public-private partnerships
- ✓ Chambers of commerce
- ✓ Nonprofit advising
- ✓ City council meetings

Budgeting for Public Economic Development Organizations

Proper budgeting is a central element of proper public agency management, and reliable accounting is very important to the budget-making process. A well setup accounting system provides timely information on when budget plans are going amiss, when capital funds are being diverted to operations, when expenditures are outrunning revenues, and when the local government is incurring financial obligations beyond its fiscal capacity.

Accountants have developed a set of rules, standards, and practices to guide financial reporting. These principles are referred to as Generally Accepted Accounting Principles. Since 1984, the Governmental Accounting Standards Board (GASB) has been recognized as the authoritative organization for setting financial accounting and reporting standards for state and local governments.

A public accounting system is organized around a fund, for specific activities. The fund accounting system is used because it is the best way to track multiple and simultaneous inflows (such as property taxes) and track outflows that occur throughout the year (such as salaries).

Local Government Funds

There are several types of funds local governments can use for economic development:

General Funds
Usually the largest fund within the government. Revenue sources include general revenue tax, intergovernmental grants, licenses, and fees.

Special Revenue Funds
Taxes and other resources restricted to support specific activities. Each fund will have its own revenue source.

Debt Service Funds
Transfers from other funds and special tax levies to finance the interest and the retirement of the principal of long-term debt.

Capital Projects Funds
Bond income, transfers from other funds, and revenue sharing entitlements. One fund is set up for each separate project except where a series of projects has the same revenue source.

Special Assessment Funds
Assessments made against the specific property owners that benefit from a particular capital improvement, such as sidewalks, street paving, or sewer extension.

Enterprise Funds
Account for business-type activities supported largely by user fees, such as local toll bridges and roads, utilities, golf courses, and swimming pools.

Internal Service Funds
User charges against other funds for goods and or services produced. Salaries of staff from other departments working in economic development, or involved on a project are paid through these types of funds.

Funding Resources

In 2000, IEDC conducted a survey on the funding operations and organizations of the economic development service agencies in 53 metropolitan areas across the country, highlighting some organizational differences in funding sources. According to this survey, most city agencies still get the majority of their funding through city sources (over 80% reported use of city funds). In addition, 48% of cities reported funding from federal sources, a statistic that has declined since 1996. Twenty one percent received state funding; and 29% had county funding.

Smaller government budgets and increasing numbers of community organizations seeking government support have significantly reduced the amount of government funds received by EDOs. To make up for this drop in funding levels, new funding sources have been developed, including:

- ✓ Leveraged funds
- ✓ Tax increment financing returns (TIFs)
- ✓ Sales, property, and utility taxes
- ✓ Aviation funds
- ✓ Interest income
- ✓ Fines and forfeitures
- ✓ Bank CDCs
- ✓ Foundation grants
- ✓ Parking fees
- ✓ Gaming taxes
- ✓ Land sales and rentals
- ✓ Community events

- ✓ Special assessment districts

While the role of federal funding in local and state economic development initiatives is decreasing, it is still substantial. For an extensive list of Federal Economic Development Programs and Resources, please refer to the Economic Development Finance Manual.

Advantages and Disadvantages of Public Economic Development Organizations

Economic distress and disinvestments often manifest themselves visibly in the physical decline of a city. The decline may be caused by the public sector's inability to meet the service demands of its residents, by market conditions that discourage private investment, or both.

Whatever the cause, city/county organizations have significant influence on the shape of economic development in their areas. In response to area problems, the public sector can organize, create and implement a variety of policies and strategies. City/county organizations' access to the planning process, other municipal agencies, public funding sources, and political leadership means that they are capable of doing a range of activities.

Advantages

Some of the major advantages and disadvantages of public economic development organizations are identified below.

- ✓ Public EDOs can access financing mechanisms to leverage private investment.
- ✓ Public EDOs have direct access to sources of public funding (e.g., CDBG, revenue sharing).
- ✓ Public EDOs have municipal powers, such as taxing authority, eminent domain, ownership of land, rights of way, zoning and regulatory powers, and the ability to construct and operate public facilities and services, which can be used in economic development initiatives.
- ✓ Public EDOs have access to other city or county resources such as planning, research, and public works.
- ✓ Public EDOs are more likely to have better buy-in from public officials and executives for economic development initiatives.
- ✓ Public EDOs can use their municipal powers and planning capability to create/coordinate citywide policies and strategies.

