State and Local Economic Development Tools:
How does the range of state-level economic development tools available to a locality influence the way local resources are deployed?

by

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ABSTRACT

Patterns in Community Development Block Grant (CDBG) expenditures for economic development in selected states were analyzed to explore whether differences in economic development tools, policies and programs available at the state level influence the deployment of economic development tools at the local level , and if so, how. Though CDBG is a federal government program, because grant fund programming is largely at the discretion of local decision-makers, and consistent expenditure data is available for entitlement communities across the country

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Biographical Note

Brett Piercy has seven years experience in urban planning economics and economic development consulting, having worked for Economic Development Research Group in Boston and Economics Research Associates (now AECOM Economics) in San Diego and Los Angeles. She holds a Master of Pacific International Affairs from the Graduate School of International Relations and Pacific Studies at the University of California, San Diego (2001), as well as a BA in Political Science from California State University, Fresno (1998). She is fluent in Spanish and is an avid equestrian three-day event rider and knitter.

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I. INTRODUCTION

At its most basic level, economic development is conceptualized in terms of job creation, either through attraction or expansion. A more refined concept will include retention of existing jobs threatened by national or international pressures, diversification of economic base, an improved match between workforce skill/education level and industry needs, and wage growth. Despite the straightforward nature of economic development, the way these goals are understood and pursued at the State level can be very different from how they are experienced at the local level. In many cases, an individual city is an insufficient economic unit to surmount the economic development challenges it faces, which are often driven by regional, national and international forces. At the same time, the economic development needs of cities within a state can vary widely, driven by differences in population and economic base, and it is difficult for state-level economic development programs to address these individual needs while focusing on statewide needs.

States have broad authority to levy taxes, a broad base from which they can draw tax revenues, and the ability to channel resources to economic development if a state so chooses. This is not to imply that state resources for economic development are unlimited, as they are often highly constrained. However, it presents a contrast with the local level, which inherently has fewer revenue sources, a narrower base from which to draw resources, and fewer options regarding how resources will be channeled in terms of geography as well to which industries and for what activities. Policy tools are more limited at the local level, not least because they are constrained by what is allowed under state and federal law. In an environment of very limited resources, a local government can choose to use local resources for the same purpose as facilitated by tools[1] made available by the state government, essentially using local discretionary resources and state economic development resources[2] together in hopes of achieving an "economy of scale". Alternatively, a local government can use local sources to fund its own tools separate from those made available by the state, thus using a wider range of tools but dedicating fewer total resources to each.

STUDY GOALS

The purpose of this project is to better understand how local governments make choices about what tools to use for economic development, both in terms of intensity of effort as well as range of tools employed. More specifically, the goal is to determine whether tools available at the state level influence tools used by localities within that state. This plays out in two dimensions, in the level of local expenditures dedicated to economic development as well as the way expenditures are spread across different uses. The goal of this study is to begin to pull at the thread of the questions: What effect does the level of effort a state focuses

[1] For purposes of this study, economic development tools are broadly defined to include techniques, policies, projects, programs and organizational/institutional structures implemented to retain, create or attract jobs and/or improve job quality or wages.

[2] Resources for economic development are defined to include both financial resources as well as legal statutes and governmental policies that allow tools to be utilized.

on economic development have on the level of resources dedicated to economic development by local governments? Do local governments choose tools that build on state resources? Or do they create their own tools with local resources?

Addressing these questions may yield insights that can inform policymaking at the state level, which may result in better-targeted programs and a more efficient state economic development effort. This study may also provide a fresh perspective on the range of tools that states and localities employ and how those choices are made.

Hypotheses

While data limitations prevented the development of a model that would allow for more rigorous hypothesis testing, this study attempts to add to our understanding of the above issues by explore exploring the following hypotheses:

Hypothesis 1. Local governments in states employing a more active approach to economic development will have a different pattern of expenditures than those in states with a more limited approach.

Hypothesis 2. Local governments in states employing a broad range of economic development tools and policies will have a different pattern of expenditures than those in states with a more limited approach.

For purposes of this study, "more active" or "less active" refers to a combination of level of economic development expenditures as well as the range of policies, programs and incentives used. Chapter II describes how this somewhat subjective determination was made.

Of course, it is possible that there is no clear relationship between state tools and use of local tools, and it is also possible that other factors such as population size, level of economic distress, or specific economic shocks such as military base realignments or other loss of a major employer or industry shape local activities independently of state resources. Furthermore, influential leaders, either at the state or local level, and the design and administration or efficacy of tools could have a greater impact than the hypothesis being tested.

It is also possible that the methodology undertaken in this study is not able to capture the relationship either because other factors mask the true relationship or because the data is insufficient. This thesis will identify potential weaknesses in the methodology employed and make recommendations for further study including additional data needs and analysis techniques that could be employed with such data.

This study makes an initial exploration of the above using programming of federal Community Development Block Grant (CDBG) funds, a program further described in Chapter II. Because it is available to all cities and counties with populations of 50,000 or greater, and can be used for a wide range of public purposes including economic development, patterns in use of CDBG funds for economic development provide an excellent place to begin a foray into the relationship between state and local actors. The data has some limitations as well, which are further described in Chapter II.

REPORT ORGANIZATION

This report is organized as follows:

- **Chapter II** places this study in context within the greater body of research on factors influencing local approaches economic development.
- **Chapter III** provides a detailed description of the study's methodology.
- **Chapter IV** provides an overview of relevant socioeconomic characteristics of each analysis state, a description of the economic development tools, policies and programs found in each, and a side-by-side look at the comparison pair states.
- **Chapter V** sets forth patterns of CDBG funding as it is used for economic development, hones in on measures of levels of expenditures as well as distribution across CDBG economic development categories, then revisits the state pairs to try to identify a relationship between state level tools and patterns of local expenditures.
- **Chapter VI** concludes with the findings of this study and discusses recommendations for future research.

II. RESEARCH CONTEXT

This study focuses on a very specific aspect of a broader field of research into understanding how localities make economic development policy and program decisions. That body of work is primarily concerned with identifying ways that localities can improve economic development outcomes in terms of job growth, economic diversification, wage improvement and unemployment and poverty reduction. The present study carves one sliver off of that larger issue, zooming in on the influence that state economic development policies, programs, incentives and tools have on economic development tool choices made at the local level. The purpose of this section is to place this sliver in the larger research context through a review of the related literature. It also highlights relevant research on CDBG spending patterns, which informs the present study's methodology and data interpretation.

First, extensive research has been done with the aim of measuring the job growth response to economic development policies and incentives including Gabe and Kraybill (2002); Bartik (1991); de Bartolome and Spiegel (1997); Buss (2001); Faulk (2002); Walker and Greenstreet (1991). These studies present a conflicting message as to whether such policies and incentives have a positive, negative or indiscernible impact. Furthermore, they deal only with the relationship between state and/or local government policies and job creation impacts and remain mute on any interrelationship between state and local tools that may exist.

An interesting study by Don Grant, et al in 1995 used data from *the Industrial Development and Site Selection Handbook*, a source that reported the presence or absence of 79 specific economic development policies across all 50 states from 1970-92[3], to determine whether states were moving away from supply side to demand-side economic development tools (Grant, Wallace and Pitney 143-44).[4] Supply side policies were defined as 1) those that reduce tax burden on corporations, 2) debt financing and loan guarantee programs, 3) deregulation of state labor market policies, 4) targeting of geographic areas, and 5) regulatory policies to reduce cost of complying with state and federal environmental regulations. (Grant, Wallace and Pitney 135) Demand side policies included venture capital funding, high-technology development and export-promotion, and similar policies where the state shares the risk with the private sector to nurture new industries and markets. Grant's study concluded that:

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[3] This source would have been ideal for use in the present study, but unfortunately it is no longer produced. It has instead been replaced by Site Selection Magazine, which lists selected current incentives only and no longer attempts to comprehensively categorize incentives and policies across states. The information is comparable to that found at www.locationusa.com which was used in this study.

[4] The Grant study was explicitly designed to build on the work Eisinger set forth in the book *The Rise of the Entrepreneurial State: State and Local Development in the United States.*

> [B]etween 1970 and 1985, states primarily pursued economic growth through such business relocation incentives as regressive tax policies, debt financing, labor market deregulation policies, geographically targeted policies, and pollution control incentives. However, after 1985, most of these incentives became virtually universal, which undermined their distinctiveness and competitive advantage. Other results showed that between 1988 and 1992, a new constellation of development strategies appeared that consisted of one traditional relocation package (pollution control incentives) as well as two nontraditional strategies (entrepreneurial policies and enterprise zones).

Though the Grant study starts from a similar position to the present analysis – classifying states by level and intensity of economic development effort - it clearly takes a different direction and is silent on the influence state-level policies and incentives might have on tools employed by local governments.

There is also a large body of research evaluating the CDBG program from a number of perspectives, from how funds are spent to whether or not they are effective. For example, Glenn (2008) looks at nationwide CDBG expenditures by category to show that between 2001 and 2007, despite wide variations among entitlement communities, at the aggregate level "spending patterns … represent a sort of consensus-vision of national priorities for housing and community development spending. This aggregation of thousands of local decisions – and not some mammoth federal plan or policy – is what directed over $100B since 1974 (roughly $3.7B/year currently) in government spending" (Glenn). Though in aggregate this trend held true for CDBG economic development expenditures, the study did not address differences in expenditures between states, nor did it drill down to the local level to tease out differences in economic development expenditures.

The study most relevant to the present work was a 1995 piece by Rosenfeld, Reese, Gorgeau and Wamsley that examined CDBG grants and expenditure patterns in six Michigan entitlement communities to determine if patterns of intergovernmental relations were "institutionalized and routinized" (meaning that funds were being dedicated to ongoing programs rather than new initiatives) by the availability of CDBG funds or if they were simply "subject to federal or local political winds" (Rosenfeld, Reese and Georgeau 56). In the course of this work, the team looked at a wide range of factors influencing how CDBG decisions were being made:

> Federal discretion is but one factor in influencing policy outcomes. Ultimately, CDBG delegates partial decision-making responsibility to local political and administrative officials. These individuals have the opportunity to define local community development programs within broad or narrow federal parameters. The extent to which they exercise this opportunity and do so without abuses to the legislation will vary, not only with federal policies, but also with local economic, political and administrative characteristics. (Rosenfeld, Reese and Georgeau 57)

The study identified factors influencing the amount of CDBG funds dedicated to economic development, and ruled out other factors, based on characteristics of the three (out of six) communities studied that used CDBG funds for economic development:

> This group represents both declining and stable communities, making an argument based on economics difficult. However, the two highest spending communities ... both represent 'reformed' government systems. In light of recent literature linking increased bureaucratic professionalization and economic development activity, it appears that such a relationship could be present in CDBG spending as well." (Rosenfeld, Reese and Georgeau 69)

The study also finds that spending for economic development does not appear to be as strongly influenced "by fiscal health as by other, essentially political characteristics of the community. Specifically, the presumed increase in professionalization corresponding to reformed systems appears to lead to greater emphasis on economic development" (Rosenfeld, Reese and Georgeau 71).

Of course, the Rosenfield, Reese, Gorgeau and Wamsley study measures influences directly on CDBG expenditures, it does not utilize CDBG spending as a proxy or potential indicator of the overall level and breakdown of local economic development expenditures as does the present study. Therefore, though it provides some interesting insight into factors other than state-level economic development policies that may be driving use of economic development tools at the local level, it doesn't directly answer the question asked here.

A subsequent (1999) study by Reese identified factors that influence a city's use of one commonly used local economic development tool: tax abatement. The investigator developed a model that included age of the city, population and population growth, median family income, education level, unemployment, tax rates, property values and governmental structure. The study found that:

> Demographic factors such as age and population size directly impact abatements in a positive manner. Abatements, however, are also the direct result of the demand for such abatements; demand is higher in areas with greater new development. But, instead of seeking abatements in returen for locating in an undesirable area, it appears that firms select attractive locations and then request abatements ... Governmental structure plays a role as well, particularly in shaping new development and demand for abatements (Reese, 187).

Like the former study, though this study provides important insight into other factors that drive local economic development tool decisions, it fails to consider the potential role of state-level economic development tools and policies.

The summary of relevant literature above demonstrates that although previous studies have uncovered (and ruled out) a number of factors that drive state and local economic development decisions, as well as CDBG fund programming, there has been a lack of exploration into the specific relationship between state level policies, programs and incentives and tools employed at the local level. Chapter III introduces the methodology by which this study attempts to initiate that conversation.

III. Methodology – Data Collection, Classification and Analysis Techniques

This study represents an initial attempt to understand how the availability of state-level tools influences tools used at local levels. Because this is a relatively unexplored area of investigation, in addition to elaborating on the hypotheses set forth in Chapter II, it will also identify data needs and methodological improvements that will allow future investigations to build on this preliminary work.

State Selection, Classification as "More Active" or "Less Active", and Pairing

Instead of looking across all states, we focus on seven states, selected because they represent a wide range of approaches to economic development both in terms of the range of tools employed as well as the intensity of effort in different economic development categories and overall. The states chosen, in alphabetical order, are: Alabama, Arizona, Colorado, Indiana, Ohio, South Carolina and Wisconsin. The first step in selecting these states was to identify those with at least 15 entitlement communities (ECs) but not more than 50; that is, enough communities that a pattern could emerge but not so many that the data would be unmanageable. The next step was to analyze population, employment and industry mix in search of states with similar characteristics, while at the same time endeavoring to include states representing different regions of the US.

The list was further refined by identifying states thought to represent a wide range of economic development approaches. The original concept was to categorize states based on intensity of economic development effort.

Ideally this would be determined empirically based on the amount spent on economic development relative to the state's total budget. However, states pursue economic development in such different ways that it is difficult to determine their total budget for economic development activities. For example, Alabama does traditional incentives-oriented economic development through the Alabama Development Office, but it has a separate agency that provides small business development support. Other states do a significant amount of economic development through partnerships with public utilities, which would not be reflected in the state's general fund budget. As a practical matter, this variety made it necessary to identify likely candidates first, and then verify the level and range of economic development activity among this shortened list of states.

As a starting point, I consulted key staff at the Northeastern Economic Development Association, key staff at the Southern Economic Development Council, as well as the regional directors of each Economic Development Administration field office and asked them to identify states in their respective regions that would be considered more active or less active in economic development. A few candidates emerged from this process – Ohio (more active), Wisconsin (more active), and Indiana (less active). Other states that were suggested did not meet previously established criteria. For example, Vermont and Maine did not have enough entitlement communities, while Pennsylvania had far too many.

Some of the contacts were reluctant to label states as "more" or "less" active. As one EDA director noted, economic development is important in all states, and they are all active in one way or another. Some may choose to emphasize small business development, some invest in technology development and commercialization, while others focus on tax incentives. As a result of this insight, four states were selected Alabama, Arizona, Colorado and South Carolina with the goal of using interviews to determine either their overall level of economic development effort, or at the very least, their area of focus. While it was clear that these four states were likely less active in economic development than Ohio and Wisconsin, and possibly more active than Indiana, it was not yet possible to place them on a spectrum from more to less active, nor was it certain in which aspect of economic development they might be considered more or less active. To overcome this difficulty, I attempted to pair states based on their population size and economic composition with the expectation that the more active and less active partner would become apparent through subsequent research and the interviews.

Six of the seven states considered in this analysis were found suitable for pairing. That is, they have some similarities such as population size and economic composition, yet take very different approaches to economic development. The purpose of these pairs is to help tease out differences at the local level if a pattern is not clear by looking across the full set, and should allow more detailed analysis whether or not the pattern is clear across the full set—and to see how difference in state tools in otherwise similar states may impact choices made at the local level. As paired, they are:

- Alabama and South Carolina
- Arizona and Colorado
- Wisconsin and Indiana

A suitable pair for Ohio was not identified, however, but it was nonetheless included to supplement the analysis of the full set of seven states and to provide a case to look at local government tools in a state with an especially active and resource rich state tool kit. More information on each state is contained in Section IV.

As mentioned above, because states approach economic development very differently, it is difficult to obtain a full accounting of resources they dedicate to it. Table III-1 presents budget expenditures for each analysis state's primary economic development agency, shown in millions and as a percent of the state's total general fund budget. As the table shows, Ohio was a clear outlier with economic development expenditures ranging from $667 to $876 million, with the next highest state, South Carolina spending only $121 to $167 million. South Carolina's expenditures actually represented a higher proportion of expenditures. However, that state rolls conservation and natural resources into the figure reported for economic development, preventing a true apples to apples comparison. Colorado's economic development agency is part of the Governor's Office, and budget figures specific to economic development are not publicly available. The remaining states reflected proportions ranging from approximately 0.25 to 0.75 percent of statewide expenditures dedicated to economic development.

Table III-1. Primary State Economic Development Agency Budgets & State General Fund Budgets, 2005-07 (Millions)

	2005	2006	2007
Alabama General Fund	$1,448	$1,583	$1,677
Alabama Development Office	$4	$4	$4
% of General Fund	0.25%	0.23%	0.23%
Arizona General Fund	$7,547	$8,768	$10,201
Arizona Department of Commerce	$7	$15	$16
% of General Fund	0.09%	0.18%	0.15%
Commerce & Econ Dev Commission (CEDC)	$0.26	$0.26	$0.27
% of General Fund	0.00%	0.00%	0.00%
Colorado General Fund	$6,027	$5,247	$5,525
Colorado Office of Economic Development	n/a	n/a	n/a
% of General Fund	n/a	n/a	n/a
Indiana General Fund	$7,638	$8,207	$8,378
Indiana Economic Development Corporation	n/a	$8	$9
% of General Fund	n/a	0.10%	0.10%
Ohio General Fund	$45,972	$49,617	$51,199
Ohio Economic Development	$667	$873	$876
% of General Fund	1.45%	1.76%	1.71%
South Carolina General Fund	$5,073	$5,540	$6,117
Conservation, Nat Res & Econ Dev	$121	$134	$167
% of General Fund	2.38%	2.42%	2.72%
Wisconsin General Fund	$8,790	$9,143	$9,548
Wisconsin Economic Development	$67	$68	$74
% of General Fund	0.76%	0.75%	0.78%

Source: Individual state budget documents.

State Tools

There is no database of state-level economic development tools that includes the full extent of programs, incentives and enabling policies. Instead, a list of tools was developed for each state based on their respective websites as well as general economic development and site selection resources including Area Development's Location USA website (www.locationusa.com) and Site Selection Magazine (online at www.siteselection.com). Then interviews were conducted with the director, or a representative designated by the director, of each state's primary economic development agency. The purpose of the interviews was to ensure that the list of programs, enabling legislation and incentives was complete, confirm thorough understanding of each program allowing them to be correctly classified, and to better understand the state's overall approach to more accurately characterize its focus, range and intensity of economic development activity. The list of interview participants as well as the interview script can be found in the Appendix.

Local Tools

Local economic development tools are driven by own-source revenue streams. Across the country, localities have a number of own-source revenue streams that can be used for economic development including allocations from city or county general funds, dedicated portions of property tax, sales tax, or special taxes such as hotel/tourism taxes, tax increment financing, special assessments and other sources. Unfortunately, there is no centralized database that tracks how much money is collected by each jurisdiction and how it is used for economic development. One source that does have extensive data and is used by all large and medium size cities is the Community Development Block Grant (CDBG) program administered by the US Department of Housing and Urban Development (HUD). Though it is a Federal program and not technically an "own-source" of funds, because it is highly flexible with few restrictions on how funds are used, it provides a suitable proxy for a local source.

About CDBG

The Federal CDBG program is the primary source of local discretionary funds available nationwide. Initiated by HUD in 1974, the highly flexible program provides annual funding to more than 1,200 general units of local government and States in support of a wide range of community and economic development projects and programs. Funds are allocated to grantees using a formula that considers measures of community need, including poverty, population, housing overcrowding, age of housing, and population growth lag relative to other metropolitan areas.

As mentioned, the program is designed to be flexible. At least 70 percent of each grant must be used for activities that benefit low- and moderate-income persons. In addition, eligible activities must also meet one of the following national objectives for the program:

> [B]enefit low- and moderate-income persons, prevention or elimination of slums or blight, or address community development needs having a particular urgency because existing conditions pose a serious and immediate threat to the health or welfare of the community for which other funding is not available.[5]

The following communities are eligible to receive annual CDBG grant funds:

- Principal cities of Metropolitan Statistical Areas (MSAs);
- Other metropolitan cities with populations of at least 50,000; and
- Qualified urban counties with populations of at least 200,000 (excluding the population of entitled cities)

Because CDBG is used by local governments in all 50 states, because recipients can program the funds independent of state economic development departments, and because HUD maintains detailed data regarding how funds are used, the CDBG program resources shed important light on the question of interest.

HUD also administers a State CDBG Program, which replaced what was known as the "Small Cities Program". The State CDBG Program provides grant funds for non-entitlement areas including cities with populations of less than 50,000 (except cities that are designated principal cities of Metropolitan Statistical Areas), and counties with populations of less than 200,000. Funds are applied for and programmed entirely by the respective state government based on state needs, goals and priorities. Data from this program was not included in this preliminary analysis.

CDBG Data

Entitlement communities report CDBG expenditures by category to HUD on an annual basis. The data is available on HUD's website in PDF format. For this project, the data for each entitlement community (EC)[6] in the states of interest for program years (PY) 2005, 2006, and 2007 were compiled. Data for 2008 was not yet available for all entitlement communities, thus 2007 represented the most recent data available. Since expenditures for economic development (ED)[7] can vary widely from year to year within a given EC, a three period was captured to minimize the effect of year-to-year variation. This period is also before the recent recession, local fiscal problems and American Recovery and Reinvestment Act (ARRA), so it is more likely to reflect "core" local economic development approaches rather than a response to the immediate economic and fiscal crisis. During that three-year period, entitlement entities in selected states made expenditures in the following ED-related categories:

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[5] http://www.hud.gov/offices/cpd/communitydevelopment/programs/

[6] From this point forward, entitlement community will be abbreviated as "EC".

[7] From this point forward, economic development in reference to CDBG expenditures will be abbreviated "ED".

- 14E Rehabilitation: Publicly or Privately Owned Commercial/Industrial
- 17A Commercial/Industrial Land Acquisition/Disposition
- 17B Commercial/Industrial Infrastructure Development
- 17C Commercial/Industrial Building Acquisition, Construction, Rehabilitation
- 17D Other Commercial/Industrial Improvements
- 18A ED Direct: Financial Assistance to For-Profit Businesses
- 18B ED Direct: Technical Assistance
- 18C Micro-Enterprise Assistance

Each category is briefly described below.

14E. Rehabilitation: Publicly or Privately Owned Commercial/Industrial –

Includes only rehabilitation limited to improvements to the exterior of a commercial building, generally referred to as "facade improvements", or to the correction of code violations.

17A Commercial/Industrial Land Acquisition/Disposition –

Projects to acquire land, clear structures, or package commercial or industrial property for a special economic development activity, like creating an industrial park.

17B Commercial/Industrial Infrastructure Development –

Includes street improvements, water improvements, parking additions, rail transport improvements, or other improvements to a site for a special economic development activity. May include installation of public improvements in an industrial site or construction of streets/roads to and through commercial/industrial areas.

17C Commercial/Industrial Building Acquisition, Construction, Rehabilitation –

Grants to acquire, construct, or rehabilitate a commercial/industrial building for a special economic development activity.

17D Other Commercial/Industrial Improvements –

This category includes other commercial and industrial improvements undertaken by the grantee or a non-profit for a special economic development activity that is not covered by 17A, 17B, or 17C.

18A ED Direct: Financial Assistance to For-Profit Businesses –

Grantee or sub-recipient will provide financial assistance to a for-profit business, typically in the form of loans, loan guarantees, or grants to acquire property, clear structures, construct or rehabilitate a building, and/or purchase equipment. Projects in this category are generally intended to benefit low-and moderate-income persons on the basis of the creation or retention of jobs and recipients are typically required to report job creation/retention accomplishments.

18B ED Direct: Technical Assistance –

Grantee or sub-recipient will provide technical assistance to for-profit businesses such as workshops, marketing, or referrals.

18C Micro-Enterprise Assistance –

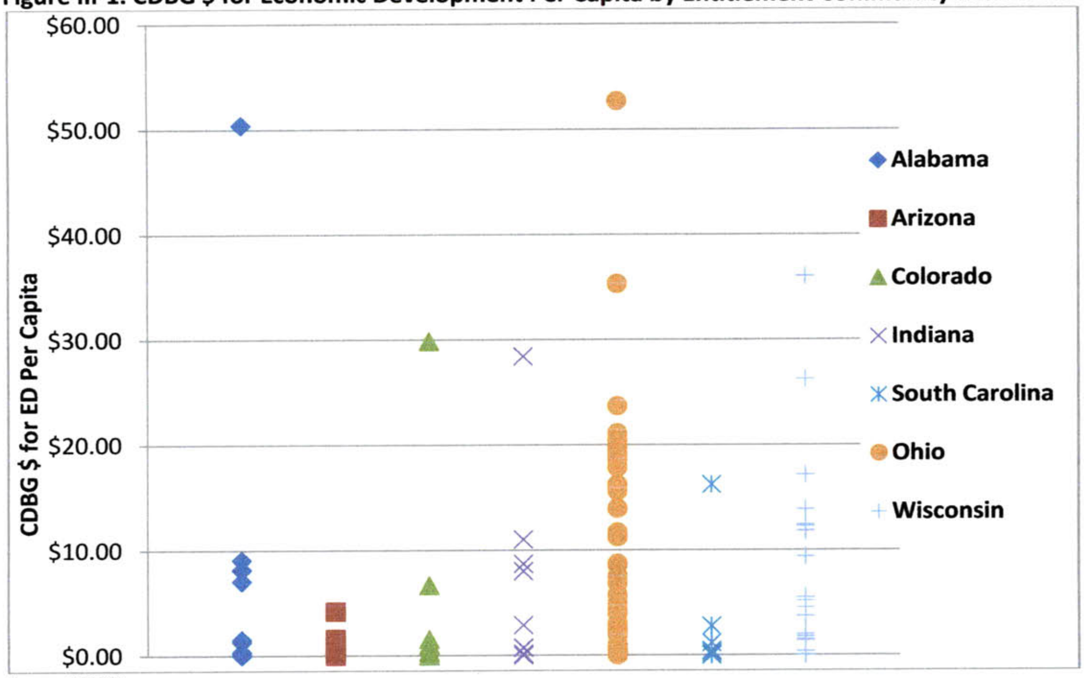
Activities that involve providing financial assistance, technical assistance, or general support services/programs to owners of and persons developing micro-enterprises (businesses with five or fewer employees, including the owner(s)).

