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LWV-LDC ECONOMIC DEVELOPMENT STUDY

Introduction to policy draft

Presented by
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Presented to
LWV-LDC Brownbag
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Lawrence KS

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TOPICS

- Introduction
- Some definitions
- Horror stories
- Selected features of the draft proposal
 - Economic development vs. community development
 - Policies common to ED and CD
 - Policy differences
- Future activities

Problem statement

- There is currently no specific policy guidance on economic development (ED) or community development (CD) at LWV local, state or national level.
- ED and CD issues constantly arise in land use planning and local tax policy.
- CD activities are often justified using inappropriate ED rhetoric.
- ED rhetoric often justifies policies the LWV otherwise would oppose.

Study Purposes

- Understand the ED and CD processes
- Identify LWV interests in and goals for ED/CD
- Define good policies for managing ED/CD
- Educate LWV members and the general public
- Draft a LWV position statement on ED/CD
- Reach LWV-LDC consensus on an ED/CD position

Activities and outputs so far

- 2014-2016 study approved at 2014 annual meeting
- Open listserve: lwvldc-ecodevo [at] lists.riseup.net
 - About 30 subscribers
- 10 Committee meetings
 - About 5 regular participants
- Draft report [1] criticizing Lawrence Chamber of Commerce ED leadership, now on LWV-LDC website
- Board-approved expansion of formal scope of study to include CD
- Draft position statement now ready for discussion and adoption

Why include community development in study?

- Few people get the ED/CD distinction, yet
 - The purposes are very different
 - Different strategies and evaluation are needed.
- ED rhetoric is widely used to justify poorly-designed CD activities.
- We can't expect to understand or advocate for good LWV positions on either topic without addressing both.

What is economic development?

- ED consists in public subsidies or special privileges to private interests for the purpose of **expanding the local economy** without degrading the local quality of life.
- Successful ED always consists in bringing in **new money** from outside the community.*
 - * Controversial in Lawrence, not in academia
- Successful ED creates a **net profit for government** (new tax less new service costs)

What is community development?

- CD consists in public subsidies or direct public investment directed to private interests or specific neighborhoods for the purpose of **improving the local quality of life.**
- CD can include neighborhood revitalization, historic preservation, downtown commercial enhancement, ecological protection.
- CD subsidies are a **net cost to government** but **improve the community as a whole.**

Compare ED / CD

	ED	CD
Goal	Expand economy	Higher quality of life (QOL)
Objectives	New dollars from outside--but maintain QOL	Historic preservation, ecology, local amenities, improved services, fight blight, preserve downtown, income distribution, etc.
Intended fiscal impact (taxes less expenditures)?	Positive	Negative
Need a separate budget?	No (supposed to pay for itself)	Yes (needed to limit total CD costs)
Needed modeling?	Fiscal impact analysis	True benefit cost analysis
Competes with local business?	Never (best practice)	Sometimes

Some types of formal analysis

- Fiscal impact analysis: will new taxes exceed cost of new services?
- Benefit-cost analysis: will average citizens be made better off on net?
- “But for” analysis: would this project go ahead without help from the city (i.e. would it fail “but for” city subsidies)?
- Competitive impact: what local businesses will be hurt?

Horror story #1: Rock Chalk Park as crony capitalism I: analysis failures

- Mixed ED/CD justification
- No fiscal impact analysis
- No benefit/cost analysis
- No “but for” analysis (several component projects; several component subsidies; 4 partners w/ side agreements)
- No long term capital needs assessment (let alone CIP; this was arguably not a top priority)
- Tax abatement not recommended by incentives board

Horror story #1: Rock Chalk Park as crony capitalism II: contracting failures

- Sole source vendor on infrastructure
 - City had previous bad experiences with the vendor
- Pseudo-competitive bid on construction
- No contract clawbacks
- No agreement on auditing costs
- No agreements on transparency