Disadvantages

Despite the many advantages of public EDOs, there are substantial drawbacks to them as well. These disadvantages include:

- ✓ The economic influence of Public EDOs is essentially limited to their surrounding political area.
- ✓ Public EDOs face municipal debt limitations, which restrict economic development finance.

- ✓ Public EDOs are often prohibited from lending money directly to the private sector, and often cannot participate in profit-making ventures.
- ✓ Public EDOs normally cannot build or operate non-public facilities.
- ✓ The turnover of elected officials can cause inconsistent economic development policies.
- ✓ The commitment by city officials to economic development efforts may vary.
- ✓ Private organizations often mistrust government activities.
- ✓ Public disclosure laws may prevent private negotiations with relocating businesses or developers.

II. Private Economic Development Organizations

A private economic development organization is defined here as an organization with the express mandate of promoting economic growth, but which has no public control of governance and no formal links to government. Private EDOs emphasize business attraction, retention, and expansion as their primary economic development mission, but other economic development activities include financing, construction projects, small business development, infrastructure improvements, business advocacy, and international trade. Some of the most common economic development tools private EDOs use to achieve these goals are: marketing, advertising, entrepreneurial assistance, advocacy for infrastructure improvements, and direct loans to businesses.

Private, nonprofit organizations are free from public accountability. A private EDO can rely more on its own decision making process to act quickly and flexibly. Privately organized projects or efforts need not comply with lengthy public reviews, administrative red tape, civil service hiring requirements, and travel and entertainment restrictions. Additionally, the staff has direct contact with public and private leaders via a board of directors whose members are generally selected because of their ability to influence the allocation of resources for urban development.

However, the private agency may also lack adequate clout with local politicians, a potentially major limitation. A corporation structure shields both sectors from liabilities and risks, which may have to be incurred in order to stimulate a city's economic development. Individual members are insulated from risk because of the private organization's corporate forms.

Types of Private Economic Development Organizations

Chambers of Commerce

Chambers of commerce is the traditional leaders in local economic development, in business recruitment, attraction and retention, entrepreneurial assistance, as well as tourism. In those efforts, chambers of commerce provide a variety of economic development programs and services including:

- ✓ Membership services (publications, networking opportunities, entrepreneurial training, and public relations)
- ✓ Business marketing
- ✓ Business advocacy
- ✓ Job training
- ✓ Neighborhood and downtown revitalization
- ✓ Business advocacy
- ✓ Regulatory reform

Dues are a primary source of funding for chambers of commerce. Other sources include private sector contributions, publication sales, seminars, as well as city and county funding.

Community Development Corporations (CDCs)

Certified development corporations (CDCs) are established to implement community-based economic development. They may be created under federal or state law to meet community economic development needs as defined in their enabling legislation. They may be organized as cooperatives in which community residents may purchase shares, nonprofit umbrella corporations, and for-profit corporations with nonprofit subsidiaries to accept federal grants and private contributions.

The economic development functions of a CDC include: acquiring, developing, constructing, rehabilitating, and leasing land and other property, either as sole owners or as joint ventures with other private and public agents, owning (partially or solely) and/or operating businesses, lending or guaranteeing loans, equity investments in, and making grants to, a business, and providing manpower training, technical assistance and counseling services.

Community Development Financial Institutions (CDFI) Fund (U.S. Treasury)

CDFI Programs

Community development financial institutions (CDFIs) are entities that provide affordable credit and investment capital to economically distressed areas and populations. CDFIs take a range of forms.

Community Development Banks are federally insured and regulated depository institutions that have a primary mission of serving low-income individuals and communities. Among such banks are South Shore Bank in Chicago, IL and Elk Horn Bank in Arkadelphia, AR.

Community Development Credit Unions (CDCUs) are federally insured and usually state-regulated financial cooperatives that are principally owned and operated by low-income individuals and/or residents of low-income areas. CDCUs provide their members with a range of basic financial services, and many provide equipment and/or expansion loans to member small businesses can make low interest loans for small business creation and expansion.