USE OF CDBG FUNDS FOR ECONOMIC DEVELOPMENT BY ENTITLEMENT COMMUNITIES WITHIN EACH STATE

Figure III-1 and Figure III-2 present an overview of the range in level of CDBG expenditures for economic development (ED)[8] within each analysis state. As the figures show, most states have one or two communities that spend much more money than the others. These can be considered outliers because they do not reflect the pattern of the rest of the group. Instead, they obscure any pattern that the rest of the entitlement communities might exhibit. The section below will describe the expenditure patterns present in each state as well as which communities are outliers that will be suppressed from subsequent statistical analysis.

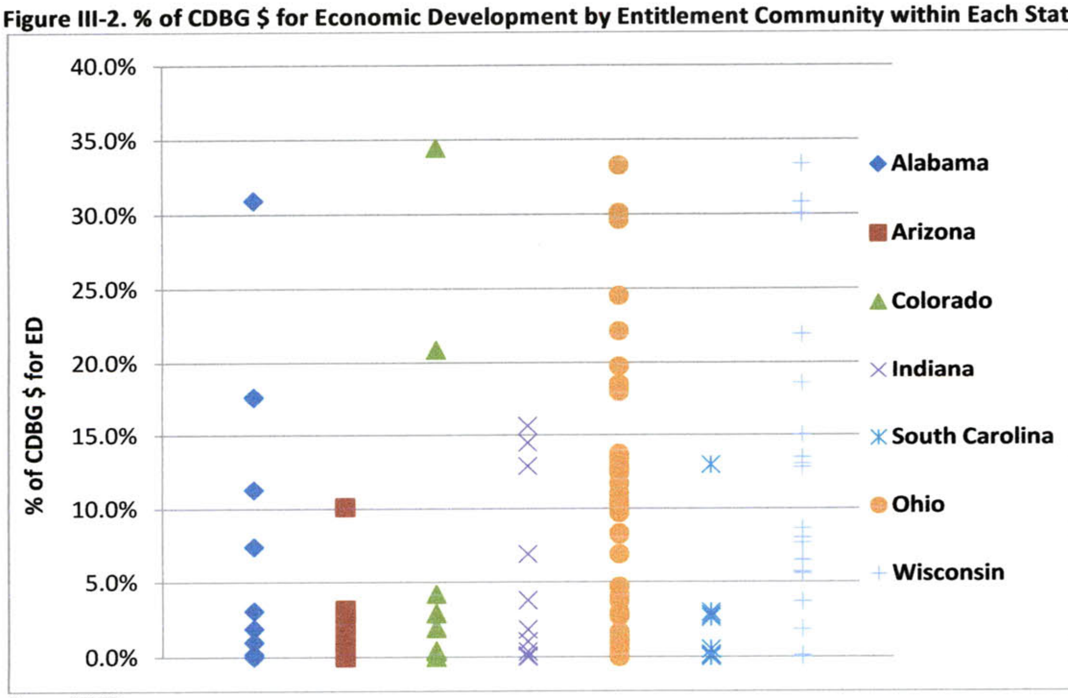
[8] From this point forward, when referring to CDBG expenditures for economic development, economic development will be abbreviated as ED.

Figure III-1. CDBG $ for Economic Development Per Capita by Entitlement Community within Each State



Source: HUD.

Figure III-2. % of CDBG $ for Economic Development by Entitlement Community within Each State



Source: HUD.

Characteristics of Top ED Spending ECs

This section looks at the characteristics of the top three ECs in each analysis state as measured by total CDBG expenditures for ED as well as CDBG for ED per capita. As measured by total CDBG for ED (Table III-2), the list includes four out of six state capitals (all but Indianapolis, IN and Columbia, SC), nearly every city is among the most populous in its state, and the majority are also county seats. As measured in per capita terms (Table III-3) the list of ECs is slightly different, but still consists primarily of cities with regional and statewide significance in terms of both population, political power, and position central to a major metropolitan area. Colorado's expenditure patterns mark a clear departure from the others. While Denver received a high proportion of funds, other communities in the same metropolitan area also received funds. This contrasts most starkly with Phoenix, which accounted for nearly all the funds in that metropolitan area (as discussed below). It would be interesting for future research to determine whether state-level economic development policies also concentrate resources in these dominant cities.

Characteristics of ECs with $0 Expenditures for ED

Table III-4 presents ECs with expenditures of $0 for the 2005-07 period. While the two previous lists of top spending communities presented a fairly clear pattern of cities of regional and/or statewide significance, the implications of this list are less clear. It does appear that in several states ED expenditures are concentrated in their capital cities – Arizona (Phoenix), Colorado (Denver), South Carolina (Charleston) – to the exclusion of other ECs in the same metropolitan area. The high level of expenditures in Phoenix occurred to the exclusion of not only Maricopa County (which contains Phoenix), but also to a number of other ECs within Maricopa County including Avondale, Chandler, Gilbert, Peoria and Scottsdale. The pattern evident in Indiana reflects a concentration of CDBG ED dollars in suburbs of the Chicago Metropolitan Area over struggling industrial areas such as La Porte (city) and Lake County. It would be interesting for future research to determine whether state-level economic development policies and resources similarly overlook these communities.

Table III-2. Characteristics of Top Spending ECs as Measured by Total CDBG for ED

Entitlement Community	State Capital	County Seat?	State Pop. Rank	Position Relative to MSA
Bessemer, AL			n/a	Suburb
Birmingham, AL	Yes	Jefferson Co	#1	Center
Mobile, AL		Mobile Co	#3	Center
Mesa, AZ			#3	Suburb
Phoenix, AZ	Yes	Maricopa Co	#1	Center
Tucson, AZ		Pima Co	#2	Center
Aurora, CO			#3	Suburb
Denver, CO	Yes	Consolidated	#1	Center
Longmont, CO			#13	Periphery
East Chicago, IN			n/a	Suburb
Gary, IN			#5	Suburb
Hammond, IN			n/a	Suburb
Cleveland, OH		Cuyahoga Co	#2	Center
Toledo, OH		Lucas Co	#4	Center
Columbus, OH	Yes	Franklin Co	#1	Center
Anderson, SC		Anderson Co	n/a	Micro
Charleston, SC		Charleston Co	#2	Center
Spartanburg, SC		Spartanburg Co	n/a	Suburb
Madison, WI	Yes	Dane Co	#2	Center
Milwaukee, WI		Milwaukee Co	#1	Center
Waukesha County, WI		n/a	n/a	Suburb

Source: HUD.

Table III-3. Characteristics of Top Spending ECs as Measured by Total CDBG for ED

Entitlement Community	State Capital	County Seat?	State Pop. Rank	Position Relative to MSA
Bessemer, AL			n/a	Suburb
Birmingham, AL	Yes	Jefferson Co	#1	Center
Mobile, AL		Mobile Co	#3	Center
Mesa, AZ			#3	Suburb
Phoenix, AZ	Yes	Maricopa Co	#1	Center
Yuma, AZ			#3	Suburb
Aurora, CO	Yes	Consolidated	#1	Center
Denver, CO			#13	Periphery
Longmont, CO			n/a	Suburb
East Chicago, IN			n/a	Suburb
Hammond, IN			n/a	Suburb
Muncie, IN			n/a	Center
Canton, OH		Stark Co	n/a	Center
Lorain, OH			#10	Periphery
Youngstown, OH		Mahoning Co	n/a	Periphery
Anderson, SC		Anderson Co	n/a	Micro
Charleston, SC		Charleston Co	#2	Center
Spartanburg, SC		Spartanburg Co	n/a	Suburb
Fond Du Lac, WI			n/a	Center
Sheboygan, WI		Sheboygan Co	n/a	Center
Madison, WI	Yes	Dane Co	#2	Center

Source: HUD.

Table III-4. ECs with $0 Expenditures for ED

Entitlement Community	County Seat (Major City)[1]	State Pop. Rank	Position Relative to MSA
Anniston, AL	Calhoun Co	n/a	Center
Auburn, AL	n/a	n/a	Center
Decatur, AL	Morgan Co	n/a	Suburb
Hoover, AL	n/a	n/a	Suburb
Huntsville, AL	Madison Co	#4	Center
Montgomery, AL	Montgomery Co	#2	Center
Opelika, AL	Lee Co	n/a	Suburb
Avondale, AZ	n/a	n/a	Suburb
Chandler, AZ	n/a	n/a	Suburb
Gilbert, AZ	n/a	n/a	Suburb
Maricopa County, AZ	Phoenix	n/a	n/a
Peoria, AZ	n/a	n/a	Suburb
Pima County, AZ	(Tucson)	n/a	n/a
Prescott, AZ	Yavapai Co	n/a	Periphery
Scottsdale, AZ	n/a	n/a	Suburb
Arapahoe County, CO	(Littleton)	n/a	n/a
Colorado Springs, CO	El Paso Co	#2	Center
Douglas County, CO	(Castle Rock)	n/a	n/a
Fort Collins, CO	Larimer Co	#5	Center
Grand Junction, CO	Mesa Co	#15	Center
Greeley, CO	Weld Co	#12	Suburb
Lakewood, CO	n/a	#4	Suburb
Loveland, CO	n/a	#14	Suburb
Pueblo, CO	Pueblo Co	n/a	Center
Westminster, CO	n/a	#8	Suburb
Bloomington, IN	Monroe Co	n/a	Center
Columbus, IN	Bartholomew Co	n/a	Center
Elkhart, IN	n/a	n/a	Suburb
Goshen, IN	Elkhart Co	n/a	Suburb
Hamilton County, IN	(Noblesville)	n/a	n/a
Kokomo, IN	Howard Co	#13	Center
La Porte, IN	La Porte Co	n/a	Center
Lake County, IN	(Crown Point)	n/a	n/a
Mishawaka, IN	n/a	n/a	Center
New Albany, IN	Floyd Co	n/a	Periphery
South Bend, IN	St. Joseph Co	n/a	Center
Terre Haute, IN	Vigo Co	n/a	Center
West Lafayette, IN	n/a	n/a	Center
Alliance, OH	n/a	n/a	Suburb
Hamilton County, OH	(Cincinnati)	n/a	n/a
Lake County, OH	(Painesville)	n/a	n/a
Steubenville, OH	Jefferson Co	n/a	Center

Continued next page

Entitlement Community	County Seat (Major City)[1]	State Pop. Rank	Position Relative to MSA
Aiken, SC	Aiken Co	n/a	Periphery
Charleston County, SC	(Charleston)	#3	Center
Conway, SC	Horry Co	n/a	Periphery
Greenville, SC	Greenville Co	n/a	Center
Greenville County, SC	(Greenville)	#1	n/a
Lexington County, SC	(Lexington)	n/a	Suburb
Myrtle Beach, SC	n/a	n/a	Center
Richland County, SC	(Columbia)	#2	Center
Sumter, SC	Sumter Co	n/a	Center
Eau Claire, WI	Eau Claire Co	n/a	Center
Oshkosh, WI	n/a	n/a	Center

[1] *For cities that are the county seat, county name is given; For counties, county seat is listed in parenthesis.*
Source: HUD.

CDBG Expenditure Patterns in Alabama

As shown in Table III-5, nine of Alabama's 16 entitlement communities had expenditures for ED in PY2005-07. The state's $7 million in expenditures for ED represented 7.8 percent of its total CDBG funds. The table also shows the range of ED expenditures as well as the mean and median averages for three key measures: total ED expenditures, ED expenditures per capita, and ED expenditures as a percent of total CDBG funds. The tremendous difference between the mean and the median is in part due to the high number of communities with $0 expenditures among most communities at one end of the spectrum, as well as the presence of an outlier with very high expenditures at the other end of the spectrum.

Table III-5.CDBG Expenditures for Economic Development - Alabama

# Entitlement Communities	16
# with Expend for Econ Dev	9
Total CDBG Expenditures	$91,211,000
CDBG Expend for Econ Dev	$7,082,000
As a % of Total CDBG Expend	7.8%

Statistical Overview - Full Set	$ for Econ Dev	Per Capita ('000 Pop)	As % of CDBG
Range			
Low	$0	$0	0.0%
High	$7,082,000	$78,266	17.6%
Mean	$1,153,000	$13,611	8.1%
Median	$125,000	$3,676	1.9%

Source: HUD.

As mentioned above, there is one Alabama EC that represents an "outlier", that is, its expenditure pattern is not consistent with the other communities. Though Bessemer, Alabama's ED allocation of $1.5 million is not out of line with other ECs such as Birmingham ($2.2 million), Mobile ($1.6 million) and Mobile

County ($1.0 million), Bessemer's expenditures represent 30 percent of its CDBG funds on economic development, and nearly $54,000 per 1,000 residents, far above the next highest per capita expenditures of $9,000 per 1,000 spent in Birmingham (7.4 percent of that EC's allocation). Therefore, it must be considered an outlier and is suppressed from future statistical analysis to avoid muddying the results. The new statistical characteristics are presented below.

Table III-6.Alabama – Statistical Overview with Outliers Removed

	$ for Econ Dev	Per Capita ('000 Pop)	As % of CDBG
Range			
Low	$0	$0	0.0%
High	$2,203,000	$9,065	17.6%
Mean	$372,000	$1,860	4.0%
Median	$9,000	$235	0.2%

Source: HUD.

CDBG Expenditure Patterns in Arizona

The table below shows ED expenditure patterns for Arizona's 15 ECs. As the table shows, nearly half (7) did not apply any CDBG funds to ED projects, and just 4.5 percent of total CDBG funds were allocated to such projects. Furthermore, ED expenditures were wildly skewed by Phoenix, which alone accounted for $5.5 million of the state's $6.4 million ED expenditures. This imbalance is further illustrated when ED expenditures are grouped by quartile. In fact, so many communities have $0 ED expenditures, that the upper bound for the second quartile is still $0

Table III-7. CDBG Expenditures for Economic Development - Arizona

# Entitlement Communities	15
# with Expend for Econ Dev	7
Total CDBG Expenditures	$144,779,000
CDBG Expend for Econ Dev	$6,443,000
As a % of Total CDBG Expend	4.5%

Statistical Overview - Full Set	$ for Econ Dev	Per Capita ('000 Pop)	As % of CDBG
Range			
Low	$0	$0	0.0%
High	$5,548,000	$4,200	10.1%
Mean	$430,000	$615	1.4%
Median	$0	$128	0.3%

Source: HUD.

Because the data is so distorted by Phoenix, it is suppressed from future statistical analysis. Maricopa County was also removed from the data set because its population of more than 3.0 million was far above other populations in the state. For comparison, the next highest populations were Phoenix with 1.3

million, followed by Pima County with 843,000. Despite its high population, it had no expenditures for ED (likely because Phoenix is the major city in Maricopa County and ED resources were channeled there instead). As a result of such a high population coupled with zero ED expenditures, Maricopa does not reflect the general pattern of other ECs in Arizona and has been removed from the dataset. The new statistical characteristics are presented below.

Table III-8. Arizona - Statistical Overview with Outliers Removed

	$ for Econ Dev	Per Capita ('000 Pop)	As % of CDBG
Range			
Low	$0	$0	0.0%
High	$329,000	$827	2.4%
Mean	$64,000	$182	0.5%
Median	$0	$0	0.0%

Source: HUD.

CDBG Expenditure Patterns in Colorado

The table below shows ED expenditure patterns for Colorado's 17 ECs, only 7 of which dedicated CDBG funds to ED projects. Colorado's CDBG ED expenditure pattern was greatly skewed by Denver, which allocated nearly $16.6 million to ED. The next highest spending ED in Colorado was Aurora, with just $1.8 million. In fact, Denver's expenditures were more than $6 million higher than the next highest spending ED among the full set of ECs across all seven states.

Table III-9. CDBG Expenditures for Economic Development - Colorado

# Entitlement Communities	17
# with Expend for Econ Dev	7
Total CDBG Expenditures	$98,474,000
CDBG Expend for Econ Dev	$18,645,000
As a % of Total CDBG Expend	18.9%

Statistical Overview - Full Set	$ for Econ Dev	Per Capita ('000 Pop)	As % of CDBG
Range			
Low	$0	$0	0.0%
High	$16,573,000	$29,880	34.4%
Mean	$1,104,000	$2,327	3.8%
Median	$0	$0	0.0%

Source: HUD.

Because the data is so distorted by Denver, that community is suppressed from future statistical analysis. The new statistical characteristics are presented below.

Table III-10. Colorado - Statistical Overview with Outliers Removed

	$ for Econ Dev	Per Capita ('000 Pop)	As % of CDBG
Range			
Low	$0	$0	0.0%
High	$1,840,000	$6,668	4.2%
Mean	$137,000	$605	0.7%
Median	$0	$0	0.0%

Source: HUD.

CDBG Expenditure Patterns in Indiana

Table III-11 shows that 10 of Indiana's 23 ECs made ED expenditures during PY2005-07, with only 3.2 percent of CDBG funds allocated to ED. Though the means and medians are very different, Indiana did not have any outlier communities. Instead, the difference is driven by having 13 communities spending $0, four spending between $1 and $187,000, and an additional six spending more than $187,000 up the maximum of $921,000 (East Chicago, IN).

Table III-11. CDBG Expenditures for Economic Development - Indiana

# Entitlement Communities	23
# with Expend for Econ Dev	10
Total CDBG Expenditures	$132,242,000
CDBG Expend for Econ Dev	$4,237,000
As a % of Total CDBG Expend	3.2%

Statistical Overview - Full Set	$ for Econ Dev	Per Capita ('000 Pop)	As % of CDBG
Range			
Low	$0	$0	0.0%
High	$921,000	$28,425	15.6%
Mean	$184,000	$2,639	2.5%
Median	$0	$0	0.0%

Source: HUD.

CDBG Expenditure Patterns in Ohio

Nearly all (39) of Ohio's 43 ECs made expenditures for ED. Despite two outlier communities, expenditures fell relatively evenly from lowest to highest.

Table III-12. CDBG Expenditures for Economic Development - Ohio

# Entitlement Communities	43		
# with Expend for Econ Dev	39		
Total CDBG Expenditures	$460,098,000		
CDBG Expend for Econ Dev	$52,070,000		
As a % of Total CDBG Expend	11.3%		
Statistical Overview - Full Set	**$ for Econ Dev**	**Per Capita ('000 Pop)**	**As % of CDBG**
Range			
Low	$0	$0	0.0%
High	$10,087,000	$52,676	33.3%
Mean	$1,211,000	$9,252	10.6%
Median	$397,000	$4,929	10.5%

Source: HUD.

Though Cleveland stands out as having very high ED expenditures ($10.1 million), in per capita terms and as a percent of CDBG expenditures, it seems consistent with statewide patterns and should not be considered an outlier. However, Canton and Lorrain exhibited per capita expenditures more than 33 percent higher than the next lowest communities and each dedicated more than a third of CDBG funds to ED (high relative to the statewide average of 11 percent). As a result, they have been removed from the data set.

Table III-13. Ohio - Statistical Overview with Outliers Removed

	$ for Econ Dev	Per Capita ('000 Pop)	As % of CDBG
Range			
Low	$0	$0	0.0%
High	$10,087,000	$23,681	30.1%
Mean	$1,107,000	$7,557	9.6%
Median	$390,000	$4,479	10.3%

Source: HUD

CDBG Expenditure Patterns in South Carolina

Less than half (7) of South Carolina's ECs allocated CDBG funds to ED, with ED allocations accounting for just 1.3 percent of total CDBG dollars. Anderson, SC represented an outlier with expenditures nearly four times higher than the next highest spending EC in dollar terms, and nearly 8 times as high in per capita terms. As a result, this community will be removed from the data set to avoid stymieing future calculations. Table III-15 presents the revised statistical output with the outlier removed.

Table III-14. CDBG Expenditures for Economic Development - South Carolina

# Entitlement Communities	16		
# with Expend for Econ Dev	7		
Total CDBG Expenditures	$60,032,000		
CDBG Expend for Econ Dev	$770,000		
As a % of Total CDBG Expend	1.3%		
Statistical Overview - Full Set	**$ for Econ Dev**	**Per Capita ('000 Pop)**	**As % of CDBG**
Range			
Low	$0	$0	0.0%
High	$409,000	$16,202	13.0%
Mean	$48,000	$1,306	1.4%
Median	$0	$0	0.0%

Source: HUD.

Table III-15. South Carolina - Statistical Overview with Outliers Removed

	$ for Econ Dev	Per Capita ('000 Pop)	As % of CDBG
Range			
Low	$0	$0	0.0%
High	$111,000	$2,757	3.0%
Mean	$24,000	$313	0.6%
Median	$0	$0	0.0%

Source: HUD.

CDBG Expenditure Patterns in Wisconsin

All but two of Wisconsin's ECs made expenditures for ED, with ED allocations comprising some 10.8 percent of all CDBG funds. Though dollars for ED were expended relatively evenly across Wisconsin's ECs, Fond Du Lac and Sheboygan's ED expenditures in per capita terms were much higher than other communities and did not reflect the wider pattern observed among other ECs in the state. As a result, data for these two communities will be suppressed from further analysis.

Table III-16. CDBG Expenditures for Economic Development - Wisconsin

# Entitlement Communities	21		
# with Expend for Econ Dev	19		
Total CDBG Expenditures	$153,090,000		
CDBG Expend for Econ Dev	$16,586,000		
As a % of Total CDBG Expend	10.8%		
Statistical Overview - Full Set	**$ for Econ Dev**	**Per Capita ('000 Pop)**	**As % of CDBG**
Range			
Low	$0	$0	0.0%
High	$3,553,000	$36,051	33.4%
Mean	$790,000	$8,132	11.6%
Median	$387,000	$5,187	8.0%

Source: HUD.

POPULATION SIZE, UNEMPLOYMENT RATE AND POVERTY LEVEL

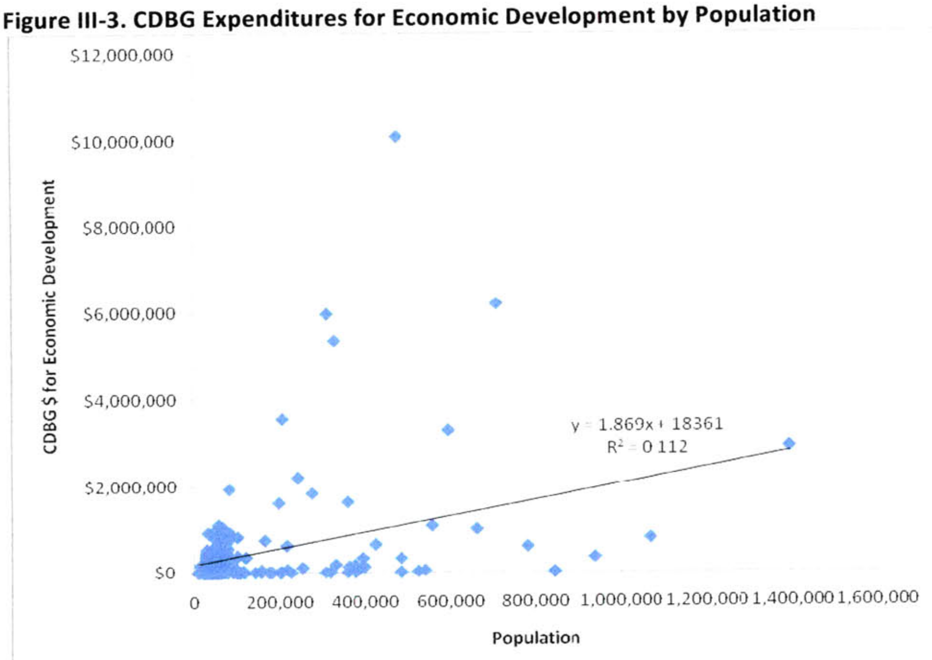
Since the purpose of this study is to determine the impact of state-level economic policies and tools on local economic development tools, it is important to rule out other key factors that might drive local economic development tools or otherwise interfere with the data analysis. As noted in the introduction and further discussed in Chapter II, a number of factors such as city size, unemployment rate, poverty level, specific economic shocks such as military base realignments or other loss of a major employer or industry, influential leaders, either at the state or local level, effectiveness of state and local programs, pattern of civic participation and type of government could have an equal or greater impact than the hypothesis being tested. Alternatively, these or other unknown factors could counteract one another in a way that might stymie this study's attempt to address the given hypotheses. Though many of these factors fall outside the scope of this project, three key factors stand out as easily testable: Population size, unemployment rate, and poverty level.

One might expect similar expenditure patterns among communities of similar size. It is easy to envision that the economic development challenges a town of 50,000 faces might be more similar to those faced by other towns of similar size than to those faced by a bustling metropolitan center with a population of 3 million, and that those similar challenges might be reflected in similar expenditure levels and patterns throughout the data set.

Since one of the goals of economic development is job creation, it is reasonable to think that the expenditure patterns of communities with higher unemployment might significantly differ from those communities with lower unemployment. In that case, one might expect expenditures to be higher where unemployment is higher. One might also expect the converse relationship, that where unemployment is high, other public services are overtaxed and require a greater portion of overall resources, leaving less for economic development activities. Poverty, which is sometimes related to high unemployment and sometimes separate, raises similar possibilities.