Rock Chalk Park Outcomes III: Process failures

- As predicted by LJW, myself, others, contractor won low-ball construction bid and then made up it by charging maximum amount for no-bid infrastructure
- Costs cannot be correctly audited
- Contractor errors could not be not charged back (cracked cement, water leakage, lighting study)
- Unpopular process (critical letters and editorials; all four supporting Commissioners exited from CC)

Rock Chalk Park Outcomes IV: Ongoing outcomes

- Positive outcomes
 - Well received by local users
 - Major events use seems on track
- Negative outcomes
 - Major event uses may sometimes crowd out citizen uses, contrary to promise
 - Related commercial development is slow
 - Capital improvement funds may now be in trouble (but how can we tell without a CIP?)
 - Developer has long-term monopoly on some concessions, parking, stadium use

Horror story #2: HERE

Apartments I: analysis failures

- Treated as ED but isn't
- Clearly competes with existing landlords, but
- No analysis of rental markets
- No analysis of CD benefits and detriments
- Net CD benefit do not exist (e.g. opposed by neighbors)
- CD benefits touted to justify ED
- No "but for" analysis
- Unprofessional, distorted fiscal impact analysis
 - Attracts loads of new students to KU? Not plausible.

Horror story #2: HERE

Apartments II: Contracting failures

- Extraordinary 85% tax abatement violates policy and common sense
- No contract benchmarks or clawbacks
- City bent rules to allow early occupancy
- Bad outcomes
 - Untested pie-in-the-sky parking system failed
 - Many iterations of parking issue
 - Smudged promises to tenants
 - Negative impacts on parking and traffic

Moral: mixing ED and CD is bad policy

- CD claims are used to falsely justify ED that
 - doesn't making a fiscal profit on ED
 - doesn't charge developers full social costs of development
 - isn't based on a fiscal impact analysis
- ED claims are used to falsely justify CD that
 - doesn't improve quality of life
 - doesn't target most important needs
 - isn't based on a social benefit-cost analysis.

Some needed common policies I: Program-level policies

- Obey long term development plans and policies
 - Comprehensive land use plan
 - Zoning and development code
 - Still needed: 20 year capital improvement plan*
*(CIP; new 5 year plan is an important step)
 - Independent professional staff
 - Government employees
 - Insulated from pressure
 - Advisory only; no approval function
- Follow the comprehensive plan!

Some needed common policies II: Project-level policies

- Must analyze impact on existing business
- “But-for” test (i.e. don’t waste money on the inevitable)
- All analysis done independently from client or interested parties
- Contracts with benchmarks and auditing
- Periodic performance measurement
- Clawbacks for nonperformance
- Transparency of process

Needed policies special to ED, I: Analysis

- Real estate development isn't ED
- Retail isn't ED
- Residential development isn't ED
- Competing with local businesses isn't ED
- Perform fiscal impact modeling*
 - * Current policy
- Disallow any CD claims

Needed policies special to ED, II: Incentives

- Stop using tax subsidies (not evidence-based)
- Instead adopt no-raiding agreements, and
- Reach joint marketing agreements with other cities.
- Offer subsidies that create lasting value when or if the company departs
 - Workforce training
 - Infrastructure development

Needed policies special to CD: Analysis

- Annual CD budget – should include tax subsidies as well as expenditures
- Intangibles analysis for projects – e.g. survey willingness-to-pay for amenities
- True benefit-cost modeling
- Disallow any ED claims
- We need a long-term CIP (capital improvement plan) that includes CD

Ecodevo study—next steps

- Unit meeting(s) to reach consensus
- Approval/finalization by Board
- Adopt (or reject) at April 2017 annual meeting
- Publicize to other Leagues

END

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REFERENCE

[1] Economic Development Study Group, League of Women Voters, Lawrence Kansas. February, 2015 draft. *Report on the Effectiveness of Local Economic Development Planning in Lawrence and Douglas County, Kansas*

[http://lawrenceleague.com/files/Draft LWV Report on effectiveness of LDC economic development.pdf](http://lawrenceleague.com/files/Draft_LWV_Report_on_effectiveness_of_LDC_economic_development.pdf)