Community Development Loan Funds aggregate capital and contributions from banks, individual and corporate investors, public sources, and foundations to provide a mix of equity, bridge loans, and other financing for affordable housing, small business development, and community facilities.

Community Development Venture Capital Funds, like their loan fund counterparts, provide a mix of loan and equity capital to small and emerging businesses with the potential to generate significant benefits for low-income individuals and communities.

The federal CDFI Fund certifies organizations as CDFIs. Such organizations must be non-governmental entities that

- ✓ Have a primary mission of community development
- ✓ Primarily serve an economically distressed "investment area" and/or a "targeted population" that is low income or lacks access to conventional capital;
- ✓ Devote the bulk of their resources to financing activities;
- ✓ Provide technical assistance services to borrowers/investees in conjunction with their financing; and
- ✓ Maintain accountability to investment area residents or targeted population(s) by having their representatives on its governing board.

Certified CDFIs are eligible to receive technical assistance grants of up to $100,000 and financial assistance of up to $2 million from the CDFI Fund. The awards are made annually; in order to receive financial assistance awards, CDFIs must have equal matching funds from non-federal sources.

New Markets Tax Credit (NMTC)

The CDFI Fund also administers the NMTC, which gives taxpayers an aggregate 39 percent federal income tax credit over 7 years against equity investments made in designated Community Development Entities (CDEs). The investor receives a 5 percent credit against the initial value of the investment during each of the first three years, and a 6 percent credit in each of the next four years. Substantially all of the qualified equity investment must in turn be used by the CDE to provide loans or investments to businesses, commercial real estate projects, and selected other entities in low-income communities. Investors may not redeem their investments in CDEs prior to the conclusion of the seven-year period.

NMTCs are allocated annually by the Fund to CDEs under a competitive application process. These CDEs then sell the credits to taxable investors in exchange for stock or a capital interest in the CDEs. To qualify as a CDE, an entity must be a domestic corporation or partnership that:

- ✓ Has a mission of serving, or providing investment capital for, low-income communities or low-income persons;
- ✓ Maintains accountability to residents of low-income communities through their representation on the entity's governing or advisory board; and
- ✓ Has been certified as a CDE by the CDFI Fund.

The Fund is currently accepting applications from entities seeking CDE certification. Applications for the final round of NMTCs (barring the program's re-authorization or extension by Congress) will be due in early fall of 2006. In the upcoming round, the Fund is authorized to allocate to CDEs the authority to issue NMTCs to investors against $3.5 billion in eligible equity investments.

For more information, contact the CDFI Fund (202) 622-6355
http://cdfifund.gov/programs/

Private EDO Structure and Governance

Private EDOs are more likely than public or public-private organizations to have departments addressing marketing, business assistance, membership services, and international trade. Private economic development organizations that emphasize economic development finance tend to do so at the exclusion of other economic development activities. Most incorporated development organizations have nonprofit rather than for-profit status. Most of the private EDOs that implement local economic development initiatives are incorporated in order to insulate members from risk.

Governance of private economic development organizations typically takes the form of a board of directors. The members of a board of directors tend to have a variety of backgrounds and expertise, and are chosen for what they can offer in terms of counsel, logistical and financial support, or public relations for the organization.

Funding Private EDOs

Funding can come from membership dues, such as businesses supporting a chamber of commerce, or from contracts with city agencies to provide economic development services. The majority of the organizations that fit this classification are registered as nonprofit corporations. For-profit small business investment corporations (SBICs) are a notable exception. Funding comes from non-returnable contributions of money, services, and materials and from membership dues (rather than from sales of stock). Sources of support include government, foundations, individuals and corporations.

Private EDOs may contract with city agencies to provide economic development services, but retain a private governance structure. As an example, the Small

Business Administration certifies small business investment companies (SBICS) to issue government backed loans. These organizations are privately owned investment firms that use their own capital, plus funds borrowed at favorable rates with an SBA guarantee, to make venture capital investments in small businesses. Other organizations, such as chambers of commerce, fund themselves through membership dues, publication sales, seminar attendance, etc. A private EDO can easily create for profit and nonprofit subsidiaries to deliver services and can act as a vehicle for receiving SBA and EDA funds.