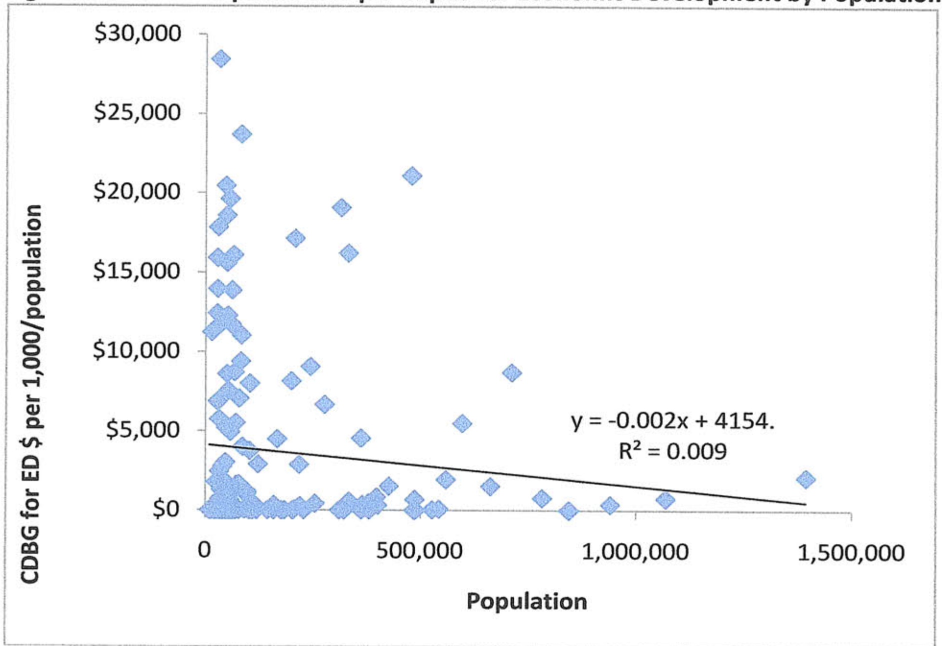
Data for these factors is standardized and readily available through the US Census Bureau and US Bureau of Labor Statistics. Population (Census Estimate for 2007), unemployment (BLS, 2007), and poverty (Census American Community Survey 2005-2007) was obtained for each entitlement community in the analysis states. Scatter plots were created to examine the possible relationship between each independent variable and CDBG expenditures for economic development. Though some of the graphs below seem to show clearly upward or downward sloping lines, the R^2s are very in all cases, indicating only weak relationships between these factors and expenditures. Therefore, as we analyze the results of subsequent statistical tests as part of this study, we can be reasonably confident that we are not merely seeing the behavior of cities of certain population size, unemployment level or poverty rate, nor are those factors likely to be obscuring the true results.

Figure III-3. CDBG Expenditures for Economic Development by Population



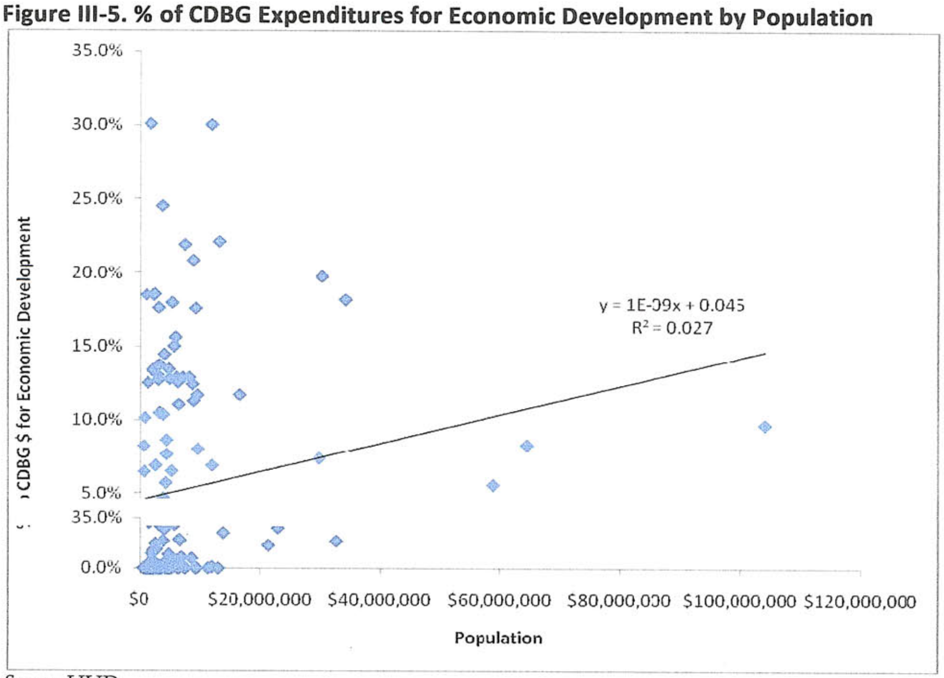
Source: HUD.

Figure III-4. CDBG Expenditures per Capita for Economic Development by Population



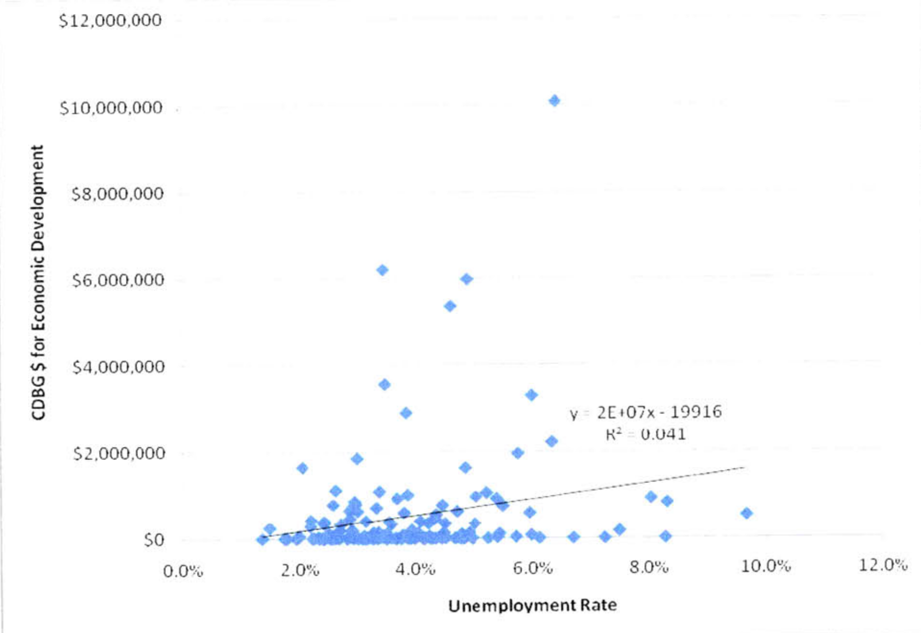
Source: HUD.

Figure III-5. % of CDBG Expenditures for Economic Development by Population



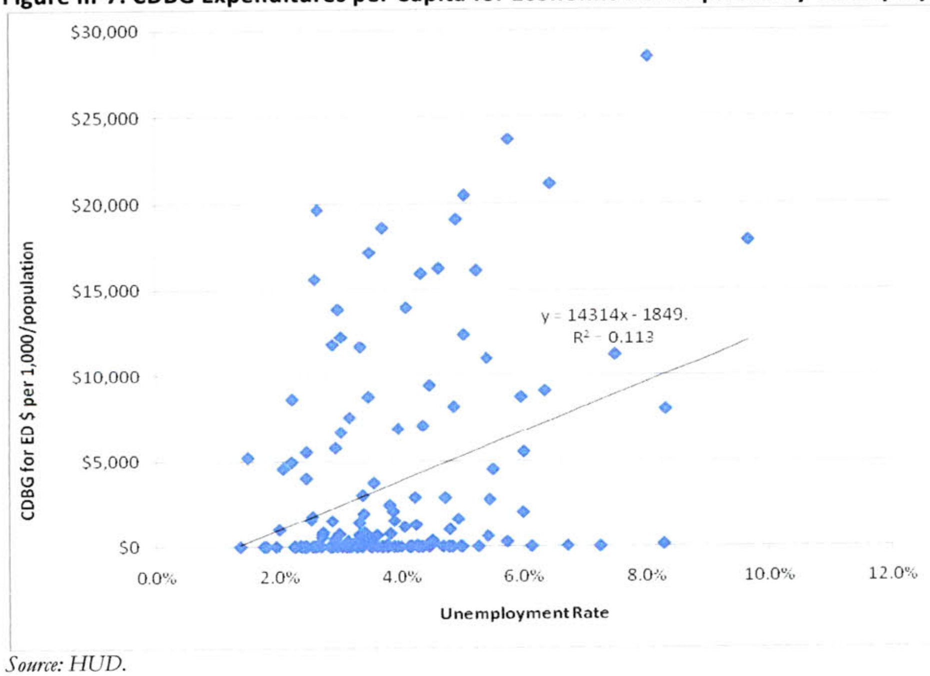
Source: HUD.

Figure III-6. CDBG Expenditures for Economic Development by Unemployment Rate



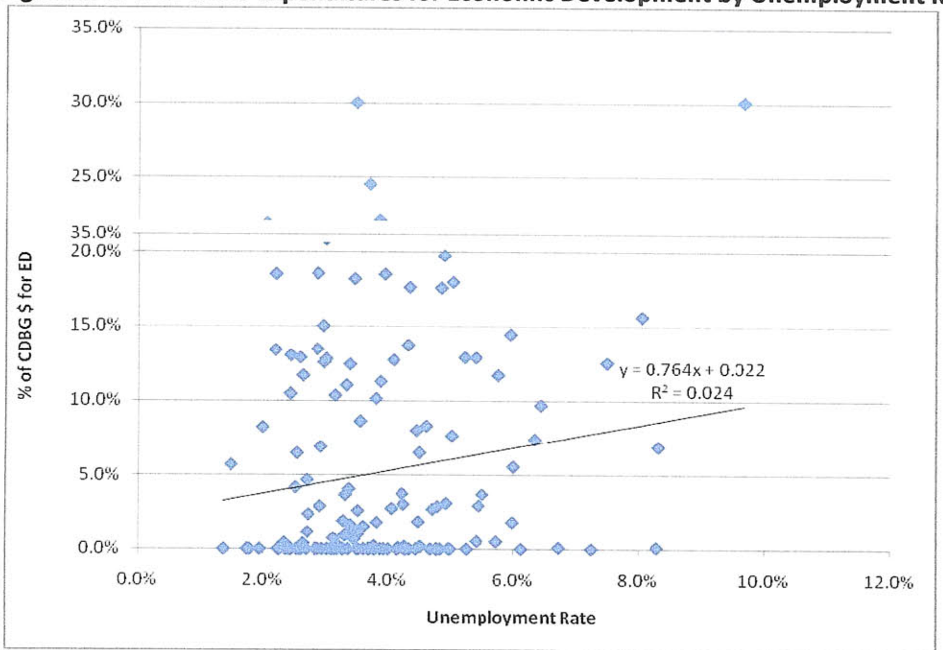
Source: HUD.

Figure III-7. CDBG Expenditures per Capita for Economic Development by Unemployment Rate



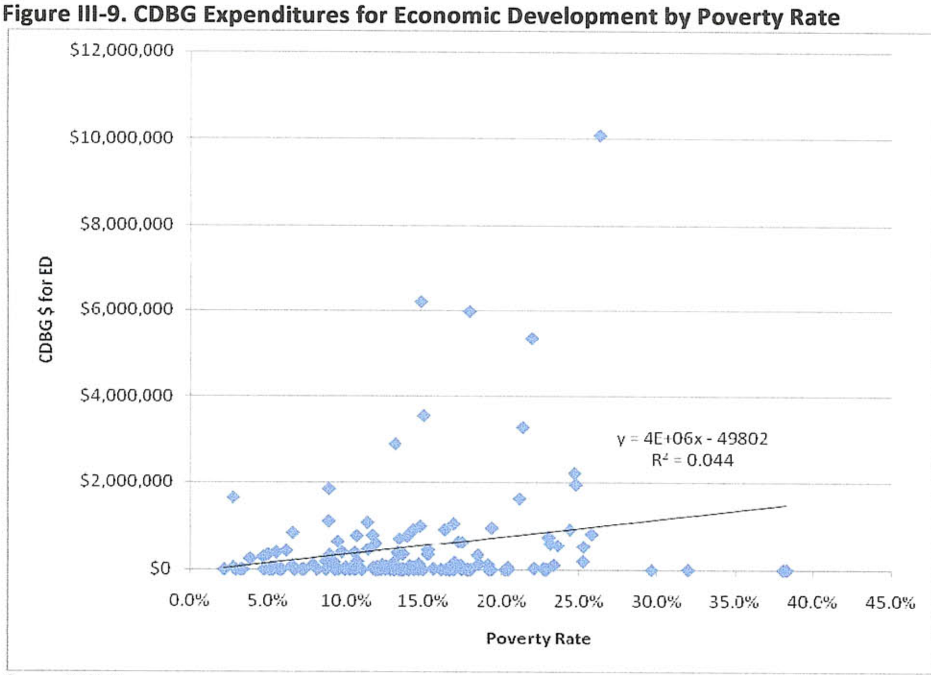
Source: HUD.

Figure III-8. % of CDBG Expenditures for Economic Development by Unemployment Rate



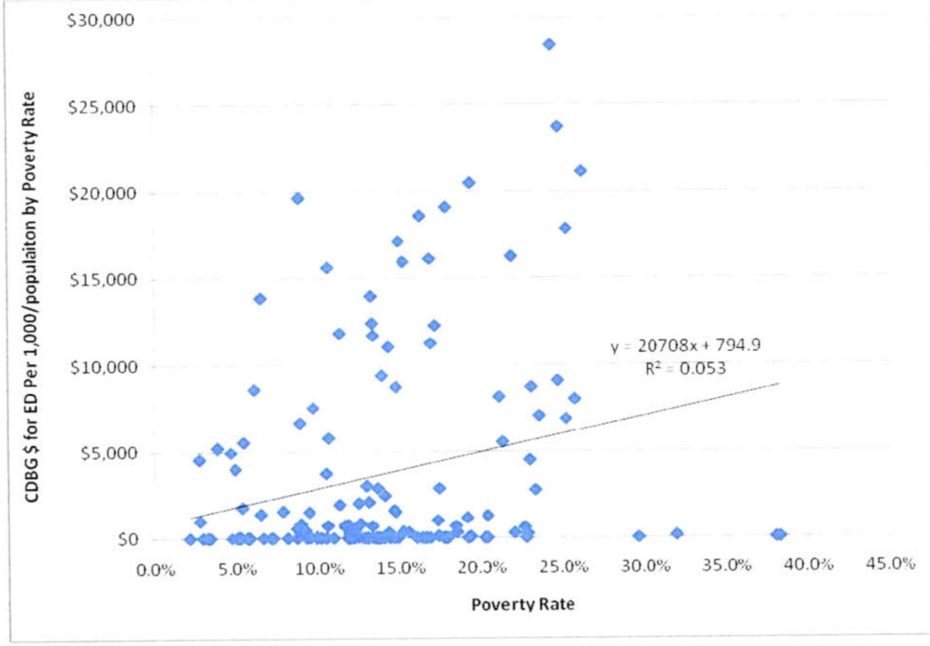
Source: HUD.

Figure III-9. CDBG Expenditures for Economic Development by Poverty Rate



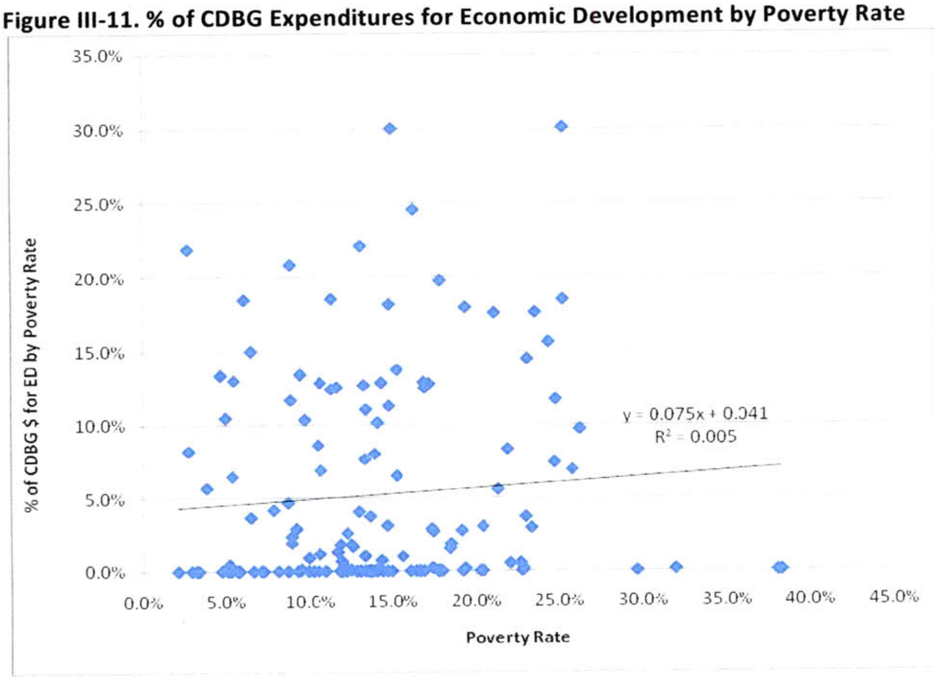
Source: HUD.

Figure III-10. CDBG Expenditures per Capita for Economic Development by Poverty Rate



Source: HUD.

Figure III-11. % of CDBG Expenditures for Economic Development by Poverty Rate



Source: HUD.

IV. State Economic Development Tools

The purpose of this section is to characterize the economic development tools employed by each state under analysis including incentives, programs, policies and enabling legislation. As a representative of the Economic Development Administration succinctly stated, "All states are active in economic development." Nonetheless, there are observable differences in the level of intensity with which states pursue economic development and marked differences in focus and tools used. For example, some states rely heavily on traditional business incentives such as tax credits and abatements, some focus on real estate (site preparation and infrastructure), while others take a soup-to-nuts approach by investing in workforce development, technology development and commercialization, as well as offering traditional business incentives.

This section presents an overview of each analysis state in terms of economic development intensity and range of activities, based on secondary research (websites and published materials) as well as interviews with representatives of each state's leading economic development agency.

Economic Development Profile of Analysis States

This section provides an overview of some key state characteristics that provide an understanding of the state's economic base and relevant socio-economic context. These indicators include:

- Population and employment growth (2000-2007)
- Industry mix (2007)
- Industry growth (2000-2007)
- Unemployment rate (2007)
- Poverty rate (2007)

For trend indicators, the 2000-2007 period is longer than our analysis period for CDBG funds This longer period was used as the economic and demographic trends prior to the study period may influence state economic priorities and thus provide insight into the level of effort and policy tools chosen. For other indicators, 2007 was chosen both because it is the last year in our CDBG analysis period and also because it is the last year before the real estate market crash and ensuing crisis in the financial markets.

This section also provides an overview of each state's economic development approach, including state-level tools, policies and enabling legislation, and statutory and discretionary incentives.

Alabama

Alabama had a 2007 population of approximately 4.6 million, having grown at a rate of 0.6 percent since 2000. The state had approximately 2.6 million jobs, having grown at 1.3 percent since 2000 (Table IV-1). For comparison, during the same period, the US population grew at an average rate of 1.0 percent per year, while jobs grew at 1.2 percent per year. According to the American Community Survey spanning the years 2005-2007, the poverty rate in Alabama was 16.8 percent, slightly higher than the national rate of 13.3 percent.

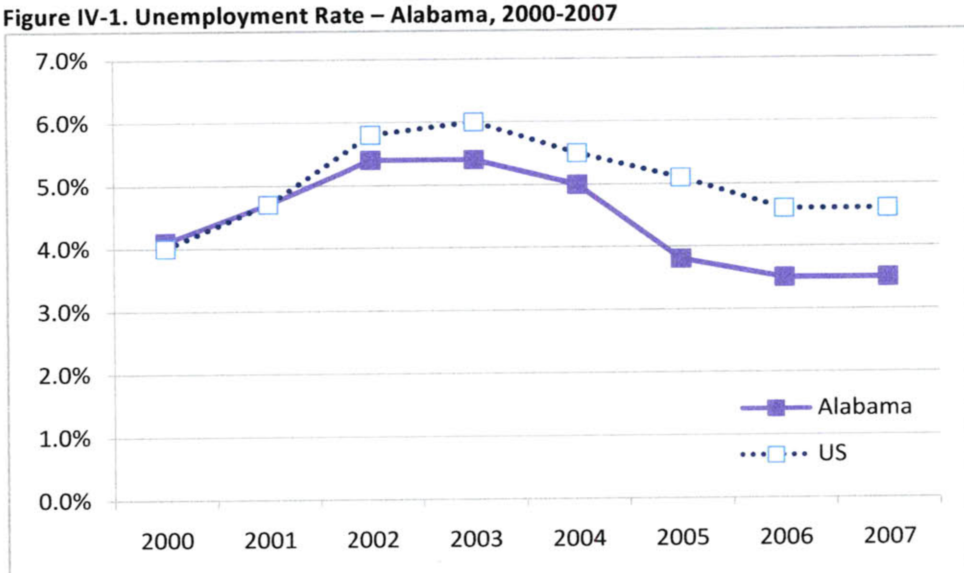
Table IV-1. Population & Employment Trends - Alabama, 2000-2007

	2000	2007	2000-07 CAGR
Population	4,451,887	4,627,851	0.6%
Employment	2,399,989	2,628,014	1.3%

Source: US Census Bureau Population Estimates and Regional Economic Information System (REIS). Bureau of Economic Analysis, US Department of Commerce.

Figure IV-1 shows trends in the unemployment in Alabama relative to the nation as a whole between 2000 and 2007. As the figure shows, unemployment in the state remained below the national average for most of the period, particularly after 2005.

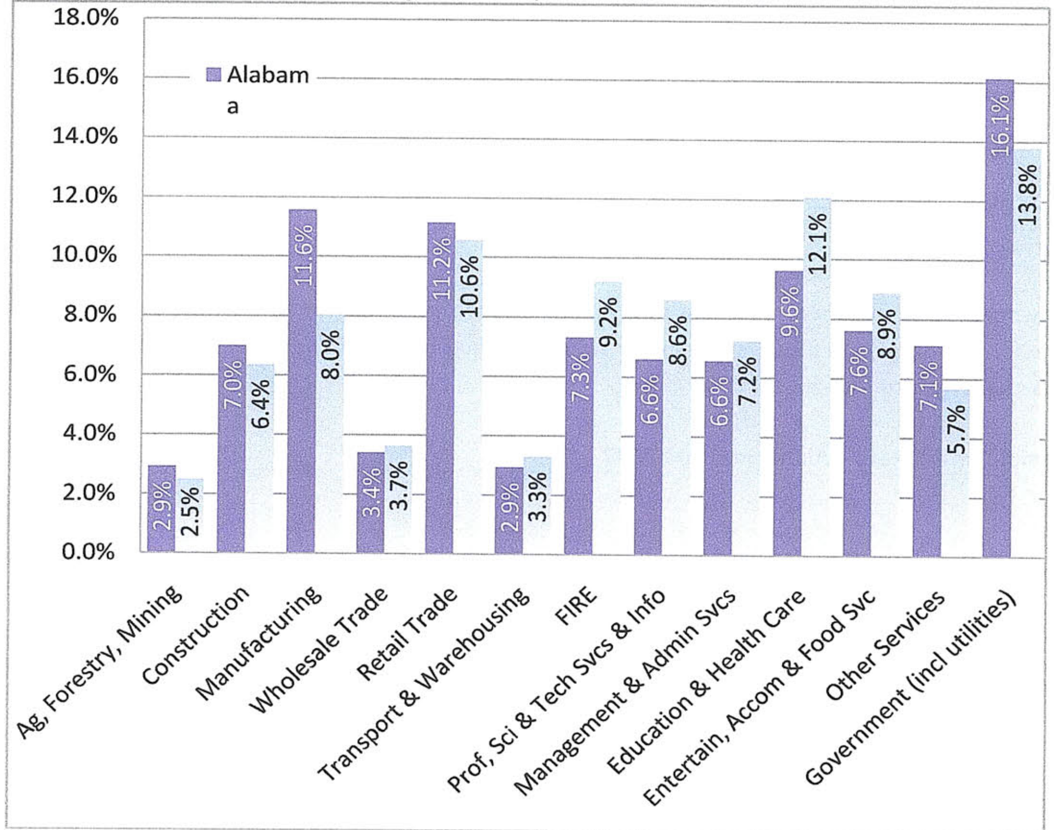
Figure IV-1. Unemployment Rate – Alabama, 2000-2007



Source: US Bureau of Labor Statistics.

Figure IV-2 shows Alabama's industry mix, as measured by employment, compared to the national mix. As the figure shows, the state has a relatively high proportion of employment in manufacturing. The state also has relatively large shares of employment in government and other services, and to a lesser extent, construction. However these are not primary industries, meaning that they do not bring money into the region from outside and instead depend on personal income and business expenditures generated from other industries. The state has relatively low shares of employment in Finance, Insurance and Real Estate (FIRE); Professional, Scientific and Technical Services and Information; Management and Administrative Services; Education and Health Care; and Entertainment, Accommodation and Food Services (which includes the arts and recreation).

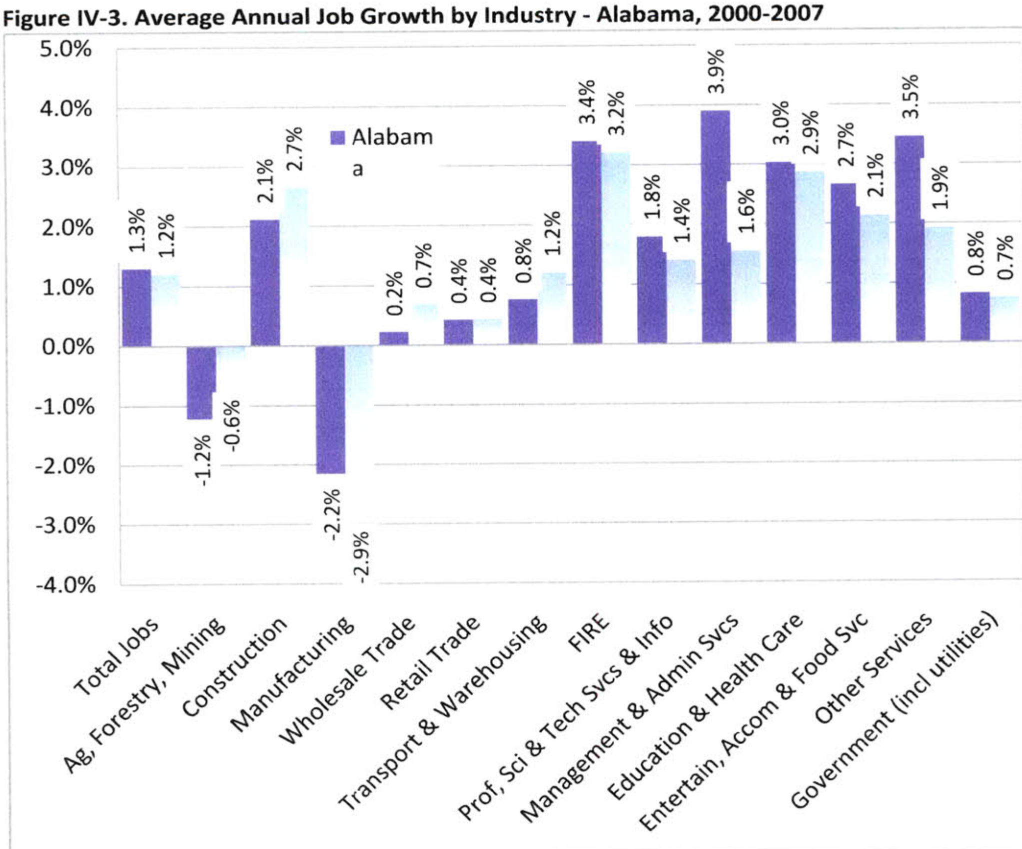
Figure IV-2. Employment by Industry - Alabama, 2007



Source: Regional Economic Information System (REIS), Bureau of Economic Analysis, US Department of Commerce.

Although the previous figure indicated that manufacturing is one of Alabama's largest industries, Figure IV-3 shows that it lost jobs at an average rate of 2.2 percent between 2000 and 2007, a slightly lower rate than in the nation as a whole, but of concern nonetheless. During the same period, the state gained jobs at a faster rate than the nation as a whole in a number of industries, most notably Management and Administrative Services, which grew at more than double the national rate.

Figure IV-3. Average Annual Job Growth by Industry - Alabama, 2000-2007



Source: Regional Economic Information System (REIS), Bureau of Economic Analysis, US Department of Commerce.

The table below presents an overview of Alabama's key economic development programs and tools, including expansion and relocation incentives. As the table shows, some of the tools are available directly to companies, while others are available to local governments which in turn may dedicate the resources to a project aimed at aiding a specific company, or they may apply the resources to a more general business attraction project. The tax abatement and capital credit programs are the most widely used throughout the state, as they are statutorily authorized and available to all companies. Most new or expanding companies in the state also use the Alabama Industrial Development Training Program, also available statutorily. For major projects with high levels of capital investment, the Governor has discretion over a Capital Improvement Trust Fund, which can be used to fund on-site improvements for new plants or major expansions. The state's economic development approach focuses primarily on traditional business incentives, particularly in the area of preparing and improving real estate to attract new firms and encourage expansions. However, the state also has a notable emphasis on workforce development and is increasingly moving towards greater involvement in research and development and technology commercialization efforts.

It should be noted that a number of counties in Alabama are eligible for grants and technical assistance from the Appalachian Regional Commission (ARC), a federal government agencies designed to remedy significant deficiencies in socioeconomic conditions in Appalachia. Several counties are also eligible for assistance from the Delta Regional Authority, a federal-state partnership designed to improve basic infrastructure in the Delta Region. As a result, entitlements communities in these areas may have economic development needs that differ from those observed in the rest of the state.

Table IV-2. Alabama's Key Economic Development Programs & Tools

Program Name/Tool	Tool type	Function/ Activity
Alabama Industrial Development Training	Service provision	Workforce Training
Industrial Development Grant (Site Prep) Program	Grants	Facility/capital investment
Industrial Access Program	Grants	Infrastructure
Public Works and Facilities Grant	Grants	Infrastructure
Regional Revolving Loan Funds	Financing, loan/guaranty	n/a
Appalachian Regional Commission Grants	Grants	n/a
Delta Regional Commission Grants	Grants	n/a
Industrial development/revenue bonds	Financing, IDB	n/a
Capital Tax Credit	Tax incentives	n/a
Alabama Capital Corporation	Financing	Small Business

Source: www.locationusa.com, state websites, and interview with Alabama Development Office.

Arizona

Arizona is a high growth state in terms of population and even more so in terms of jobs. Between 2000 and 2007 the state gained population at an average of 3.0 percent per year (compared with 1 percent average nationwide), reaching more than 6.3 million. Job growth slightly outpaced population growth at 3.1 percent per year, reaching nearly 3.5 million by 2007. Despite rapid job growth, poverty remained slightly higher than the national rate (13.3 percent) at 14.2 percent in 2007.

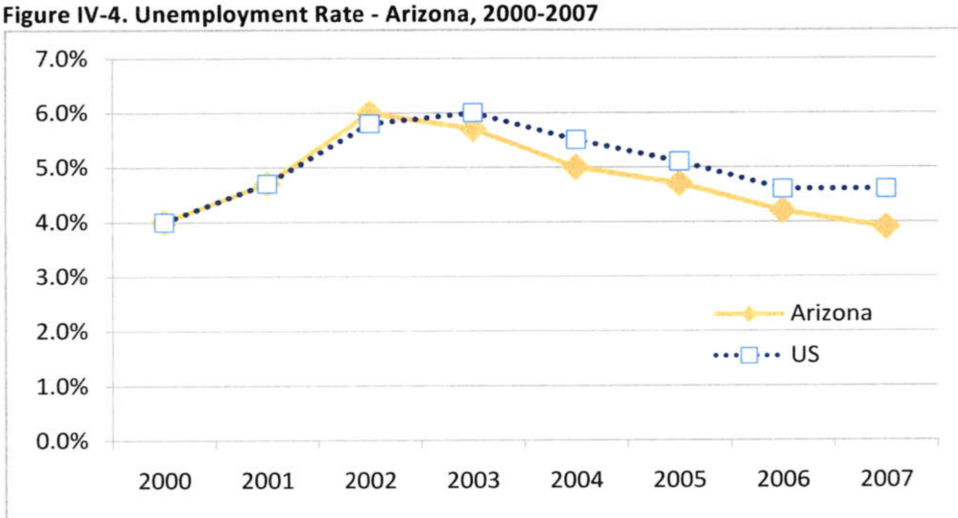
Table IV-3. Population & Employment Trends - Arizona, 2000-2007

	2000	2007	2000-07 CAGR
Population	5,167,260	6,338,755	3.0%
Employment	2,795,770	3,454,908	3.1%

Source: US Census Bureau Population Estimates and Regional Economic Information System (REIS), Bureau of Economic Analysis, US Department of Commerce.

As shown in Figure IV-4, Arizona's unemployment rate remained at or slightly below the national rate for most of the 2000-2007 period.

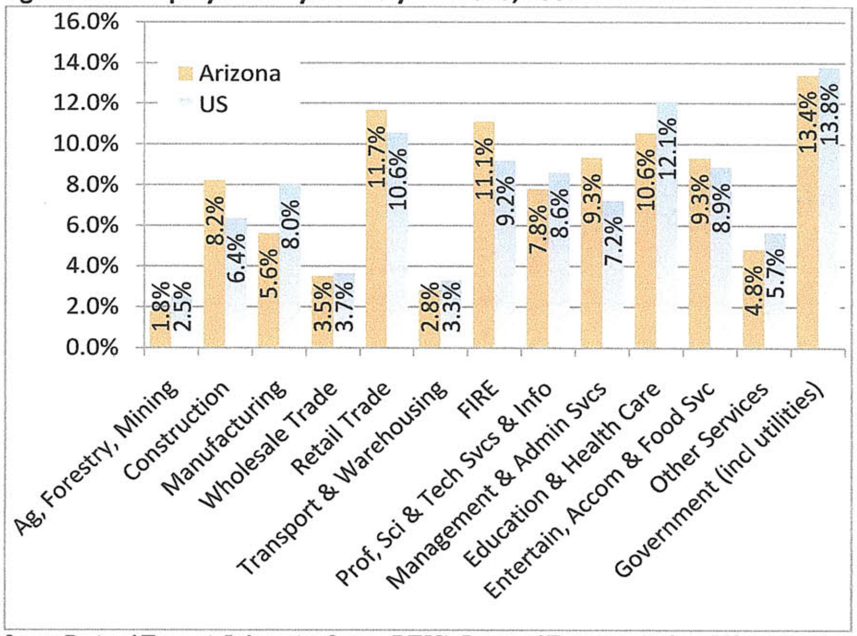
Figure IV-4. Unemployment Rate - Arizona, 2000-2007



Source: US Bureau of Labor Statistics.

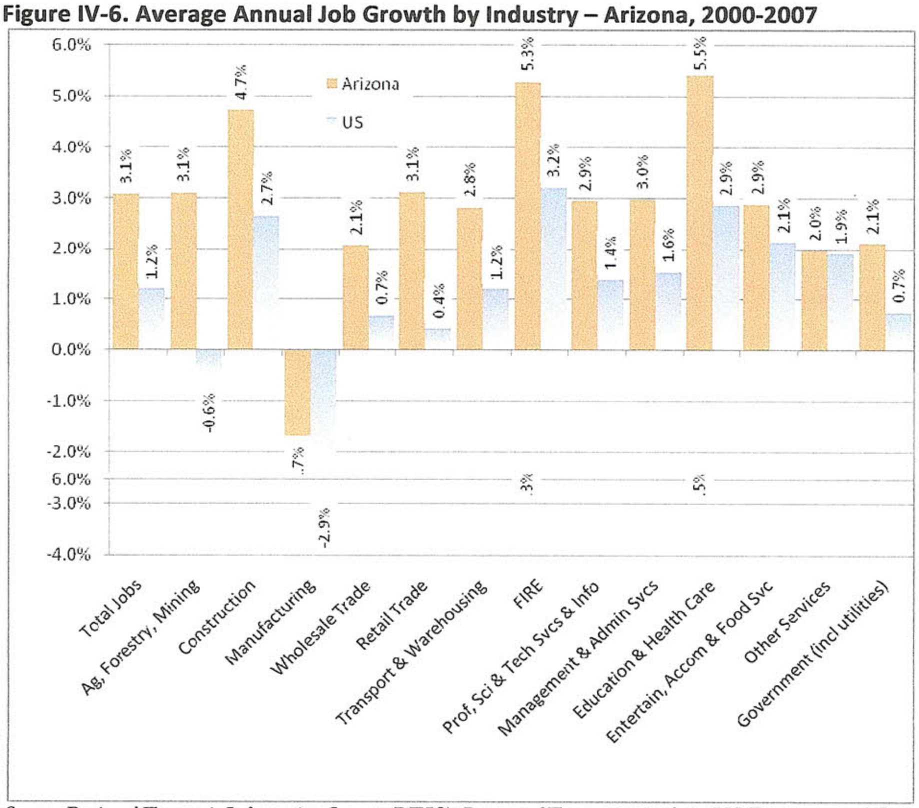
Figure IV-5 presents Arizona's industry mix as measured by employment. The state has relatively high shares of employment in Finance, Insurance and Real Estate (FIRE) and Management and Administrative, two industries that tend to have some employment to serve local markets but also a significant amount of activity that brings money into the state by serving external customers. As Figure IV-6 shows, these industries are also among the state's fastest growing. Arizona also has very high employment in Construction and Retail Trade, two secondary industries fueled by rapid population growth. The state has a notably low level of employment in Manufacturing, but losing jobs in this sector at a slightly slower rate than the nation as a whole.

Figure IV-5. Employment by Industry - Arizona, 2007



Source: Regional Economic Information System (REIS), Bureau of Economic Analysis, US Department of Commerce.

Figure IV-6. Average Annual Job Growth by Industry – Arizona, 2000-2007



Source: Regional Economic Information System (REIS), Bureau of Economic Analysis, US Department of Commerce.

Table IV-4 presents Arizona's key state-level economic development programs and tools. On the whole, Arizona's approach focuses on traditional business incentives. The Accelerator program was widely used during the 2005-07 period and considered successful (the program is currently on hold due to budget limitations). Other widely used programs include the Angel Investment program, a tax incentive program for small businesses, job training, and the R&D tax credit. A number of programs and incentives focus on technology commercialization as well as energy and environmental investments.

Table IV-4. Arizona's Key Economic Development Programs & Tools

Program Name/Tool	Tool type	Function/ Activity
Renewable Energy Tax Incentive Program	Tax incentives	Energy
Solar Energy Tax Incentive Program	Tax incentives	Energy
Arizona Innovation Accelerator Program	Tax incentives	Tech Transfer/Commercialization
Arizona Innovation Accelerator Program	Grants	Tech Transfer/Commercialization
Arizona Innovation Accelerator Program	Technical assistance	Tech Transfer/Commercialization
Arizona Job Training Program	Grants	Workforce Training
Enterprise Zone Program	Special Zone	n/a
Military reuse zones	Special Zone	Facility/capital investment
R&D Income Tax Credit	Tax incentives	R&D
Pollution Control Tax Credit	Tax incentives	Environment
Accelerated depreciation	Tax incentives	n/a
Waste Reduction Assistance Program	Grants	Environment
Healthy Forest Enterprise Program	Tax incentives	Environment
Motion Picture Production Tax Incentive Program	Tax incentives	n/a
Small Business Capital Investment Tax Incentive Program aka Angel Investment Program	Financing, early stage	Early stage capital

Source: www.locationusa.com, state websites, and interview with Arizona Department of Commerce, Department of Commerce and Economic Development.

Colorado

Between 2000 and 2007, Colorado experienced moderate levels of population growth, growing from 4.3 million to nearly 4.9 million during the period for an average growth rate of 1.7 percent per year (compared with the national average of 1.0 percent per year). Employment growth fell short of population growth, averaging1.3 percent per year to bring total employment to nearly 3.2 million by 2007. The estimated 11.8 percent of population below the poverty line in 2007 was lower than the national average of 13.3 percent.

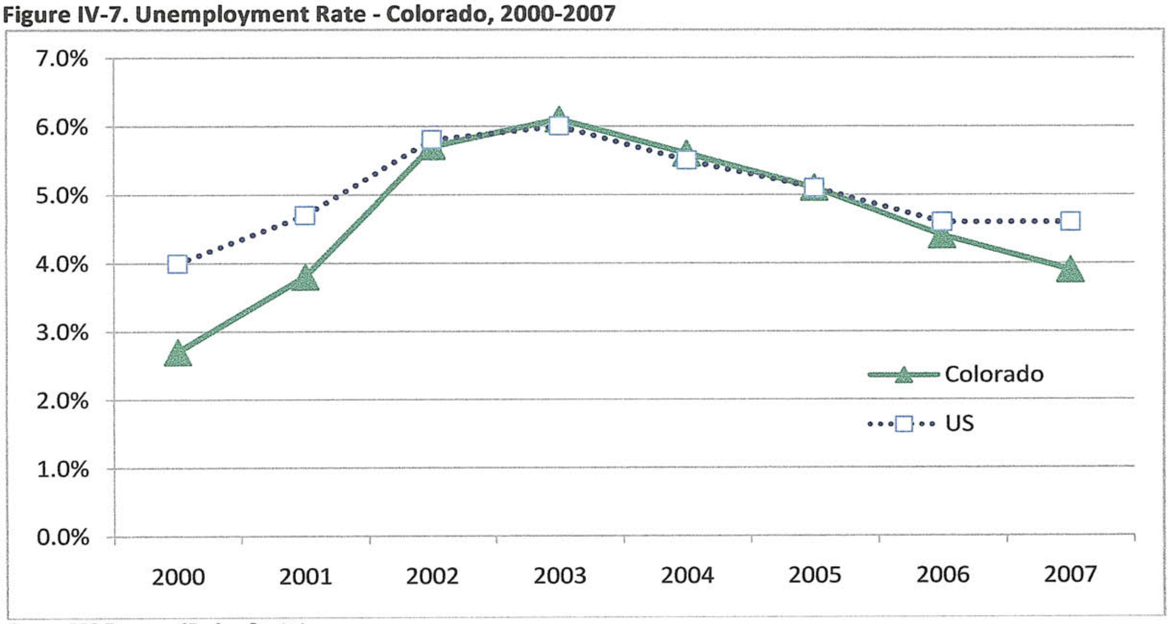
Table IV-5. Population & Employment Trends - Colorado, 2000-2007

	2000	2007	2000-07 CAGR
Population	4,328,252	4,861,515	1.7%
Employment	2,926,410	3,207,914	1.3%

Source: US Census Bureau Population Estimates and Regional Economic Information System (REIS), Bureau of Economic Analysis, US Department of Commerce.

As Figure IV-7 shows, unemployment remained below or comparable to national levels, falling to 3.9 percent in 2007 compared with 4.6 percent in the nation as a whole.

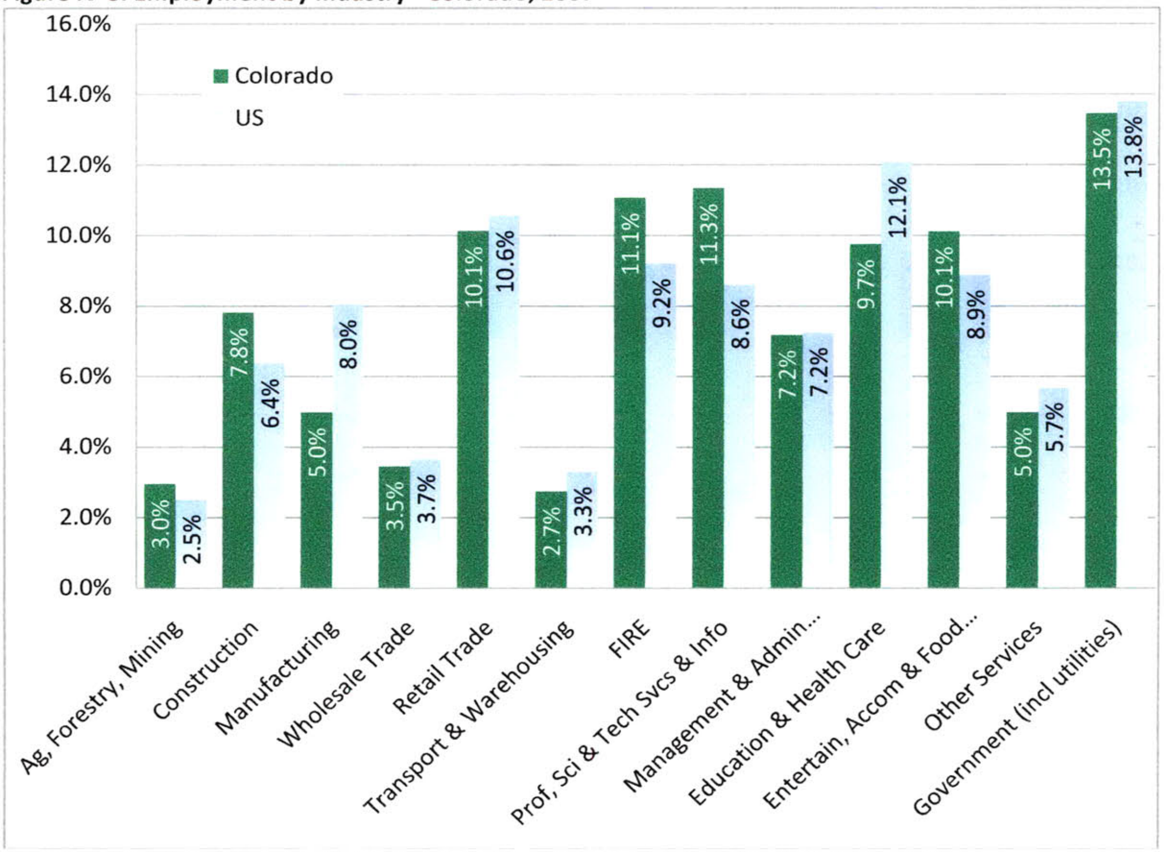
Figure IV-7. Unemployment Rate - Colorado, 2000-2007



Source: US Bureau of Labor Statistics.

Figure IV-8 presents industry mix for Colorado relative to the nation as a whole, as measured by employment. The figure reflects the state's relatively high shares of employment in Finance, Insurance and Real Estate; and Professional, Scientific and Technical Services and Information. As noted above, though these industries serve the local market to some extent, they also have a significant component of primary employment. The state also has a higher proportion of employment in Entertainment, Accommodation and Food Services - including the Arts and Recreation - than the nation as a whole. Employment in this sector can sometimes be driven by restaurants and fast food, which largely serve local populations, the state is well known as a tourism destination for skiing, hiking, camping, rock climbing, mountain biking and other outdoor sports year-round. This indicates that it is likely that a disproportionate amount of the employment in this industry in Colorado can be considered primary. As in Arizona, relatively high population growth has resulted in a high proportion of employment in the construction industry. The state has relatively low levels of employment in Manufacturing compared to the nation as a whole.

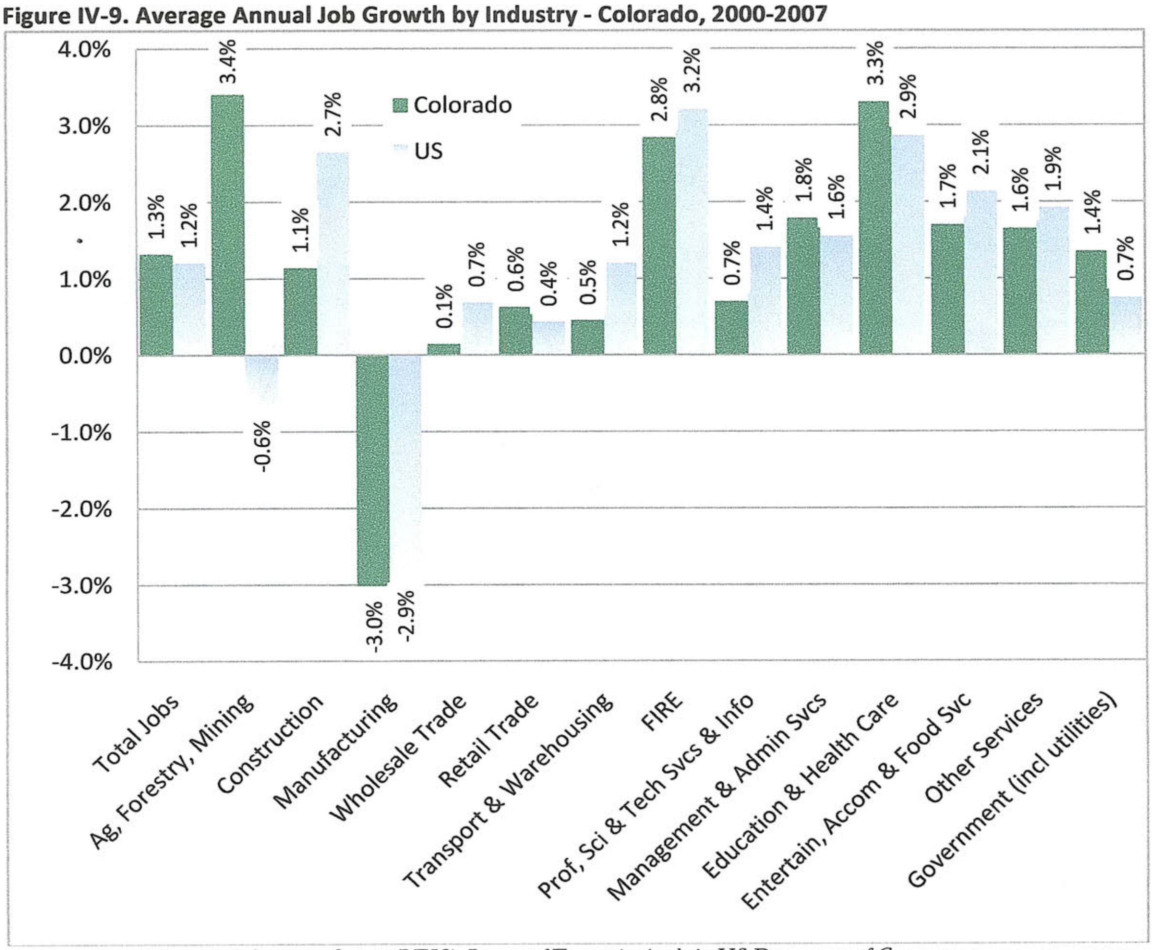
Figure IV-8. Employment by Industry - Colorado, 2007



Source: Regional Economic Information System (REIS), Bureau of Economic Analysis, US Department of Commerce.

As Figure IV-9 shows, Colorado's fastest growing industries (omitting mining, which is a very small industry that tends to fluctuate widely) are Education and Health Care and Finance, Insurance and Real Estate. The latter is growing more slowly in Colorado than in the nation as a whole, likely because it is already over-represented in Colorado. Similarly, though Professional, Scientific and Technical Services and Information grew at a slower rate than in the nation as a whole, because it is a large source of employment in the state, even 0.7 percent per year results in an appreciable number of new jobs. Manufacturing, which is not a large share of the state's employment base, lost jobs at a slightly faster rate than the nation as a whole.

Figure IV-9. Average Annual Job Growth by Industry - Colorado, 2000-2007



Source: Regional Economic Information System (REIS), Bureau of Economic Analysis, US Department of Commerce.

According to the Colorado Office of Economic Development staff, the state's main economic development selling points are a low corporate tax rate (4.6 percent versus up to 12.0 percent in some states) and an educated workforce. The state is able to maintain an educated workforce without heavily investing in that resource because the state's outdoor recreation and arts offerings naturally attract an educated population. Instead, the state focuses economic development efforts on entrepreneurship and traditional business incentives, the latter particularly focused on what the state has identified as "emerging industries" (including aerospace and energy). These traditional incentives are most often used for site and infrastructure improvements as opposed to direct assistance to businesses.

The interview revealed an important difference between state and local economic development approach in Colorado. Due to state fiscal policy that emphasizes retail sales tax, the localities focus economic development resources almost exclusively on retail. Because retail is not a primary industry, the state funds no retail at all. This is evident in the selection of tools offered, all of which can be classified as "business assistance", in contrast to real estate development oriented tools that might be employed to prepare sites for retail tenants. Based on this pattern you expect to see CDBG spending concentrated on infrastructure and real estate development rather than for direct assistance to businesses.

Table IV-6. Colorado's Key Economic Development Programs & Tools

Program Name/Tool	Tool Type	Function/Activity
Quality Investment Capital Program	Financing, loan/guaranty	Small Business
Job Creation Performance Incentive Fund	Grants	Job creation
Enterprise zone credits	Tax incentives	
Colorado First & Existing Industry Customized Job Training programs	Grants	Workforce Training
Job Growth Incentive Tax Credit	Tax incentives	Job creation
Biotech Sales and Use Tax Refund	Tax incentives	
Aircraft Manufacturers Tax Credit	Tax incentives	

Source: www.locationusa.com, state websites, and interview with Colorado Office of Economic Development.

Indiana

Indiana is a relatively slow growing state. Between 2000 and 2007, population grew at an average rate of 0.6 percent per year compared with the national average of 1.0 percent per year. Employment grew even more slowly, averaging just 0.3 percent per year. The estimated 12.5 percent of population below the poverty line in 2007 was lower than the national average of 13.3 percent.