Advantages & Disadvantages of Private Economic Development Organizations

Advantages

The advantages and disadvantages of a private EDO are similar to those of a public-private economic development organization.

- ✓ Private EDOs offer a number of advantages, some are administrative and some are financial in nature.
- ✓ Private EDOs can serve as an intermediary through which individuals can deal with the government on behalf of a private client.
- ✓ Private EDOs are not directly accountable to a broad constituency.
- ✓ Private EDOs are organized to make decisions quickly.
- ✓ Private EDOs are able to perform functions and activities that may be in the public interest but are not necessarily allowable "government activities" for a municipal corporation.
- ✓ Private EDOs may invest equity capital and generate profit (for-profit and 501(c)(4), nonprofit corporations).
- ✓ Private EDOs can raise funds in the private market.
- ✓ Private EDOs are able to receive donations (nonprofit corporations only).
- ✓ Private EDOs are able to successfully insulate individual investors from risk.
- ✓ Private EDOs are free to utilize subsidiary for-profit and nonprofit resources for project development purposes.
- ✓ Private EDOs can receive some federal (like SBA) funds.

Disadvantages

Disadvantages include:

- ✓ Private EDOs lack the powers of eminent domain and other public land management powers.
- ✓ Private EDOs may lack public sector support and commitment, which means that they take risks in assuming responsibilities for economic development. This may make it unprofitable and inefficient for them to assume the responsibility for economic development without government cooperation.
- ✓ They may face excise taxes on investment income (1-2 percent annually).
- ✓ Private EDOs face strict prohibitions on self-dealing. For example, a director is prohibited from selling an asset to the foundation even on terms

extremely favorable to the foundation. Finally, minimum annual distributions of assets are required.

- ✓ Since the private agency must support itself, sometimes efforts are shifted away from economic development.

A private EDO is generally incapable of performing the full range of economic development activities. It may well be adequate for specific informational purposes or small business financing, but it may not have the ability to handle risky programs or large scale real estate development deals.

III. Public-Private Economic Development Organizations

In some cities, neither the public nor the private sector has sufficient resources to assume a lead role in addressing local economic development. In these situations, an organization that systematically and formally joins public and private sector resources and powers can be effective in formulating and/or implementing economic development policies and programs. Public-private partnerships are long-term shared commitments between the public and private sectors designed to pursue common goals related to the social, political, and business environment in a community.

Key players could include elected officials from city and county governments, economic development officials, CEOs from major businesses, representatives from utilities, neighborhood groups, chambers of commerce, banks, industrial parks, and private real estate developers, business services firms such as accounting and law firms, public universities, private colleges, as well as labor organizations.

These organizations have greater flexibility than public EDOs to conduct economic development activities since they do not have to answer to as broad a constituency. They are typically established as nonprofit corporations with public and private representatives on their board of directors. Funding is provided from both the private and public sectors, including local, state and federal funds. In general, they are formed around specific development projects such as provision of workforce training, venture capital, marketing, technology development, and technical assistance.

Public-private organizations may be public benefit corporations or authorities. They are created by a legislative act. They are not part of the structure of government and have, at least in principle, some degree of autonomy. The public-private mix within these institutions may occur in board representation, funding, objectives or staff. These institutions straddle the boundaries between public and private, and there are distinctions between those institutions, which take a "more private", and those that take "more public" approach. For example, in a more public organization, the mayor might appoint a board of public and private representatives for an organization that is publicly funded. For a more private organization, the mayor might appoint an all-private board of directors for an organization that is both publicly and privately funded.

Public-private organizations differ from city to city depending on a number of variables, such as the:

- ✓ Locality's problems
- ✓ Functions the organization performs
- ✓ Geographic scale of its operations
- ✓ Level of public-private commitment to economic development
- ✓ Representation of the public and private sectors in the organization
- ✓ Organization's financial resources
- ✓ Organization's development powers and legal constraints

Successful public-private economic development organizations have:

- ✓ Clearly defined missions that address the concerns of both the private and public sector
- ✓ Internal autonomy over the organization
- ✓ Consensus among members regarding the mission of the organization and how to implement the mission
- ✓ Adequate funding to achieve goals;
- ✓ The commitment of both the public and private sector
- ✓ Established performance measures to justify continued support and funding

Focus

There are a number of different foci which public-private organizations oriented towards economic development have. They are:

Policy Leadership and Liaison
The primary activities of these organizations are designed to enhance the investment climate or the quality of life. Their major efforts include overall strategy development, advocacy, and serving as forums for discussion of important economic issues.

Business Development
Business development is the primary focus of the majority of public-private partnerships. However, the range of assistance they provide varies greatly.

Area Improvement
Several groups target their efforts to a particular geographic area of a city such as the downtown or a specific neighborhood. Because of the often-poor condition of such target areas, these organizations tend to focus on physical development. They market their target area and facilitate the packaging of public and private resources.

When grouping these organizations, it is important to note that there is considerable overlap of these three categories.

Types of Public-Private Organizations

There are two basic types of public-private economic development organizations. One type is an unincorporated committee that performs planning, technical advisory, policy development, and information dispersal functions. The other type is incorporated as a nonprofit, tax-exempt corporation and has financing and implementation responsibilities as well as policy, advisory and planning functions.

Policy Planning Organizations

Policy planning organizations include ad hoc committees appointed by the mayor to help set city development policies, and downtown councils, which coordinate public and private efforts to improve the central business district. They may facilitate communication between public and private leaders; serve as a source of private sector advice on technical aspects of development; recommend specific action to cope with economic problems; or set general economic development priorities.

The specific functions and roles policy-planning organizations may assume include:

- ✓ Coordinate/advise policy
- ✓ Advise other local organizations and institutions on economic development
- ✓ Coordinate implementation of economic development activities
- ✓ Monitor and evaluate local, state, and federal legislation from the local economic perspective
- ✓ Examine other states' innovative development ideas
- ✓ Planning, research, and analysis
- ✓ Analyze fiscal impacts and provide market studies and cost-benefit reviews
- ✓ Maintain and update a database to evaluate changes in local, county, state, regional and/or national, conditions (available land & buildings by type, classification, zoning, lease terms, etc)
- ✓ Analyze and evaluate manpower development incentives (i.e., wage subsidies, training grants and resources of the city's educational system)
- ✓ Analyze and review incentive mechanisms to maximize capital leverage (tax abatements, grants, loans, etc.)
- ✓ Develop strategies to achieve development objectives (e.g., determine a describable business mix, new locations and relocations)
- ✓ Analyze potential business development problems and opportunities
- ✓ Identify and adopt economic growth indicators
- ✓ Develop capacity to present policy-oriented impact analysis.

Public-private policy planning organizations can offer valuable assistance in setting public development policy and are a way to directly involve private sector leaders in the process. However, since they do not directly implement the programs they recommend, there may be a gap between policy setting and program implementation. Another potential problem is that city staff may not have the expertise to carry out the organization's advice.

Implementation Organizations

Public-private implementation organizations are often referred to as quasi-public corporations because they are legally, and usually physically, outside of local government. They can be independent private sector corporations that serve a public purpose and have both public and private sector representatives on their boards of directors. Or, they can be institutions that are enabled by city, state, or federal legislation to use public powers or special financing tools. The public-private mix within these institutions may occur in board representation, funding, objectives, and/or staff. Their financing and implementation functions and roles can include: financier, developer, and information service provider.

Public/Private EDO Structure and Governance

While a partnership operates like a for-profit organization, elected officials appoint the board so the public sector has a say in the organization's operations. If the partnership is initiated by the public sector, public money is used to finance the partnership until it is self-perpetuating, at which point it becomes more like a private corporation.

A public-private economic development organization is governed by a mixed (public/private) board of directors, and may have a strong executive director or president. Most public-private organization boards are composed of business, labor, and civic group representatives, as well as ex officio members from local government agencies. These boards provide a useful institutional setting for improving coordination between public and private sectors. This provides additional capital commitments from the local business community resulting in more capital leverage. The members are selected because of their ability to influence the allocation of resources or their specific expertise.