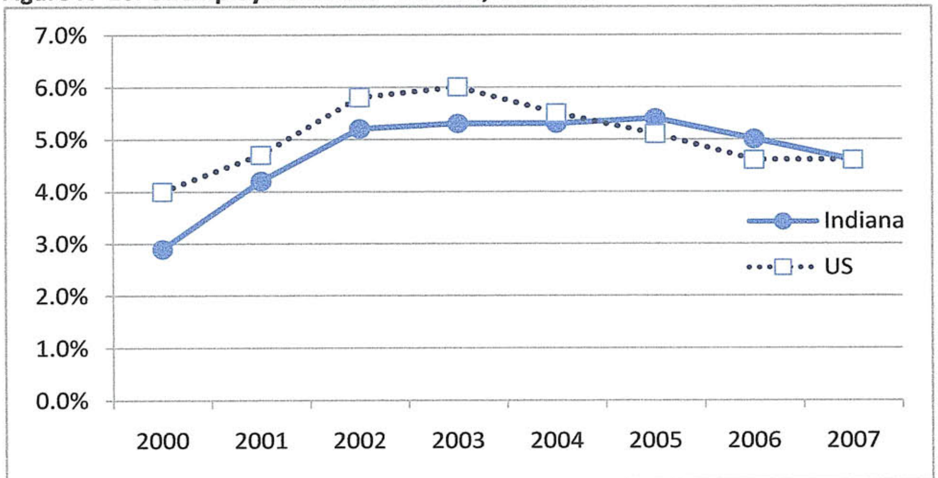
Table IV-7. Population & Employment Trends - Indiana, 2000-2007

	2000	2007	2000-07 CAGR
Population	6,091,735	6,345,289	0.6%
Employment	3,647,047	3,714,078	0.3%

Source: US Census Bureau Population Estimates and Regional Economic Information System (REIS). Bureau of Economic Analysis, US Department of Commerce.

Figure IV-10 shows, unemployment rose rapidly between 2000 and 2002, leveling off just over 5.0 percent before dropping to 4.6 percent in 2007.

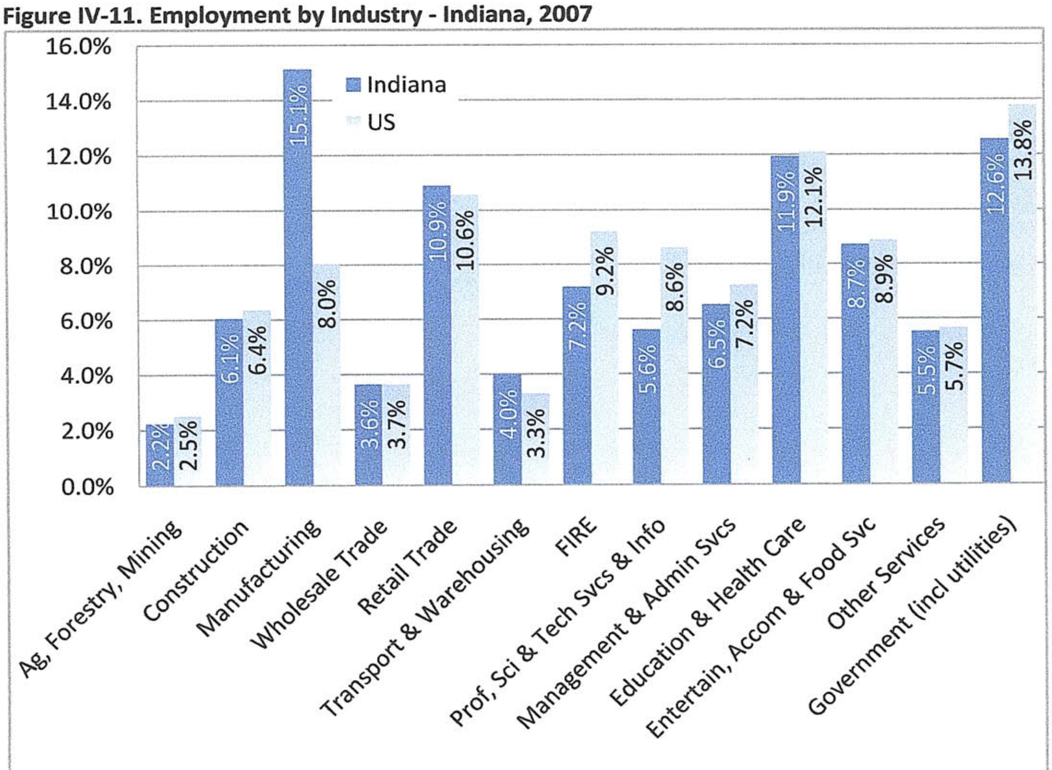
Figure IV-10. Unemployment Rate - Indiana, 2000-2007



Source: US Bureau of Labor Statistics.

Figure IV-11 presents Indiana's industry mix as measured by employment. As the figure shows, the state's economy is dominated by manufacturing, with nearly twice the national share of employment in that industry. Indiana also has a slightly higher share of employment in Transportation and Warehousing. In contrast, the state has relatively low shares of employment in Finance, Real Estate and Insurance; and Professional, Scientific and Technical Services and Information.

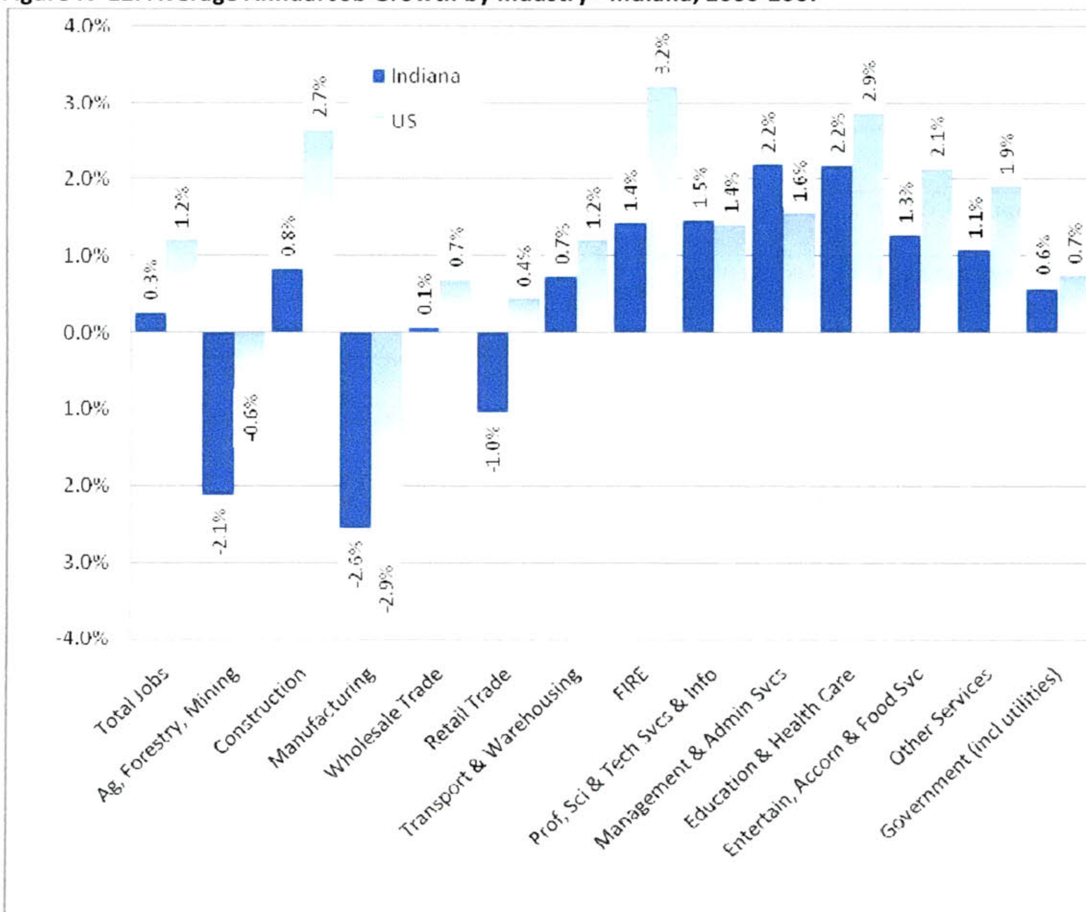
Figure IV-11. Employment by Industry - Indiana, 2007



Source: Regional Economic Information System (REIS), Bureau of Economic Analysis, US Department of Commerce.

Figure IV-12 presents job growth by industry in Indiana between 2000 and 2007. Considering the prominence of Manufacturing in the state's economy, the rapid rate of job losses in that category are particularly notable. The bright spots in terms of job growth appear to be Management and Administrative Services and Education and Health Care. The former is relatively small in terms of number of jobs, but increasing more rapidly in Indiana than in the nation as a whole; the latter is growing more slowly in Indiana than in the nation as a whole, but represents a significant share of the state's total jobs, so the average rate of 2.2 percent growth adds up to a lot of jobs for the state.

Figure IV-12. Average Annual Job Growth by Industry - Indiana, 2000-2007



Source: Regional Economic Information System (REIS), Bureau of Economic Analysis, US Department of Commerce.

Due to scheduling difficulties, my exchange with the Indiana Development Office was regrettably brief and by email only. In a nutshell, however, it was clear that the state's focus is keeping its overall tax rate and cost of doing business low as well as extending tax credits. The director was dubious that other programs, such as workforce training or investment in technology (for which the state has a number of programs) could have much effect on job creation, retention or attraction.

Table IV-8. Indiana's Key Economic Development Programs & Tools

Program Name/Tool	Tool Type	Function/Activity
21st Century Research and Technology Fund	Grants	Tech Transfer/Commercialization
Certified technology parks	Industrial Park	Tech Transfer/Commercialization
Loan guarantees	Financing, loan/guaranty	Job creation
Direct loans	Financing, loan/guaranty	
Economic Development for a Growing Economy (EDGE) tax credits	Tax incentives	
Headquarters Relocation Tax Credit	Tax incentives	HQ location/expansion
Hoosier Business Investment Tax Credit	Tax incentives	Facility/capital investment
Industrial Development Grant Fund	Grants	Infrastructure
Industrial Recovery Tax Credit	Tax incentives	Facility/capital investment
Media Production Expenditure Tax Credit	Tax incentives	
Patent-Derived Income Exemption	Tax incentives	
Research and Development Tax Credit	Tax incentives	R&D
Shovel-Ready Site Program	Fast track	Facility/capital investment
Skills Enhancement Fund	Grants	Workforce Training
Trade Show Assistance Program	Grants	Marketing
Venture Capital Investment Tax Credit	Tax incentives	Early stage capital

Source: www.locationusa.com, state websites, and email from key staff at the Indiana Development Office.

Ohio

Ohio's 2007 population of 11.5 million remained basically unchanged over its 2007 population, having grown at just 0.1 percent per year during the period. Jobs grew at essentially the same pace, leaving the state with some 8.6 million jobs in 2007.

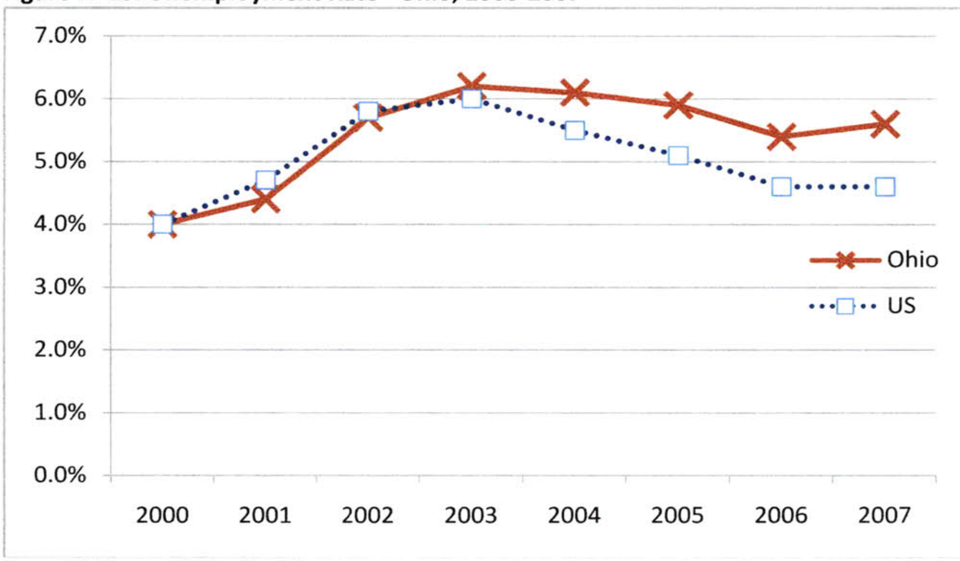
Table IV-9. Population & Employment Trends - Ohio, 2000-2007

	2000	2007	2000-07 CAGR
Population	11,353,145	11,466,917	0.1%
Employment	6,782,014	6,812,623	0.1%

Source: US Census Bureau Population Estimates and Regional Economic Information System (REIS), Bureau of Economic Analysis, US Department of Commerce.

The state's 2007 poverty rate of 13.2 percent was comparable to the national rate. Unemployment was comparable to the national rate in 2000, and that rate increased along with the national rate through 2002. However, while the national rate declined between 2003 and 2007, Ohio's unemployment rate improved at a much slower rate, remaining at 5.6 percent in 2007, 1.0 percent higher than the national rate (Figure IV-13).

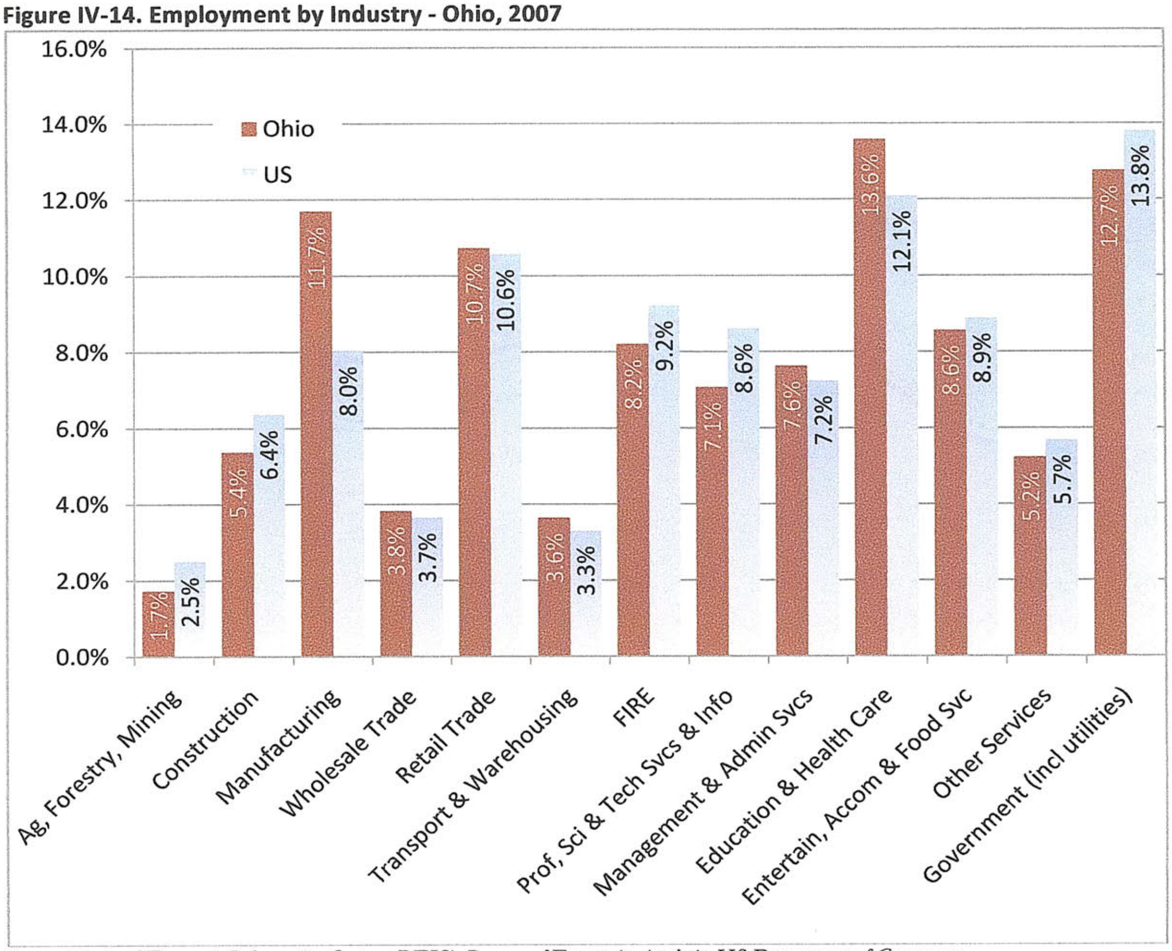
Figure IV-13. Unemployment Rate - Ohio, 2000-2007



Source: US Bureau of Labor Statistics.

Figure IV-14 shows Ohio's industry mix as measured by employment. As the figure shows, employment in the state is strongly skewed toward Manufacturing and Education and Health Care. The state has somewhat lower levels of employment in Finance, Insurance and Real Estate (FIRE and Professional, Scientific and Technical Services and Information compared with national levels, but overall, employment in other sectors generally reflects patterns observed nationwide.

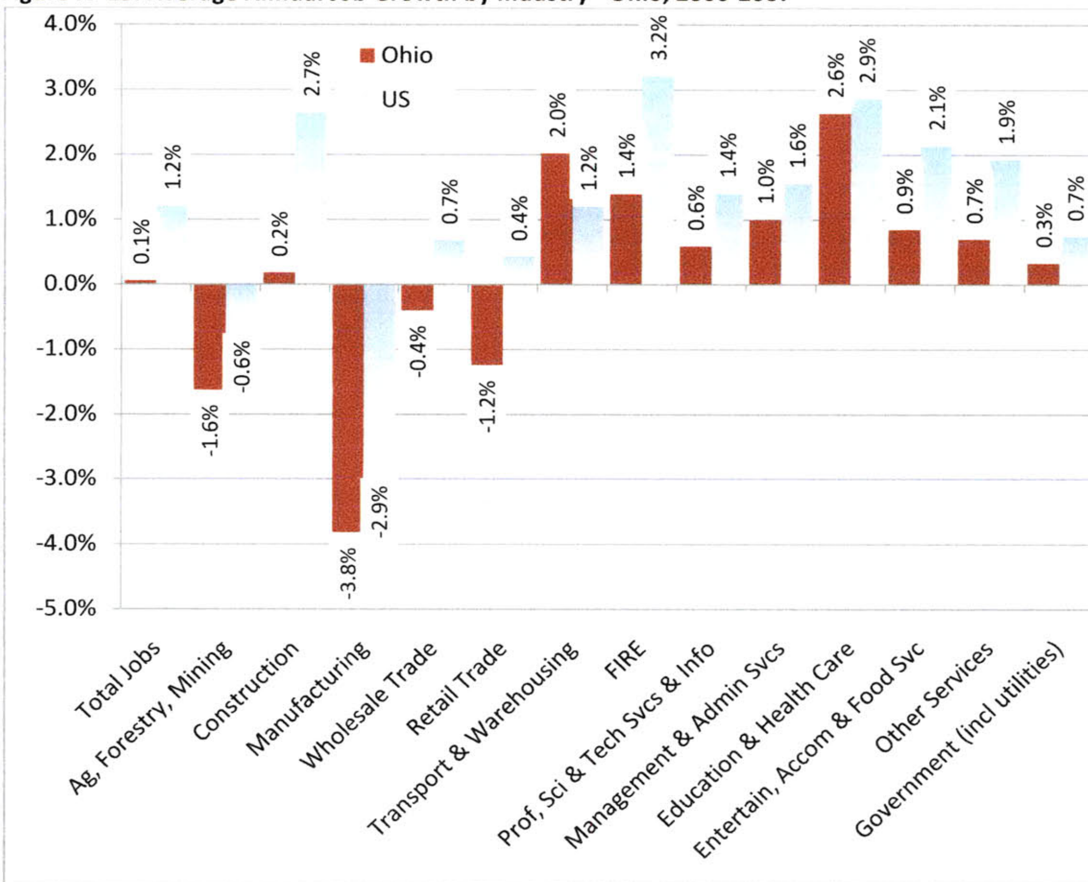
Figure IV-14. Employment by Industry - Ohio, 2007



Source: Regional Economic Information System (REIS), Bureau of Economic Analysis, US Department of Commerce.

As shown below, Manufacturing employment receded even faster in Ohio than in the nation as a whole, and the state also lost jobs in both Wholesale and Retail Trade categories. Growth spots for Ohio were Education and Health Care, which employs a lot of people but is largely a secondary industry, followed by Transportation and Warehousing which employs a much smaller number of people but is growing faster than in the nation as a whole.

Figure IV-15. Average Annual Job Growth by Industry - Ohio, 2000-2007



Source: Regional Economic Information System (REIS), Bureau of Economic Analysis, US Department of Commerce.

The Director of the state's Economic Development Office indicated that Ohio is heavily active in a wide range of economic development activities, ranging from small business development, workforce development, industry partnerships, technology development and commercialization, as well as traditional incentives and real estate-based activities. The state is taking a long view of job development and sees economic development as making investments in the future. As one example, the state's Frontier program which was originally funded in 2003, is able to fund new products, technologies and industries starting from the basic research all the way through initial production, at which time these homegrown firms are able to access more traditional sources of credit and growth support. Many counties in eastern Ohio are also eligible for grants and technical assistance from the Appalachian Regional Commission which may cause ECs in those areas to utilize different economic development tools.

If tax credits are considered passive tools and others are considered "active", Ohio employs more active tools (18) than any other state under consideration (as discussed subsequently under "Revisiting State Pairings"). Ohio also represents the greatest difference between number of active tools and passive tools (18 of the former, five of the latter, for a difference of 13). Even without knowing the level of resources dedicated to each tool, this balance strongly supports this study's characterization of Ohio as active in economic development.

Table IV-10. Ohio's Key Economic Development Programs & Tools

Program Name/Tool	Tool Type	Function/Activity
Private Activity Bonds (Volume Cap)	Financing, IDB	Facility/capital investment
166 Direct Loan/Regional Loan	Financing, loan/guaranty	Facility/capital investment
Minority Direct Loan Program	Financing, loan/guaranty	Small Business
Enterprise Bond Program	Financing, loan/guaranty	Facility/capital investment
Innovation Loan Fund	Financing, loan/guaranty	Facility/capital investment
Logistics & Distribution Loan Fund	Financing, loan/guaranty	
Research and Development Investment Loan Fund	Financing, loan/guaranty	Tech Transfer/ Commercialization
Rural Industrial Park Loan	Financing, loan/guaranty	Facility/capital investment
Urban Redevelopment Loan	Financing, loan/guaranty	Facility/capital investment
Ohio Capital Access Program	Financing, loan/guaranty	
Ohio Water Dev. Authority Local Econ. Dev. Fund	Financing, loan/guaranty	Infrastructure
Frontier Program	Financing, loan/guaranty	Tech Transfer/ Commercialization
Frontier Program	Financing, loan/guaranty	Early stage capital
Ohio Workforce Guarantee	Grants	Workforce Training
Roadwork Development (629) Account	Grants	Infrastructure
Ohio Rail Development Commission	Grants	Infrastructure
Rapid Outreach Grant	Grants	Infrastructure
Minority Business Bonding Program	Performance Bonding	
Job Creation Tax Credit	Tax incentives	Job creation
R&D Tax Credit	Tax incentives	R&D
Technology Investment Tax Credit	Tax incentives	Tech Transfer/ Commercialization
Job Retention Tax Credit	Tax incentives	Job creation
Sales and Inventory Tax Exemption	Tax incentives	Equipment

Source: www.locationusa.com, state websites, and interview with Ohio Department of Development.

South Carolina

South Carolina's population grew at an average rate of 1.3 percent per year between 2000 and 2007, outpacing population growth in the nation as a whole during the period. During the same period, jobs grew slightly faster at an average of 1.7 percent per year.

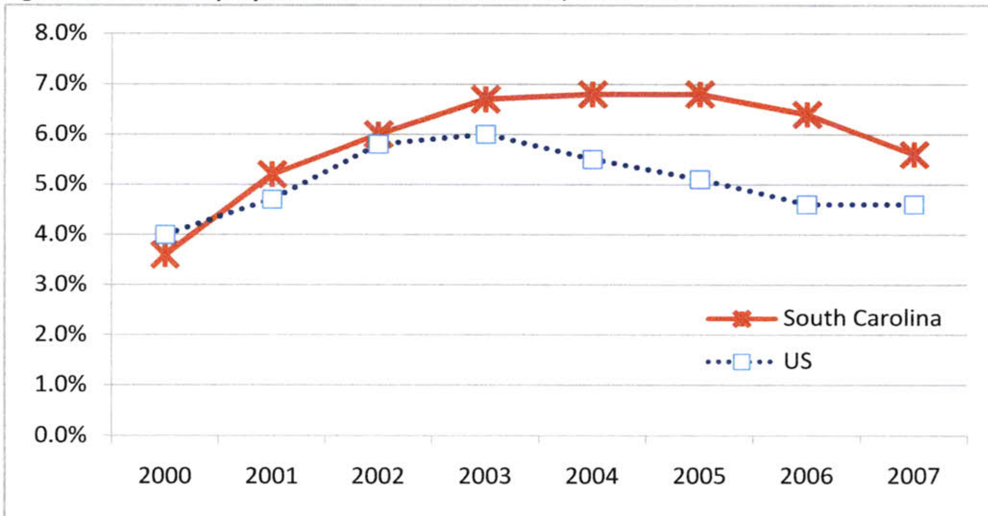
Table IV-11. Population & Employment Trends - South Carolina, 2000-2007

	2000	2007	2000-07 CAGR
Population	4,023,628	4,407,709	1.3%
Employment	2,274,642	2,559,411	1.7%

Source: US Census Bureau Population Estimates and Regional Economic Information System (REIS), Bureau of Economic Analysis, US Department of Commerce.

Figure IV-16 presents trends in South Carolina's unemployment rate, which have remained relatively high since 2007. This relatively high level of unemployment is accompanied by higher than average poverty. The state faced a poverty rate more than two percentage points above the national rate, at 15.6 percent of the population living below the poverty line in 2007.