There are several advantages to public-private economic development organizations having board members from the public and private sectors. Through the Board of Directors, the EDO staff has direct access to public and private talent and resources. Executives of financial institutions offer advice on financing tools and participate in reviewing EDO loan packages. Business representatives advise on the investment climate and provide contacts with other local, and national business executives. Public officials can smooth over bureaucratic problems that may arise and assist EDO staff in meeting specific client needs. In other words, the board gives the EDO staff a direct extension into the public and private sectors, and they in turn, assist the EDOs efforts to influence private sector development in the community.

Staffing

Public-private partnerships generally employ full-time professionals, not usually on public payrolls, who are indirectly responsible to local policy-makers via an appointed governing board and annual contract reviewers. Staff are hired by a professional executive director and paid through an administrative budget that is assisted partially by outside revenues and/or long-term grants.

Powers

Public-private organizations have the legal powers normally associated with private enterprises and governments, such as the power to enter into contracts and the power to condemn land, to receive funding from Special Improvement Districts, and to issue certain types of bonds.

Legal Status

Most public-private partnerships are considered private, nonprofit corporations. This allows them to utilize important development powers that are prohibited to municipalities under most state constitutions.

Funding

Funding comes from both the public and private sectors. Public-private organizations use capital revolving funds managed under contract by local governments. Most are prohibited from disbursing funds as grants, as opposed to loans and investments. Usually, they manage capital portfolios financed by long-term grants from local governments. These grants often take the form of an annual contract between the city and the EDO, which must be renewed each year.

Advantages & Disadvantages of Public-Private EDO's

Public-private organizations minimize many of the problems, and retain many of the advantages of organizations in both sectors. In partnering with the private sector, an EDO gains several administrative advantages, which are listed below.

Advantages

- ✓ Excessive politicization of the EDO's work is less likely to occur.
- ✓ Neither public nor the private EDOs have the degree of freedom in hiring, firing, and setting salaries than public-private agencies typically have.
- ✓ Private/public partnerships can undertake greater risk because directors sitting on the board do not to run for general election. An unpaid board directing a public-private EDO has little to lose from making bold decisions because they earn their living elsewhere. Public/private EDOs can use public resources and powers without public limitations (e.g., red-tape, citizen review, civil service restrictions).
- ✓ Public/private EDOs are free to expand on government powers since they are not restrained by the city charter, partially because they can use the functions and powers of legal, private subsidiaries and affiliates. Thus they can invest in nonprofit and sometimes for-profit ventures.
- ✓ Some semi-public agencies take on the "straw man" role, proposing the project, sampling public reaction, and allowing the local government to either support or oppose it.
- ✓ The private sector has three things government needs: resources, knowledge, and public support.
- ✓ The public is less and less willing to support public sector spending. If a public agency wants to develop a project, it may find a better source of funding in the private sector than the legislature.
- ✓ Additionally, a public-private EDO draws on a broader range of expertise. Working together builds upon and creates new skills and understanding.

There are a variety of financial advantages to organizing as a public-private partnership:

- ✓ A public-private EDO can mobilize both public and private resources and is financially flexible. Public-private EDOs can maximize the use of available government funds.
- ✓ A public-private EDO can use financing tools to pay for large, revenue-generating infrastructure projects.
- ✓ Profit and nonprofit firms can invest in a private business venture using their own funds, whereas public organizations may have to demonstrate a clear public purpose.
- ✓ The municipal debt ceiling does not affect public-private EDOs borrowing powers since they are independent from the city.
- ✓ Public-private EDOs are also able to accept donations due to their tax exempt status, thereby offering advantages to contributors benefiting from tax deduction advantage.
- ✓ A public-private economic development organization can insulate governance from financial risk through incorporation laws.
- ✓ Lastly, a public-private economic development organization can eventually be financially self-supporting through management and service fees, and/or membership dues.

Disadvantages

A public-private EDO also faces the following disadvantages:

- ✓ A public-private EDO is not under the same degree of public control as public agencies, which can limit its accountability.
- ✓ Limited accountability may cause a public-private EDO to forfeit a portion of their influence if the public sector and the citizenry are not satisfactorily represented.
- ✓ Limited accountability can also restrict its freedom of action.