Figure IV-16. Unemployment Rate - South Carolina, 2000-2007



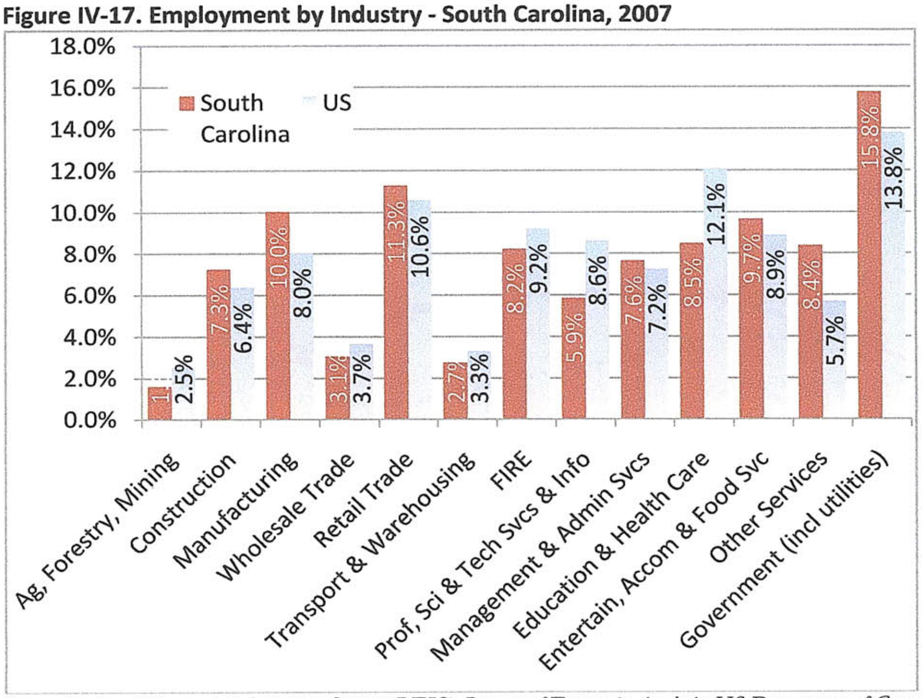
Source: US Bureau of Labor Statistics.

As Figure IV-17 shows, South Carolina's largest industry as measured by employment is government. The state has a higher than average proportion of employment in manufacturing. South Carolina also has significantly higher than average employment in other services, however, this is catch-all category is largely comprised of population-serving industries including dry cleaners, photo finishing and pet care. The state has far below average proportions of employment in Education and Health Care as well as Professional, Technical and Scientific Services and Information.

As shown below in Figure IV-18, South Carolina lost manufacturing jobs at a rate that exceeded the national rate. However, most other industries in the state added jobs more quickly than the nation as a whole, and in Finance, Insurance and Real Estate in particular.

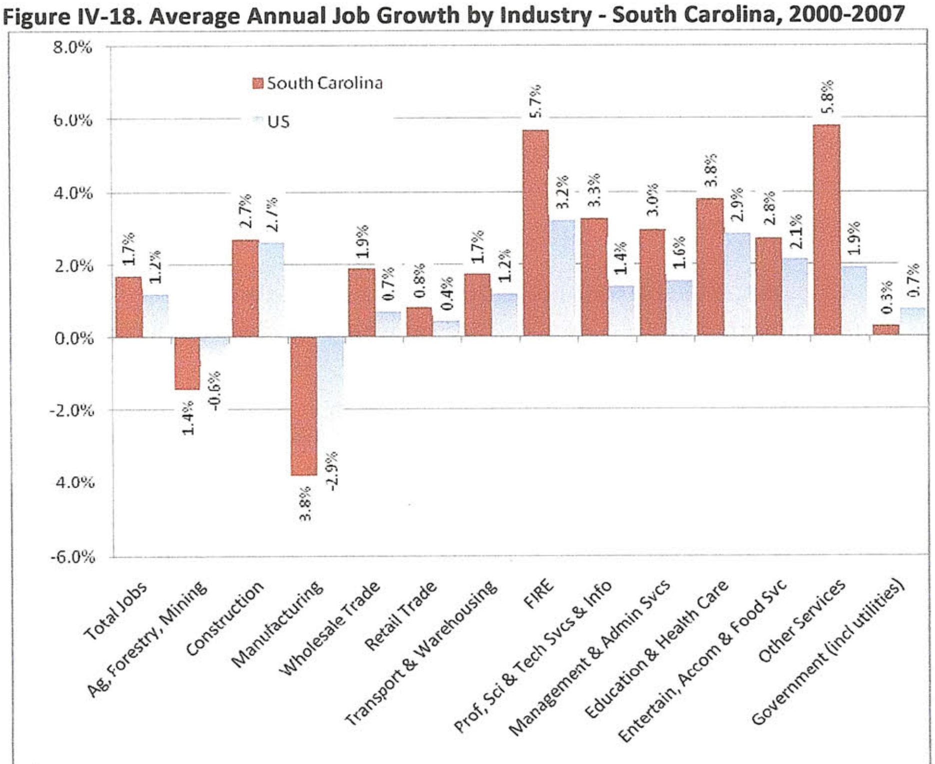
The South Carolina Department of Commerce, the agency responsible for economic development, reports that the state's best economic development strategy is keeping taxes low, which they have done through measures such as worker's comp and tort reform. In addition, the state provides a wide variety of tax credits, as shown below in Table IV-12. The volume of credits available reportedly often results in companies having more tax credits than tax liabilities to apply them to. The credits are available statutorily (that is, non-discretionary) and do not require application or special permission. Discretionary incentives are sometimes given for projects that the Department determines are likely to have a significant economic impact (based on an internal IMPLAN model). Such funds would typically be used for off-site infrastructure or site improvements. However, the Department of Commerce reports that demand for discretionary incentives is low as most companies locating or expanding in South Carolina are hesitant to provide the government with the degree of private financial data that would be required.

Figure IV-17. Employment by Industry - South Carolina, 2007



Source: Regional Economic Information System (REIS), Bureau of Economic Analysis, US Department of Commerce.

Figure IV-18. Average Annual Job Growth by Industry - South Carolina, 2000-2007



Source: Regional Economic Information System (REIS), Bureau of Economic Analysis, US Department of Commerce.

Several counties in northwestern counties are also eligible for grants and technical assistance from the Appalachian Regional Commission (ARC). The data on state economic development agency budgets suggests that South Carolina invests relatively more of its state budget in economic development than most of the other states in the study, and thus may be more active than the list of tools and incentives indicates. However, economic development is just one function housed within the Department of Commerce, and a separate budget was not available to reflect economic development expenditures. The other states' agencies are more narrowly focused on economic development.

Table IV-12. South Carolina's Key Economic Development Programs & Tools

Program Name/Tool	Tool Type	Function/Activity
Economic Impact Zone Investment Credit	Tax incentives	Facility/capital investment
Corporate Headquarters Credit	Tax incentives	HQ location/expansion
Credit for Hiring Family Independence Recipient	Tax incentives	
Palmetto Seed Capital Credit	Tax incentives	Early stage capital
Credit Against License Fee for Infrastructure	Tax incentives	Infrastructure
Research and Development Credit	Tax incentives	R&D
Ethanol or Biodiesel Credit	Tax incentives	Energy
Job Development Credit	Tax incentives	Job creation
Job Retraining Credit	Tax incentives	Workforce Training
Rural Infrastructure Fund	Grants	Infrastructure
Port Volume Increase Credit	Tax incentives	
Textile Facility Revitalization Credit	Tax incentives	Facility/capital investment
Economic Development Set-Aside Program	Grants	Infrastructure
Apprenticeship Carolina	Technical assistance	Workforce Training
Taxable industrial development bonds	Financing, IDB	Infrastructure
Tax-exempt industrial development bonds	Financing, IDB	Infrastructure
InvestSC, Inc.	Financing, early stage	Job creation
S.C. Capital Access Program	Financing, loan/guaranty	Job creation
Appalachian Regional Commission Grants	Grants	n/a

Source: www.locationusa.com, state websites, and interview with South Carolina Department of Commerce.

Wisconsin

Wisconsin's population and employment trends between 2000 and 2007, as shown below in Table IV-13, reflect relatively slow growth, with job growth slightly outpacing population growth during the period but both increasing well below national average rates (1.0 and 1.2 percent respectively).

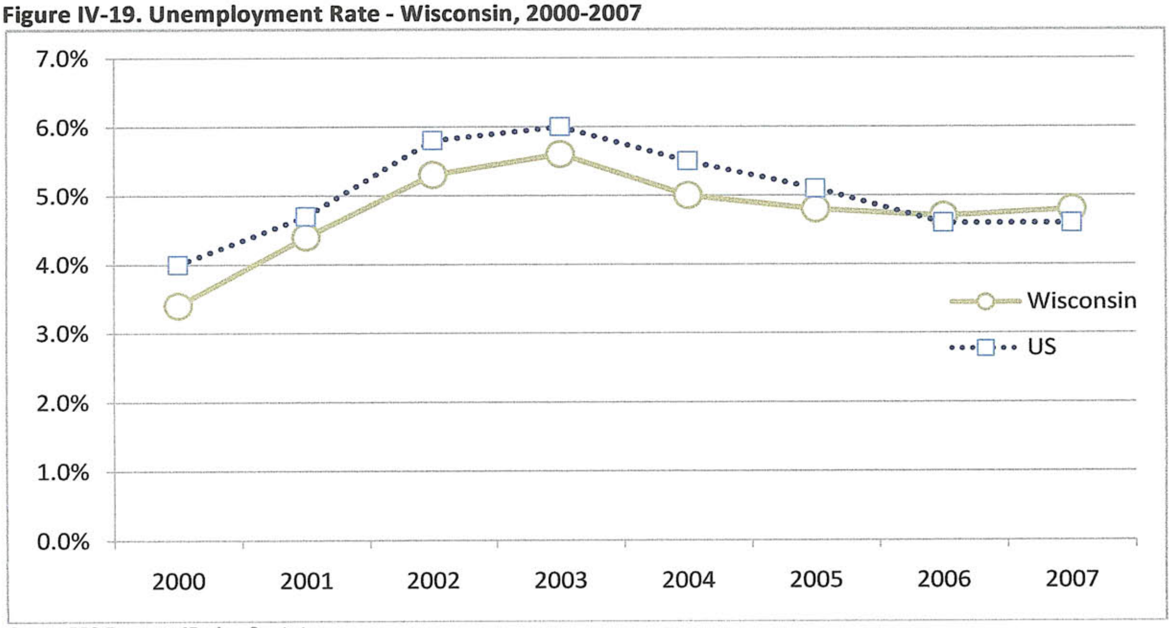
Table IV-13. Population & Employment Trends - Wisconsin, 2000-2007

	2000	2007	2000-07 CAGR
Population	5,374,399	5,601,640	0.6%
Employment	3,404,577	3,591,107	0.8%

Source: US Census Bureau Population Estimates and Regional Economic Information System (REIS), Bureau of Economic Analysis, US Department of Commerce.

Figure IV-19 depicts trends in Wisconsin's unemployment rate relative to the nation as a whole. Wisconsin enjoyed lower unemployment throughout most of the period until 2006, when Wisconsin's unemployment rate slightly surpassed the national unemployment rate. Despite this increasing unemployment, the state's 2007poverty rate remained well below the national average at 10.8 percent.

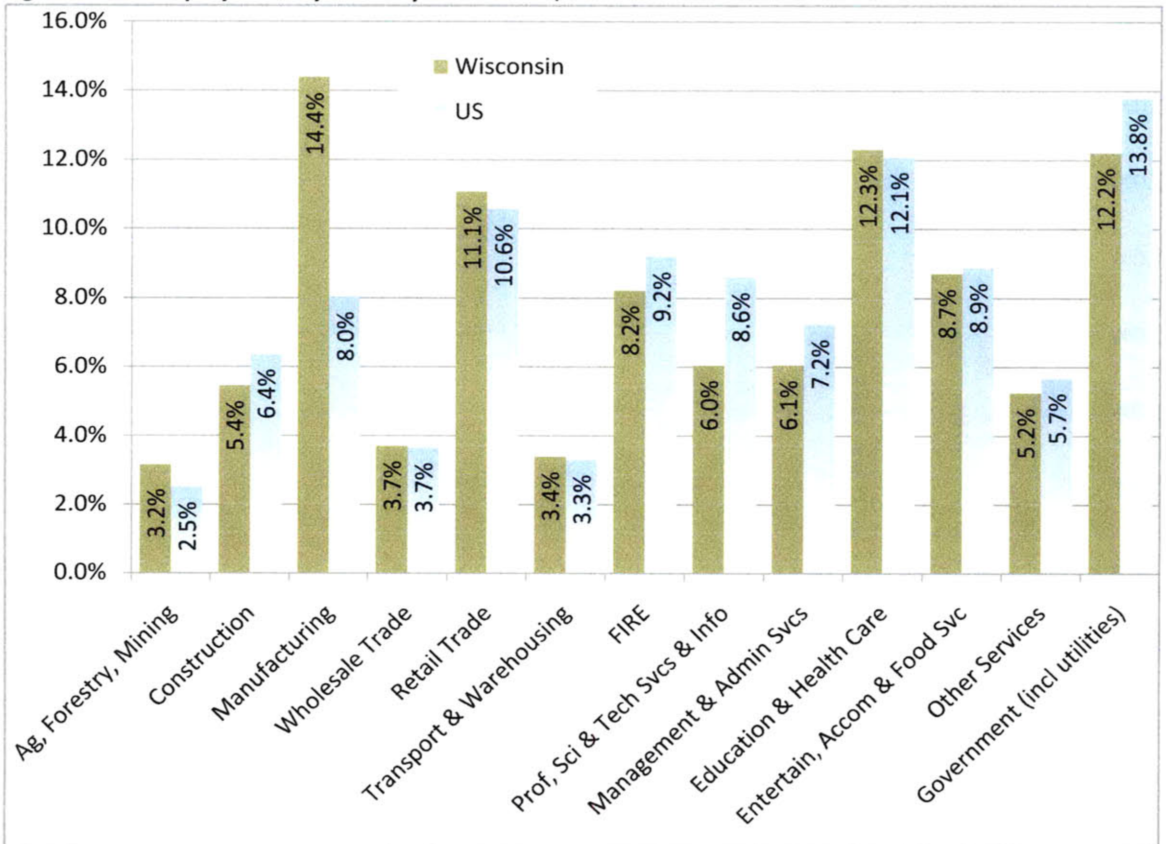
Figure IV-19. Unemployment Rate - Wisconsin, 2000-2007



Source: US Bureau of Labor Statistics.

Figure IV-20 presents Wisconsin's employment mix. As the figure shows, the state's largest sector in terms of employment is manufacturing, and employment in that sector is very high relative to national levels. Though Agriculture makes up only a small portion of the state's employment, on a proportional basis, it accounts for about 30 percent larger share of the workforce in Wisconsin than in the nation as a whole, reflecting the importance of the state's agriculture and dairy industries.

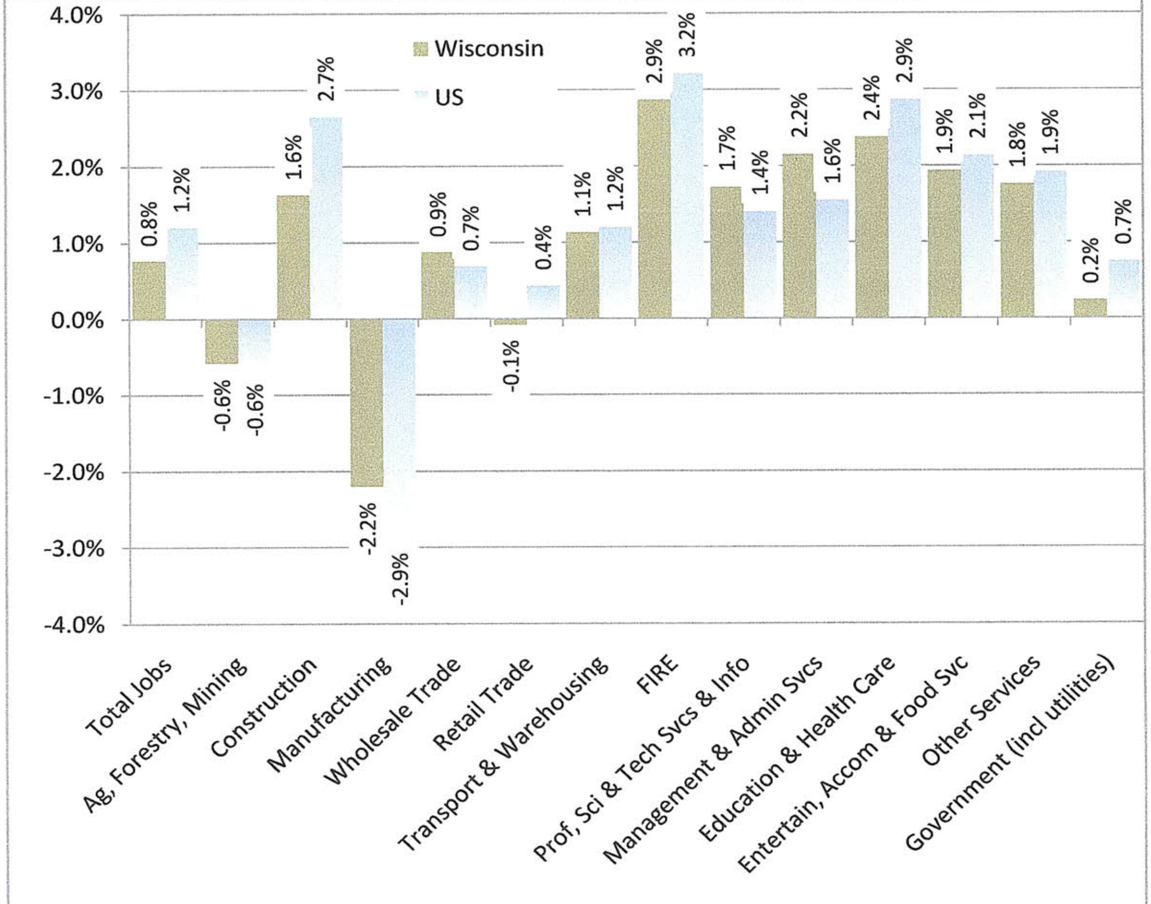
Figure IV-20. Employment by Industry - Wisconsin, 2007



Source: Regional Economic Information System (REIS), Bureau of Economic Analysis, US Department of Commerce.

Figure IV-21 presents job growth by industry for Wisconsin between 2000 and 2007. As the figure reflects, the state lost Manufacturing jobs, albeit at a rate below the national rate. Job growth in most other sectors was comparable to national rates of growth, with the largest numbers of jobs added in Education and Health Care; Finance, Insurance and Real Estate; and Entertainment, Accommodation and Food Service.

Figure IV-21. Average Annual Job Growth by Industry - Wisconsin, 2000-2007



Source: Regional Economic Information System (REIS), Bureau of Economic Analysis, US Department of Commerce.

Due to uncertainty regarding which economic development agency should be interviewed[9] and ensuing scheduling difficulties, at the time of this writing, a phone interview was not conducted with a representative of Wisconsin's economic development leadership. The state's incentives reflect an economic approach that integrates traditional tax incentives with sectoral partnerships (particularly for agriculture and dairy), and technology development and commercialization grants and financing tools.

[9] I began by contacting Forward Wisconsin, which was not immediately responsive. After a few additional follow up communications, it was determined that I should speak with the Wisconsin Department of Commerce, because Forward Wisconsin is only the marketing and program coordination body, while the Department of Commerce retains responsibility for economic development policymaking and implementation.

Table IV-14. Wisconsin's Key Economic Development Programs & Tools

Program Name/Tool	Tool Type	Function/Activity
Brownfields Initiative	Grants	Facility/capital investment
Economic Development Tax Credit Programs (consolidated)	Tax incentives	Multiple
Dairy Manufacturing Facility Investment Credit	Tax incentives	Facility/capital investment
Meat Processing Facility Investment Credit	Tax incentives	Facility/capital investment
Industrial revenue bonds	Financing, IDB	Infrastructure
Forward Innovation Fund	Financing, loan/guaranty	Tech Transfer/ Commercialization
Low-interest loans	Financing, loan/guaranty	
Early Planning Grant	Grants	Small Business
Technology Assistance Grant	Grants	Technical assistance
Dairy 2020 Early Planning Grant	Grants	Technical assistance
Wisconsin Entrepreneurial Network	Technical assistance, training grants	Small Business
Technology Commercialization Programs		Tech Transfer/ Commercialization
Angel Investor Tax Credit Program	Tax incentives	Early stage capital
Early Stage Seed Investment Tax Credit Program	Tax incentives	Early stage capital
Wisconsin Film Tax Credit Program	Tax incentives	
Technology Zone Program	Tax incentives	Tech Transfer/ Commercialization

Source: www.locationusa.com, state websites.

REVISITING STATE PAIRINGS

Having characterized the economies of the analysis states, albeit only in the broadest of terms, as well as documented and characterized their economic development tools, programs and general approaches, we must revisit the state pairing concept laid out in the methodology. As discussed above, the purpose of the state pairs was to help us tease out differences at the local level if a pattern is not clear by looking across the full set, and to allow more detailed analysis whether or not the pattern is clear across the full set—and to see how difference in state tools in otherwise similar states may impact choices made at the local level. This section revisits those initial pairings, first illustrating the similar demographic and economic characteristics on the basis of which each pair was chosen, then making some observations on whether there are indeed fundamental differences between the paired states in economic development policies, tools, level/intensity of effort.

Alabama & South Carolina

As shown below, Alabama and South Carolina are very similar in terms of number of ECs, population size and number of jobs and employment growth. However, the states diverge in terms of population growth, which is above the national average in South Carolina and below average in Alabama. The states also present different unemployment trends, with Alabama largely maintaining below average employment with South Carolina remaining above average.

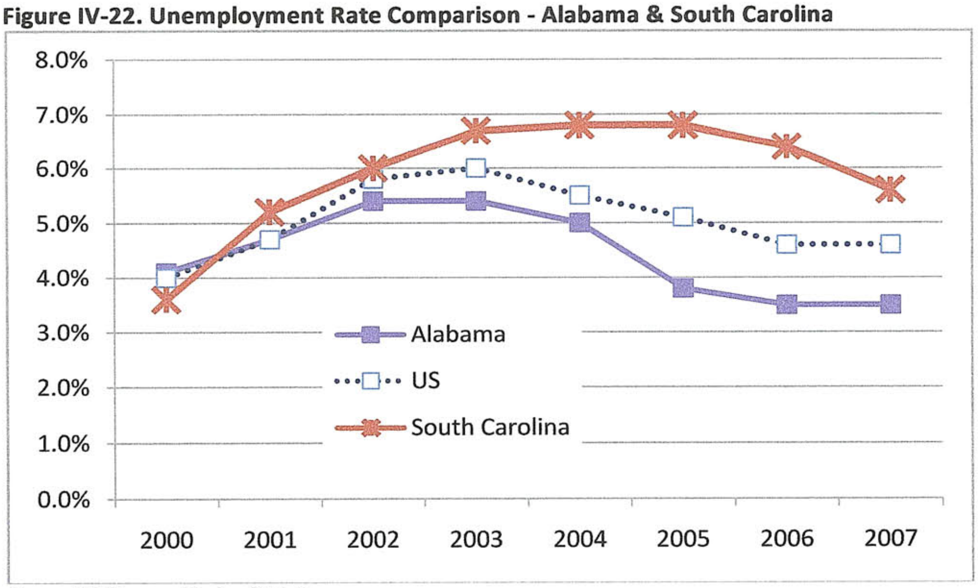
Table IV-15. Comparison of Basic Characteristics - Alabama & South Carolina

Entitlement Communities	#
Alabama	16
South Carolina	17

	2000	2007	2000-07 Av. Annual Growth
Population & Population Growth			
Alabama	4,451,887	4,627,851	0.6%
South Carolina	4,023,628	4,407,709	1.3%
Employment & Employment Growth			
Alabama	2,399,989	2,628,014	1.3%
South Carolina	2,274,642	2,559,411	1.7%

Source: HUD; US Census Bureau Population Estimates; and Regional Economic Information System (REIS), Bureau of Economic Analysis, US Department of Commerce.

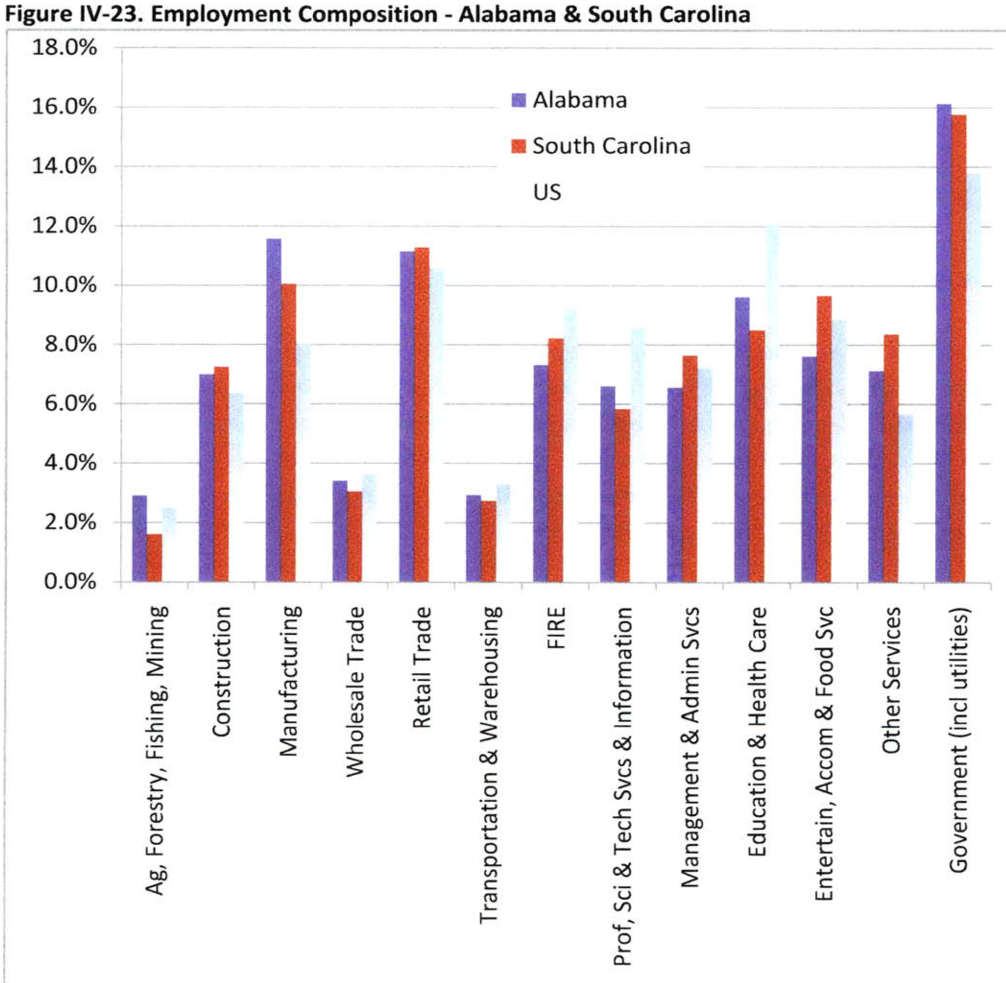
Figure IV-22. Unemployment Rate Comparison - Alabama & South Carolina



Source: US Bureau of Labor Statistics.

Figure IV-23 presents a comparison of employment by industry in the pair states, with the US included as a point of reference. With a few departures, the employment distribution is similar in both states. For example, both have a higher than average share in Manufacturing, though Alabama has a slightly higher share than South Carolina. Conversely, both have lower shares of employment in FIRE and Professional, Technical and Scientific Services and Information, and percentages in both categories for each state are within half a point of one another. One notable difference however, is South Carolina's strength in tourism, which is reflected in a higher share of Entertainment, Accommodation, Recreation and Food Services, while Alabama has a lower share compared with both South Carolina and the nation as a whole. On balance, however, these differences do not appear significant enough to prevent them from acting as a suitable comparison pair for this study.

Figure IV-23. Employment Composition - Alabama & South Carolina



Source: US Bureau of Labor Statistics.

There are two key differences between these states in terms of economic development approaches. The first is evident in the list of tools. While South Carolina relies almost exclusively on tax credits, Alabama, which also makes extensive use of tax credits, gives a larger role to grants and workforce development. As active and passive tools are defined previously, Alabama employs seven active tools and just one passive tool, while South Carolina employs seven active tools and 11 passive tools. Though this is a rough measure that omits consideration of level of resources dedicated to each tool, by this rough cut, Alabama does appear to employ a more active approach. The data presented in Table III-1 presenting economic agency budgets suggest that South Carolina is more active than the comparison of tools reveals. However, as noted above, this may be due to the fact that South Carolina houses its economic development function within its Department of Commerce which has a broader range of responsibilities, and does not report expenditures dedicated to the economic development function separately. In comparison, Alabama Development has a more specific economic development-focused mandate.

The second was revealed by the interviews. While Alabama's representative discussed how the state was turning its efforts to technology commercialization and support for research and development, South Carolina's representative emphasized the state's focus on keeping the cost of doing business low, particularly through low tax rates. For purposes of this study, these differences in economic development approach seem significant enough to justify these two states as a comparison pair - with Alabama characterized as the more active state and South Carolina as the less active state - between which we might be able to identify different local economic development expenditure patterns and relate them back to differences in state-level economic development approach.

Colorado & Arizona

As shown below, Colorado and Arizona have almost the same number of ECs. Total jobs are similar in both states, though jobs are growing more than twice as fast in Arizona. Arizona also has a somewhat higher population, a difference being exacerbated by a higher average growth rate. These differences in growth rates might limit our ability to separate differences caused by state economic development policies versus those related to faster/slower growth. Despite these differences in population and employment growth, both states present similar trends in unemployment.

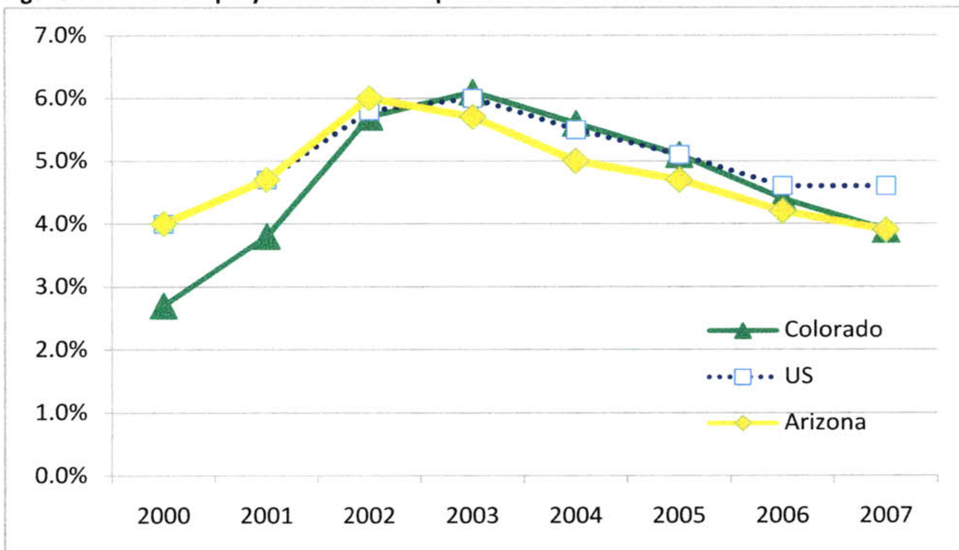
Table IV-16. Comparison of Basic Characteristics –Colorado & Arizona

Entitlement Communities	**#**
Colorado	17
Arizona	15

	2000	**2007**	**2000-07 Av. Annual Growth**
Population & Population Growth			
Colorado	4,328,252	4,861,515	1.7%
Arizona	5,167,260	6,338,755	3.0%
Employment & Employment Growth			
Colorado	2,926,410	3,207,914	1.3%
Arizona	2,795,770	3,454,908	3.1%

Source: HUD; US Census Bureau Population Estimates; and Regional Economic Information System (REIS), Bureau of Economic Analysis, US Department of Commerce.

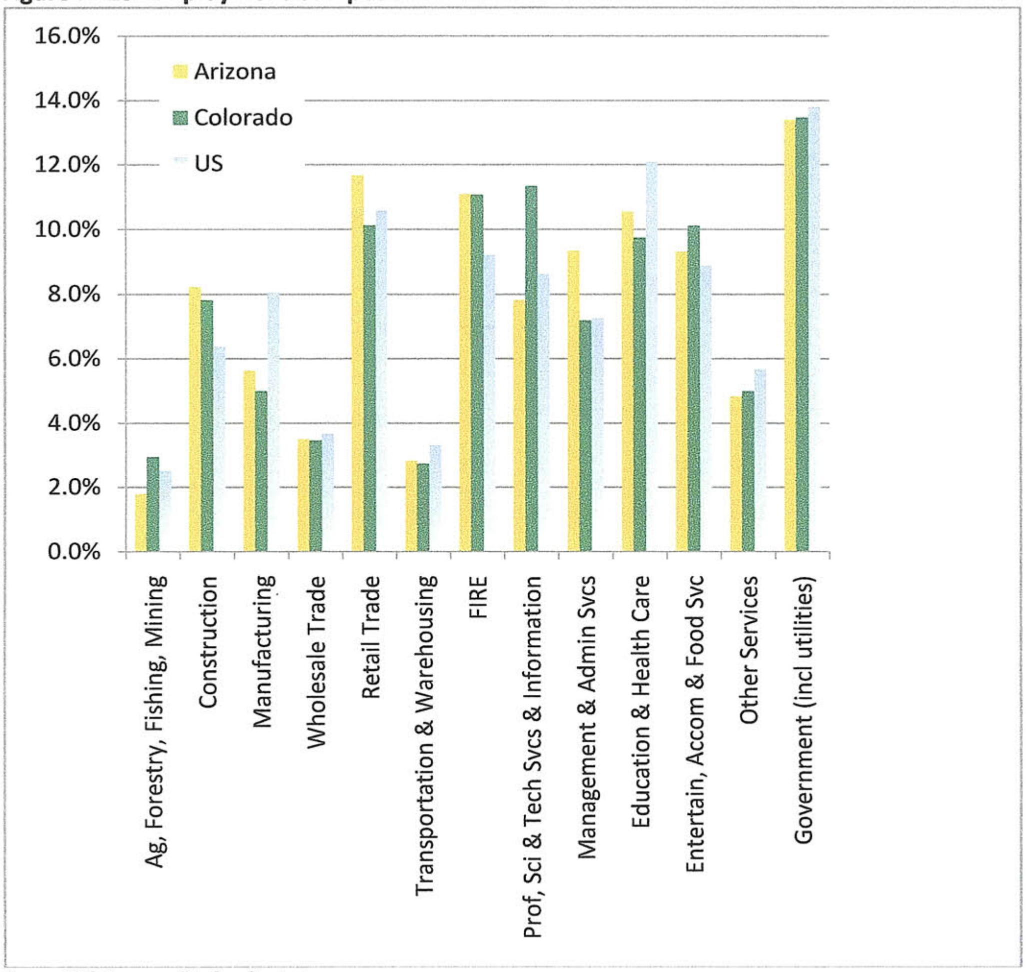
Figure IV-24. Unemployment Rate Comparison –Colorado & Arizona



Source: US Bureau of Labor Statistics.

Figure IV-25 presents a comparison of employment by industry in the pair states, with the US included as a point of reference. With a few notable exceptions, the employment distribution is similar in both states. For example, both have a higher than average (and relatively similar) shares in construction and FIRE. Conversely, both have similar shares of employment in manufacturing which are well below the national average. The greatest departure is in the category of Professional, Scientific and Technical Services and Information, where Colorado is far above the national average while Arizona is somewhat below the national average. On balance, however, these industry differences do not appear significant enough to prevent them from acting as a suitable comparison pair for this study.

Figure IV-25. Employment Composition –Colorado & Arizona



Source: US Bureau of Labor Statistics.

Because Colorado has such a high share of employment in the Professional, Scientific and Technical and Information sectors, I had anticipated that their economic development strategy would be geared toward workforce education, research and development and technology commercialization. However, my interview with the state's economic development department revealed that the state does very little in these areas. The explanation given is that educated people are naturally drawn to Colorado, possibly as a result of the state's range of high-quality, year round outdoor recreation activities, such that the state has not needed to invest in that area. Local companies that rely on this highly educated workforce have been able to engage in research and development and technology commercialization without much state involvement.

As a result, Arizona's and Colorado's economic development approaches are relatively similar, with both primarily focus on traditional tax incentives. Again, classifying tax credits as passive and other tools as active, Colorado employs three active tools and four passive tools, compared with Arizona's seven active tools and eight passive ones. Arizona has more tools, but without indication of level of resources, it would be difficult to interpret this as more active since so many of the tools employed by both states are passive.

Furthermore, it would be difficult to characterize one as more or less active than the other based on the information their respective representatives were able to share during the interviews. Though Arizona and Colorado are the most demographically and economically similar among southwestern states as well as among states with enough entitlement communities to be useful to this study, their differences in growth rate and similarity of economic development approach may prevent them from yielding useful results as a comparison pair.

Wisconsin & Indiana

Wisconsin and Indiana have a similar number of ECs, as shown below in Table IV-17. The table also shows the two states to have comparable populations and number of jobs, and the same rate of population growth. In terms of employment growth, both are well below national levels with Indiana (0.8 percent annual average) lagging behind even Wisconsin's low rate of growth (0.3 percent annual average). Both states maintained similar unemployment rates between 2000 and 2007, which remained below the national rate for most of the period.

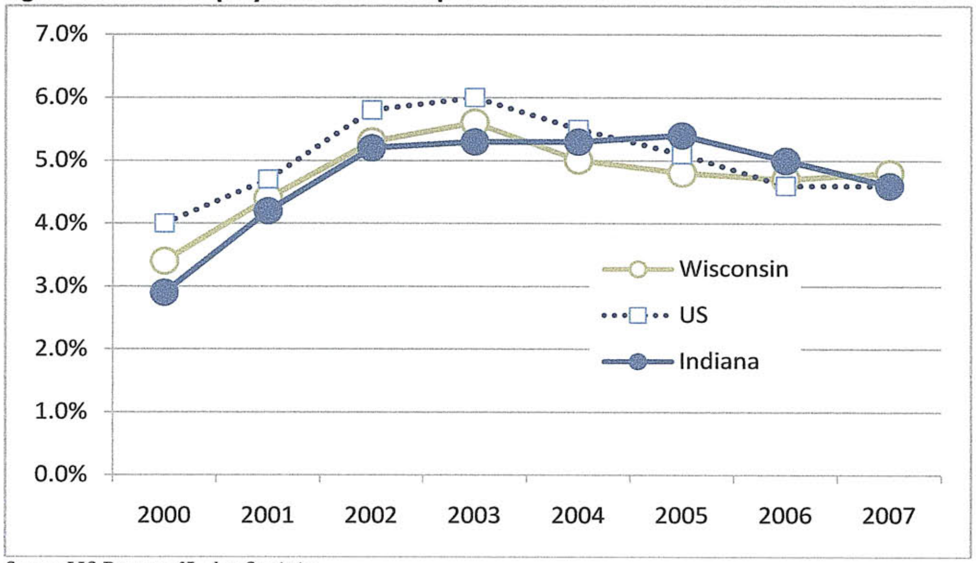
Table IV-17. Comparison of Basic Characteristics – Wisconsin & Indiana

Entitlement Communities	#
Wisconsin	21
Indiana	23

	2000	2007	2000-07 Av. Annual Growth
Population & Population Growth			
Wisconsin	6,091,735	6,345,289	0.6%
Indiana	5,374,399	5,601,640	0.6%
Employment & Employment Growth			
Wisconsin	3,404,577	3,591,107	0.8%
Indiana	3,647,047	3,714,078	0.3%

Source: HUD; US Census Bureau Population Estimates; and Regional Economic Information System (REIS), Bureau of Economic Analysis, US Department of Commerce.

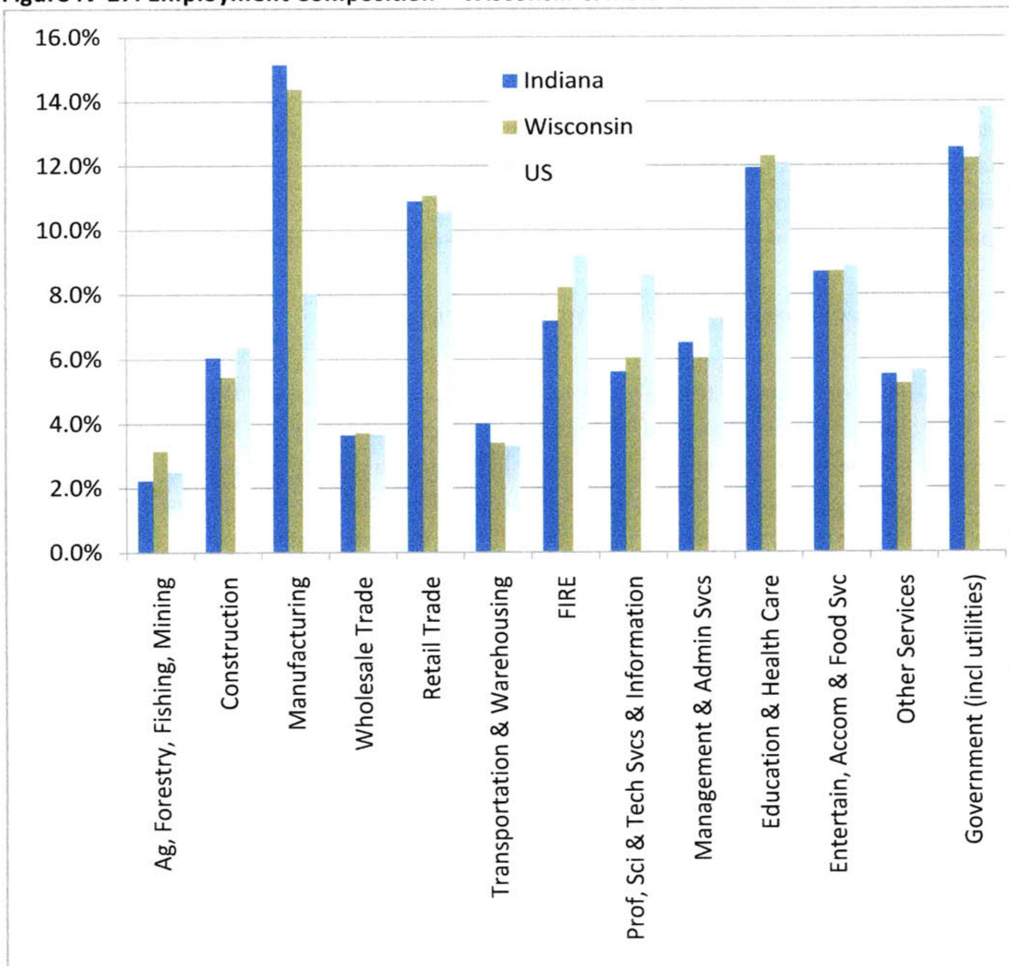
Figure IV-26. Unemployment Rate Comparison – Wisconsin & Indiana



Source: US Bureau of Labor Statistics.

Figure IV-27 presents a comparison of employment by industry in the pair states, with the US included as a point of reference. Of the three pairs of states, Wisconsin and Indiana have the most similar distribution of employment across industries. They both have very high proportions of employment in manufacturing, relative to the nation as a whole, and they both lag the nation in employment in FIRE, and particularly in Professional, Scientific and Technical Services and Information.

Figure IV-27. Employment Composition – Wisconsin & Indiana



Source: US Bureau of Labor Statistics.

Wisconsin and Indiana are the two states with which I had the least amount of contact, as the information from Indiana came in the form of a fairly brief email and scheduling difficulties prevented me from conducting a personal interview with a representative from Wisconsin's economic development agency. However, they were identified as a potential analysis pair by key staff person at the regional Economic Development Administration office, with Wisconsin called out as the more active. Though that characterization was not directly confirmed, the representative from Indiana did indicate that his state was less active. As a result, the study moves forward, albeit tentatively, with this pair. Classifying tools as active or passive, we find that Wisconsin employs seven active tools and seven passive ones, while Indiana employs eight active ones and eight passive ones. Again, without an indication of level of resources committed to these tools, it is difficult to draw inferences regarding overall level of activity. As shown in Table III-1, the comparison of primary state economic development agency budgets indicate that Wisconsin is a more active state than Indiana.

V. Overview of Local Use of CDBG Funds for Economic Development

The seven states of interest contain 142 entitlement communities for which data was reported in all three analysis years (excluding outliers, as explained in Chapter III). This section provides an overview, supported by statistical analysis, of how CDBG funds were used by these entitlement communities, first in terms of level of expenditures and then in terms of expenditures by economic development category.

Total CDBG Economic Development Expenditures by State

This section describes CDBG expenditures for ED in total, by state, and among ECs throughout the seven analysis states. It begins with a discussion of ED spending in general, and once those patterns – totals, averages, variations – have been determined for ED dollars per capita and ED expenditures as a percent of total CDBG spending, the discussion will drill down another level, looking at how expenditures are distributed across ED categories by analysis state, and by all ECs in analysis states.

Table V-1 presents total CDBG expenditures for economic development for each state during the 3-year analysis period, as well as total CDBG economic development expenditures in dollars and as a % of total CDBG expenditures. As the table shows, total expenditures ranged from just over $47 million in South Carolina to nearly $440 million in Ohio. Expenditures dedicated to economic development ranged from a low of $400,000, again in South Carolina, to a high of more than $45 million, again in Ohio. During the three-year period, Wisconsin spent the greatest proportion of CDBG funds on economic development (14.6 percent) while South Carolina spent the lowest proportion (0.8 percent). There is considerable variation across states and between pair in the share of ED spending-on the surface this suggests that state policies may be influencing local programming of CDBG funds.

Table V-1. CDBG Expenditures and Expenditures for ED by State, PY 2005-2007

	Total CDBG Expenditures (millions)	CDBG Expenditures for ED (millions)	ED Expenditures as a % of Total CDBG Expend.
All Analysis States	$1,001.8	$72.4	7.2%
Alabama	$61.4	$5.6	9.1%
South Carolina	$47.1	$0.4	0.8%
Colorado	$61.7	$2.2	3.6%
Arizona	$89.7	$0.9	1.0%
Wisconsin	$94.1	$13.7	14.6%
Indiana	$132.2	$4.2	3.2%
Ohio	$439.1	$45.4	10.3%

Source: HUD.

Table V-2 presents the mean, median, standard deviation and variance statistics for all entitlement communities in the states of interest, expressed as total dollars, per capita dollars and the % of CDBG funds spent on economic development. By all three measures, the data reflect a high degree of variation. Out of the total 142 entitlement communities under analysis, more than a third (51) spent no CDBG funds on economic development during the period. Though outliers were removed, a wide gap remains between the mean and median, particularly in per capita terms. This difference is likely caused by the high number of communities with zero expenditures.

Table V-2. Basic Statistical Measures of CDBG Expenditures for Economic Development: Mean, Median, Standard Deviation and Variance, Total

	CDBG Expenditures for Economic Development		
	Total $	CDBG $ for ED Per '000 Pop	% of CDBG $ for ED
Mean	$513,220	$3,700	5.2%
Median	$43,470	$390	1.2%
Standard Deviation	$1,292,000	$6,100	7.1%
Variance (millions)	$1,670.1	$37.2	0.5%

Source: HUD.

Table V-3 presents a more detailed view of the same statistical measures, reporting them by state. Note that three states, South Carolina, Colorado and Indiana, have median expenditures of $0.

Table V-3. Basic Statistical Measures of CDBG Expenditures for Economic Development: Mean, Median, Standard Deviation, for States

A. CDGB $ for Economic Development	AL	SC	CO	AZ	WI	IN	OH
Mean	$371,553	$24,100	$137,386	$68,793	$722,473	$184,209	$1,106,649
Median	$9,129	$0	$0	$0	$381,575	$0	$390,493
StDev	$693,327	$44,612	$456,196	$121,030	$1,030,986	$330,725	$2,097,670
Var (bil.)	$480.7	$2.0	$208.1	$14.6	$1,063.9	$109.3	$4,400.2

B. CDBG $ for ED per '000 Population	AL	SC	CO	AZ	WI	IN	OH
Mean	$1,860	$313	$605	$292	$5,709	$2,639	$7,557
Median	$235	$0	$0	$0	$4,545	$0	$4,479
StDev	$3,277	$742	$1,677	$484	$5,438	$6,461	$7,665
Var (mil.)	$10.7	$0.6	$2.8	$0.2	$29.6	$41.7	$58.7

C. % of CDBG for Economic Development	AL	SC	CO	AZ	WI	IN	OH
Mean	4.0%	0.6%	0.7%	0.7%	9.4%	2.5%	9.6%
Median	0.2%	0.0%	0.0%	0.0%	7.6%	0.0%	10.3%
StDev	6.4%	1.1%	1.3%	1.0%	8.0%	5.0%	7.6%
Var	0.4%	0.0%	0.0%	0.0%	0.6%	0.2%	0.6%

Source: HUD.

The data described above reveals a number of interesting characteristics. First, expenditure patterns in Wisconsin and Ohio stand out from patterns in other states in the following three ways: 1) much higher average levels of CDBG dollars spent on ED; 2) the fact that nearly all the ECs in these two states used at least a portion of their CDBG allocations for ED; and 3) much wider variation as measured by dollars per capita and percent of CDBG for Economic development.

Next, Arizona, Colorado and South Carolina exhibit similar characteristics in terms of low shares of CDBG funds expended for ED (all less than 1.0 percent). Finally, when the ratio of the mean expenditures to standard deviation of expenditures is considered, Alabama, South Carolina, Arizona, Indiana, and Ohio have similar levels of variation in total CDBG expenditures for ED (around 0.5), while Colorado has much less (0.3) and Wisconsin has much more (0.7). These differences and similarities are probed in greater detail below.

TOTAL CDBG ECONOMIC DEVELOPMENT EXPENDITURES BY CATEGORY

The discussion above focused on understanding the levels of CDBG funds used for economic development as a whole, as well as variation in level of funding by different measures (dollars for ED, ED dollars per capita, and ED dollars as a percent of total CDBG funds). In this section we attempt to drill down still one more level, to analyze expenditures in the categories described in Chapter III.

Having now uncovered and characterized state-level economic tools (Chapter IV), it is clear that the two typologies are very different, and unfortunately, are not necessarily reconcilable. The CDBG categories were determined by HUD, thus that data was fixed. The original intent was to classify state-level tools as closely as possible to the categories defined by HUD, however this quickly proved impractical if not impossible because many state tools straddle more than one CDBG category while others resisted fitting comfortably into any of the eight categories

As stated in Section II, during the 2005-2007 period, entitlement entities in states of interest made expenditures in the following economic development-related categories:

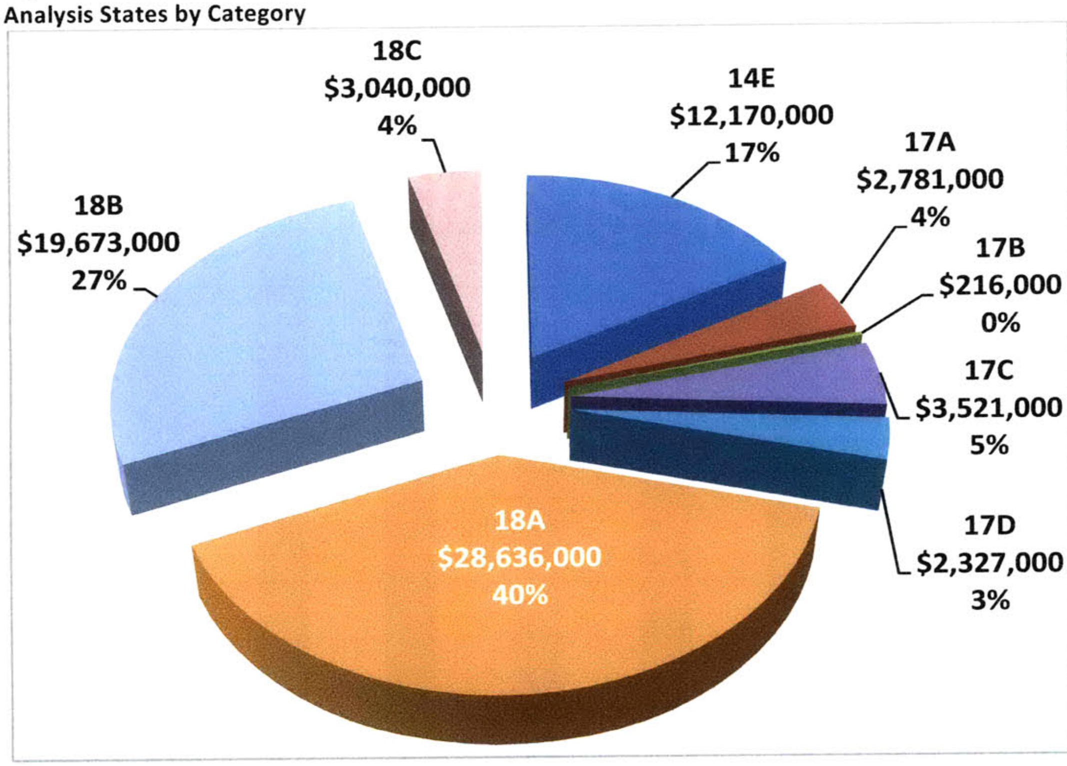
- 14E Rehabilitation: Publicly or Privately Owned Commercial/Industrial
- 17A Commercial/Industrial Land Acquisition/Disposition
- 17B Commercial/Industrial Infrastructure Development
- 17C Commercial/Industrial Building Acquisition, Construction, Rehabilitation
- 17D Other Commercial/Industrial Improvements
- 18A ED Direct: Financial Assistance to For-Profit Businesses
- 18B ED Direct: Technical Assistance
- 18C Micro-Enterprise Assistance

As a group (ignoring state lines for a moment), the category representing the largest share of expenditures was Direct Assistance to for-Profit Businesses ($28.6 million, 50 percent), most likely in the form of loans. The next largest category was Technical Assistance ($19.7 million, 27 percent) followed by Rehabilitation of Publicly or Privately Owned Commercial/Industrial Real Estate ($12.2 million, 17 percent).

Commercial/Industrial Infrastructure Development represented the lowest category, with expenditures of only about $216,000 or less than one-half of one percent of the total. The remaining four categories split the balance in relatively equal shares.

A key observation regarding this initial distribution of funds across CDBG ED categories is that more money is spent on direct assistance for business rather than real estate and infrastructure-related. This is in contrast to many of the state-level tools which are related to site preparation, site-related infrastructure improvements, and facility construction and expansion. This suggests some division of roles between state and local economic development that may warrant further research to confirm.

Figure V-1. CDBG Economic Development Spending by Entitlement Communities in Analysis States by Category



Category Definitions

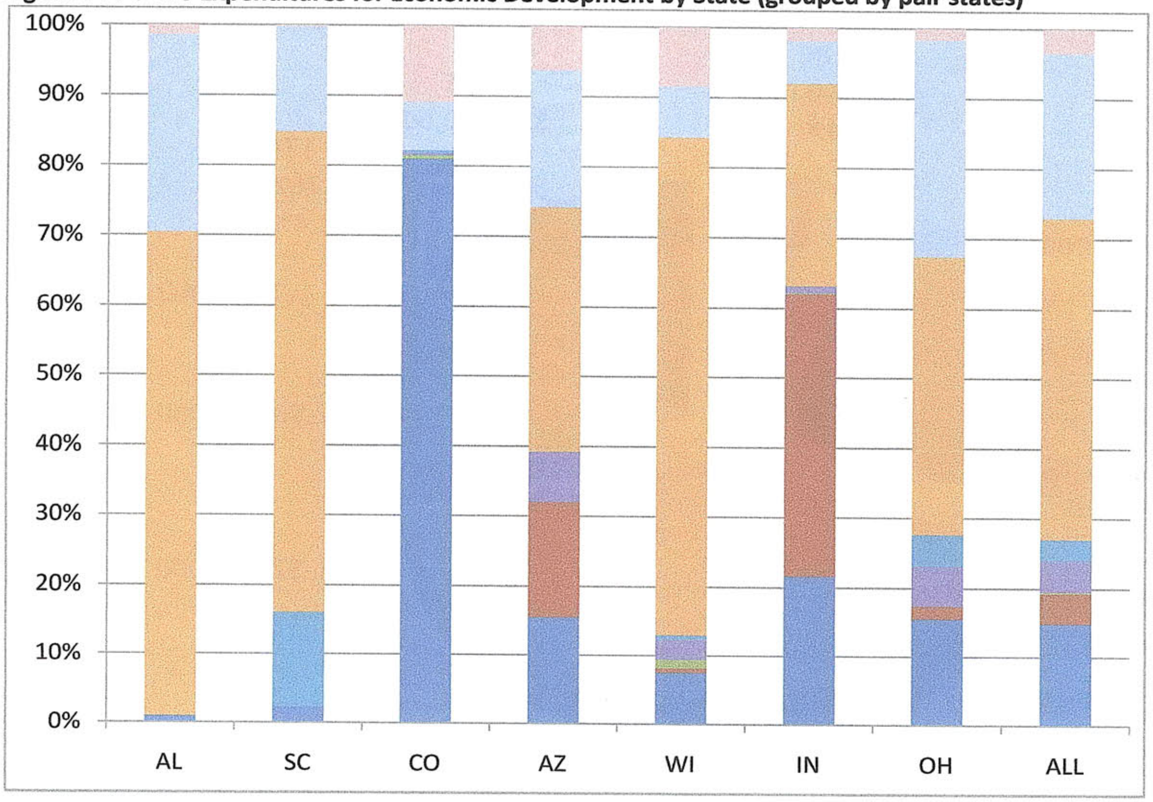
14E	Rehabilitation: Publicly or Privately Owned Commercial/Industrial
17A	Commercial/Industrial Land Acquisition/Disposition
17B	Commercial/Industrial Infrastructure Development
17C	Commercial/Industrial Building Acquisition, Construction, Rehabilitation
17D	Other Commercial/Industrial Improvements
18A	ED Direct: Financial Assistance to For-Profit Businesses
18B	ED Direct: Technical Assistance
18C	Micro-Enterprise Assistance

Source: HUD with own calculations.

CDBG Expenditures by Economic Development Category by State

Expenditures by category vary widely across the seven analysis states, as measured by total dollars, per capita dollars, as well as by percent of CDBG expenditures for economic development. Figure V-2 shows how differently each state allocates funds across CDBG ED categories with each state's expenditures shown as a portion of the total. Figure V-3 shows the same information from a different perspective: dollars per capita by category for each state, which again underscores the wide variation in the distribution of spending across categories. This will be examined in greater detail below when we zoom in on pair states.

Figure V-2. CDBG Expenditures for Economic Development by State (grouped by pair states)

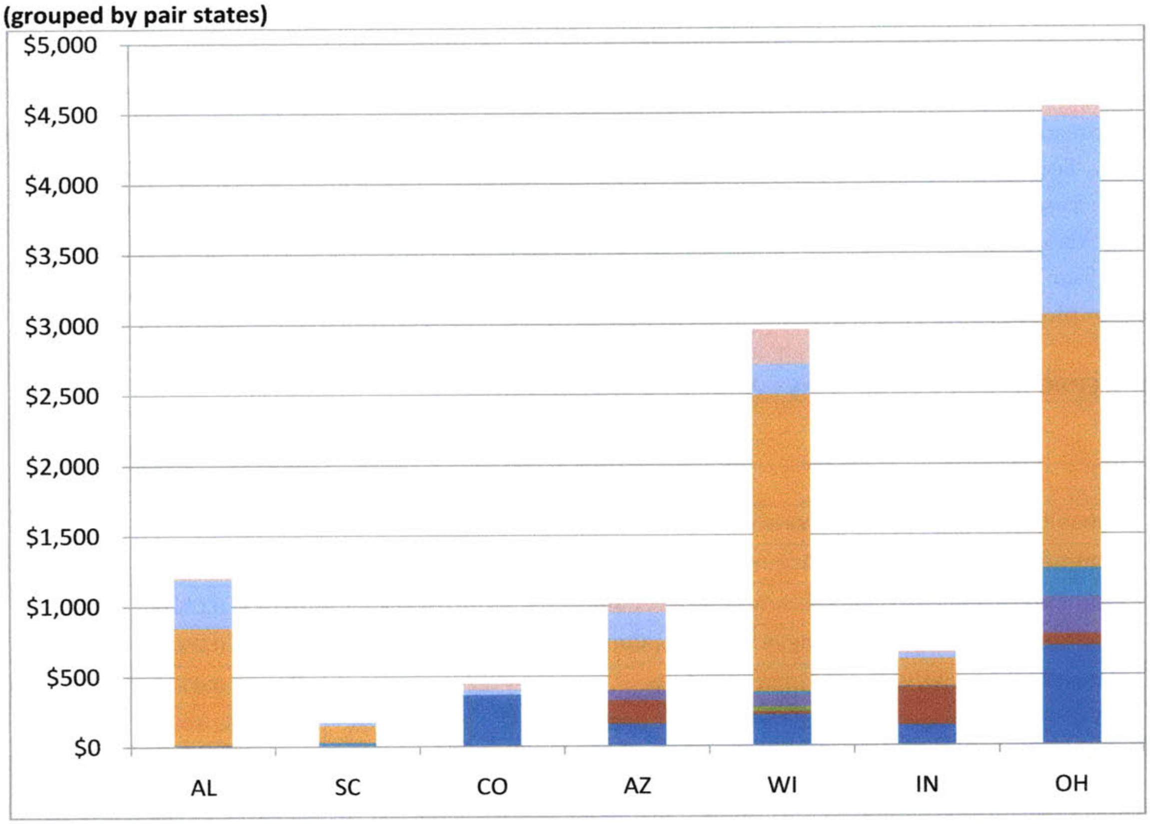


Legend

14E Rehabilitation: Publicly or Privately Owned Commercial/Industrial
17A Commercial/Industrial Land Acquisition/Disposition
17B Commercial/Industrial Infrastructure Development
17C Commercial/Industrial Building Acquisition, Construction, Rehabilitation
17D Other Commercial/Industrial Improvements
18A ED Direct: Financial Assistance to For-Profit Businesses
18B ED Direct: Technical Assistance
18C Micro-Enterprise Assistance

Source: HUD with own calculations.

Figure V-3. CDBG Expenditures for Economic Development Per Capita by State (grouped by pair states)



Legend

14E	Rehabilitation: Publicly or Privately Owned Commercial/Industrial
17A	Commercial/Industrial Land Acquisition/Disposition
17B	Commercial/Industrial Infrastructure Development
17C	Commercial/Industrial Building Acquisition, Construction, Rehabilitation
17D	Other Commercial/Industrial Improvements
18A	ED Direct: Financial Assistance to For-Profit Businesses
18B	ED Direct: Technical Assistance
18C	Micro-Enterprise Assistance

Source: HUD and own calculations.

CDBG Expenditures by ED Category – Alabama & South Carolina

The table below shows the number of ECs using CDBG ED funds in each ED category as well as the dollars spent in each category. Alabama ECs made use of only three of the eight categories, while South Carolina made use of five. In both states, all communities but one used all or the vast majority (more than 90 percent) of funds in the same category. One EC in Alabama and one in South Carolina split its ED funds evenly across two categories. No EC utilized more than two categories during the 3-year analysis period. In terms of distribution of expenditures across categories, Alabama dedicated just under two-thirds of its CDBG ED resources to Financial Assistance to For-Profit Businesses, and just under one-third to Technical Assistance (with trace amounts spent in two other categories). In contrast, South Carolina spread its resources relatively evenly across three categories: Financial Assistance to For-Profit Businesses, Technical Assistance and Other Commercial/Industrial Improvements. It is difficult to discern the impact of state economic development tools and policies on this distribution of expenditures. Revisiting Alabama's economic development tool table from the previous section, we see that the state employed four real estate/infrastructure oriented tools, and four general business assistance tools. South Carolina employed seven real estate/infrastructure tools and 11 business assistance tools.

Table V-4. CDBG for ED by ED Category – Alabama & South Carolina

		Count of ECs		% of ED	
Category		**AL**	**SC**	**AL**	**SC**
14E	Rehabilitation: Publicly or Privately Owned Commercial/Industrial	3	1	1.1%	4.7%
17A	Commercial/Industrial Land Acquisition/Disposition			0.0%	0.0%
17B	Commercial/Industrial Infrastructure Development			0.0%	0.0%
17C	Commercial/Industrial Building Acquisition, Construction, Rehab			0.0%	0.0%
17D	Other Commercial/Industrial Improvements		1	0.0%	29.7%
18A	ED Direct: Financial Assistance to For-Profit Businesses	3	3	62.8%	33.2%
18B	ED Direct: Technical Assistance	2	2	34.3%	31.8%
18C	Micro-Enterprise Assistance	2	1	1.7%	0.6%

Source: HUD and own calculations.

CDBG Expenditures by ED Category - Colorado & Arizona

The table below shows the number of ECs using CDBG ED funds in each ED category as well as the dollars spent in each category. Seven ECs in both states did not use any CDBG resources for ED in the 3-year analysis period. ECs in Colorado dedicated CDBG resources to six of the eight ED categories, while ECs in Arizona utilized only four categories. Nonetheless, some 81 percent of Colorado's ED resources fell in just one category, Rehabilitation of Publicly or Privately Owned Commercial/Industrial buildings. This reinforces the information from the interview which indicated that localities focus almost exclusively on pursuit of retail businesses, which would typically have need for real estate oriented tools (such as 14E), but less need for business assistance (such as 18A). Smaller amounts were spent for Micro-Enterprise Assistance (10.9 percent) and Technical Assistance (6.9 percent), with only trace resources spread across three additional categories. In contrast, ECs in Arizona primarily used CDBG ED funds for Micro-Enterprise Assistance (45.2 percent), with much smaller amounts in two other categories. Unfortunately, as discussed above, these two states seem to have relatively similar economic development approaches, with Colorado employing no real estate/infrastructure tools and seven business assistance tools, and Arizona employing only one real estate/infrastructure tool and 14 business assistance tools. Thus, as with the previous state pair, it is difficult to speculate on how those state tools might contribute to an explanation of these differences in ED expenditures among localities. The distribution of expenditures in Colorado, which avoids direct assistance to businesses in favor of rehabilitation of publicly or privately owned commercial and industrial property may indicate some differentiation between state and local roles and use of tools. This may be driven by the fiscal system, which as discussed above, encourages localities to actively pursue retail projects that generate local sales tax revenues.

Table V-5. CDBG for ED by ED Category – Colorado & Arizona

		Count of ECs		% of ED	
Category		**CO**	**AZ**	**CO**	**AZ**
14E	Rehabilitation: Publicly or Privately Owned Commercial/Industrial	2	2	81.0%	11.9%
17A	Commercial/Industrial Land Acquisition/Disposition			0.0%	0.0%
17B	Commercial/Industrial Infrastructure Development	1		0.5%	0.0%
17C	Commercial/Industrial Building Acquisition, Construction, Rehab	2		0.4%	0.0%
17D	Other Commercial/Industrial Improvements	2		0.4%	0.0%
18A	ED Direct: Financial Assistance to For-Profit Businesses		1	0.0%	4.2%
18B	ED Direct: Technical Assistance	2	3	6.9%	38.6%
18C	Micro-Enterprise Assistance	3	4	10.9%	45.2%

Source: HUD and own calculations.

CDBG Expenditures by ED Category – Wisconsin & Indiana

The table below shows the number of ECs using CDBG ED funds in each ED category as well as the dollars spent in each category. Despite the fact that Indiana has two more ECs than Wisconsin, Table V-6 shows far more ECs using resources for ED. ECs in Wisconsin used resources in all eight ED categories, while Indiana ECs used resources in all but one category. Despite the fact that they both used a wide range of categories, ECs in the two states used their resources very differently. While Wisconsin committed approximately two-thirds to Financial Assistance to For-Profit Businesses, just over 10 percent to Micro-enterprise Assistance, and decreasing proportions in remaining categories, Indiana spread most expenditures across three categories, with a little over 40 percent dedicated to Commercial/Industrial Land Acquisition/Disposition, nearly 29 percent to Financial Assistance to For-Profit Businesses, and 22 percent on Rehabilitation of Publicly or Privately Owned Commercial/Industrial Property, with smaller amounts in remaining categories. Rolling up business assistance categories on the one hand and real estate related categories on the other, Wisconsin communities spent the bulk of their CDBG dollars (74 percent) for assistance to businesses while Indiana ECs spent almost two-thirds (64%) for real estate.

Once again, given very similar patterns of state-level economic development tools – Wisconsin having four real estate/infrastructure tools and 10 business assistance tools and Indiana offering four real estate/infrastructure tools and 12 business assistance tools – it is difficult to identify which tools or policies would account for the different patterns reflected by local CDBG spending. Nonetheless, one might observe that in comparison to the other two state pairs which exhibited slightly more contrast in use of real estate/infrastructure versus business assistance tools as well as CDBG ED funds in only a few categories, this pair exhibits nearly identical use of state tools in those two categories as well as funds distributed across almost all CDBG ED categories. This finding could be probed by collecting two pieces of data not available for this study: 1) Level of resources dedicated to each state-level tool and 2) Data covering local economic development tools beyond those supported by CDBG funds.

Table V-6. CDBG for ED by ED Category – Wisconsin & Indiana

		Count of ECs		% of ED	
Category		**WI**	**IN**	**WI**	**IN**
14E	Rehabilitation: Publicly or Privately Owned Commercial/Industrial	11	4	9.0%	21.6%
17A	Commercial/Industrial Land Acquisition/Disposition	4	4	0.8%	40.4%
17B	Commercial/Industrial Infrastructure Development	1	1	1.5%	0.1%
17C	Commercial/Industrial Building Acquisition, Construction, Rehab	3	2	3.5%	1.0%
17D	Other Commercial/Industrial Improvements	3		0.8%	0.0%
18A	ED Direct: Financial Assistance to For-Profit Businesses	12	5	65.4%	28.9%
18B	ED Direct: Technical Assistance	9	3	8.7%	6.1%
18C	Micro-Enterprise Assistance	7	3	10.2%	1.9%

Source: HUD and own calculations.

Summary of CDBG Expenditures for ED Among Pair States

Looking across all six states discussed above, there is clear variation in both how funds are allocated and the breath of tools used. The most heavily used category is Direct Assistance to For-Profit businesses, to which Alabama and Wisconsin dedicated similarly high shares (more than 60 percent each) and South Carolina and Indiana dedicated similarly moderate shares (around 30 percent each). Alabama, South Carolina and Arizona each put significant resources (30 to 40 percent) into Technical Assistance. Wisconsin and Indiana use almost all the tools, while Arizona uses only three and the others used four.

Colorado presents somewhat of an anomaly in that it is the only state to put almost all resources (over 80 percent) in a single category, Rehabilitation of publicly or privately owned commercial/industrial property. This is consistent with previously identified pattern for Colorado and reinforces the assertion that local tax revenue sources may be driving allocation of local economic development funds. Only Indiana put significant resources in the category for Commercial/Industrial Land Acquisition/Disposition, and only South Carolina put significant resources in the category for Other Commercial/Industrial.

REVISITING THE SPECTRUM OF STATES FROM "ACTIVE" TO "INACTIVE"

With the exception of Ohio, none of the analysis states have enough ECs to yield statistically significant t-tests or regressions that would probe the relationship between an EC's level of CDBG expenditures for economic development and the state to which it belongs. As a preliminary exercise, I grouped the states previously labeled "more active" in economic development in their pairs (Alabama, Colorado, Wisconsin, plus Ohio which was not paired but labeled active nonetheless) and "less active" in economic development (Arizona, Indiana, South Carolina). Then I assigned more active states a dummy variable with a value of 1 and less active states with a dummy variable value of 0 and ran a t-test on the entire set. The resulting P value was far less than 0.05, which I initially took to indicate that the level of economic development activity could be correlated with level of CDBG expenditures for ED. However, upon further reflection I realized the result could not be interpreted this way for two reasons. The first reason is, as discussed in an earlier chapter, the states cannot be legitimately be classified as more or less active outside their pairs. In fact, upon closer inspection it was not clear that this relationship held even within the pairs (e.g. Arizona and Colorado, which appear to use very similar approaches and tools; Wisconsin and Indiana).

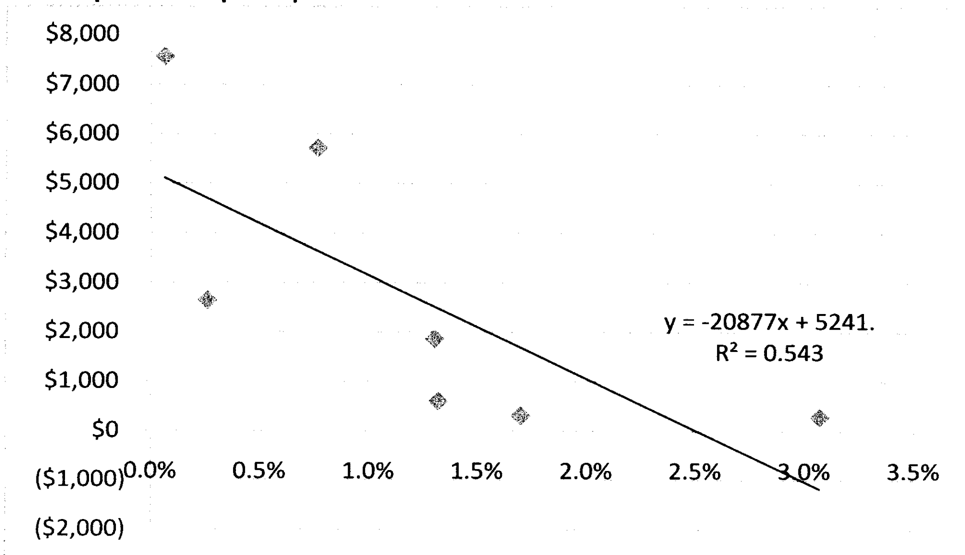
EXPLORATION OF ALTERNATIVE FACTORS

The analysis above indicates a wide range of variation in expenditure patterns by state, however, in most cases the relationship between these very different expenditure patterns and their respective state economic development policies, programs and incentives remains unclear. This may be due to data limitations, as discussed previously, however it may also be due to alternative explanatory factors not considered by this analysis.

To briefly explore factors that I supposed might be obscuring clear results for the above analysis, I ran t-tests on groups of states that I had hypothesized were more active and less active. Ultimately the results of those tests only revealed that there are or are not differences between groups. If a grouping produces $p < 0.05$, it is clearly tautological to use that relationship to justify my grouping. Thus I judged that the results of those t-tests, without more robust information about and better classification of state tools, were largely irrelevant.

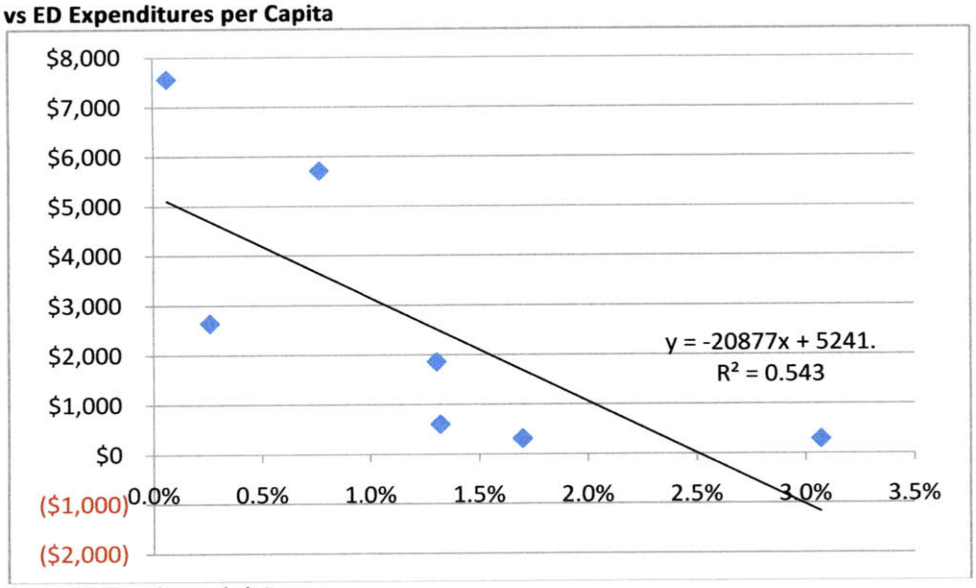
As I was running the t-tests, however, I thought I was beginning to see a possible relationship between a state's level of employment in manufacturing and its level of CDBG expenditures for ED. I decided that although the methodology I had laid out for this particular study turned out not to allow me to look very closely at distribution of expenditures across ED categories, at the very least I should be able to say something interesting about what determines the level of expenditures. I ran a regression plotting the statewide percentage of employment in manufacturing against ED dollars per capita and quickly discovered that no such relationship existed. Nonetheless, it got me thinking about what other factors I could use to somehow explain the very different level of expenditures across states. I examined the characteristics of each state and decided to repeat the regression with employment growth in place of manufacturing employment. The results are shown below in Figure V-4. The r-squared of more than 0.5 is a very strong finding. I hypothesize that if this relationship extends to the full data set, further analysis would show these rapidly growing communities utilizing CDBG funds disproportionately for public works and infrastructure, rather than for job creation which, current economic crisis aside, was largely occurring unassisted.

Figure V-4. Regression - Annual Average Employment Growth Rate (2000-2007) vs ED Expenditures per Capita



Source: HUD and own calculations.

Figure V-4. Regression - Annual Average Employment Growth Rate (2000-2007) vs ED Expenditures per Capita



Source: HUD and own calculations.

international trade/export assistance. Case studies could be used to gather data regarding expenditure levels for economic development (CDBG, local tax incentives, and other local resources) among a sample of localities from each state. If the data collected was relatively consistent, a model could be developed to consider the state's role relative to a number of other factors, including those indicated by the studies covered by the literature review (particularly government structure, economic distress, and civic culture). However, even less consistent data would provide a unique opportunity for a qualitative comparison that would shed further light on this topic. This particular approach has the benefit of measuring local economic development tools more directly, rather than essentially by proxy through a federal grant program which may have its own influence on expenditure patterns.

VII. Appendix

Interview Protocol

Using publicly available contact information, emails were sent to economic development directors in each state under examination. The emails provided an overview of the research project, required consent language, a list of state economic development programs and incentives developed based on secondary data sources (primarily www.locationusa.com and state websites), and a summary of the questions that would be asked.

The questions covered the following:

- Each interviewee was given a list of the economic development programs and policies developed based on secondary research, and asked 1) to confirm the existence of programs between 2005 and 2007; 2) to identify any programs on the list that were not active between 2005 and 2007; and 3)to identify any additional programs not on the list.
- The interviewees were asked to clarify programs or policies with ambiguous names, and to provide details for unique programs/policies where such information was not available through secondary sources.
- Interviewees were asked to estimate how widely used a given program/policy are throughout the state (i.e. number of jurisdictions eligible for it and number using it), and how intensively it is used (i.e. is the policy actively in use? Occasionally used? Rarely or never used?)

No personal or confidential information was collected as a part of the interview process.

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