



Establishing an Economic Development Organization in a Competitive Environment

As municipalities, parishes and counties, regions, and states vie to attract and retain business and jobs, communities seeking to develop their local economies must contend with an increasingly competitive environment. Establishing an economic development organization (EDO) is critical to a community's success. A team of professionals drawing on a steady source of operating funds has much greater capacity to engage in a wide range of economic development activities than does a volunteer, ad hoc committee or other informal organization. In addition, a local community with the capability to market its assets, quickly respond to inquiries, and coordinate well with regional allies will be better positioned to compete for economic development projects.

A strategic approach to economic development

A community – whether local or regional – should take a strategic approach to economic development in order to become or remain competitive. A strategic approach builds on a thorough assessment of a community's competitive position, which is determined by its assets, history, and capabilities as well as by how it compares to peer communities. A competitive community assessment can identify the economic development activities needed to meet local goals. The community can then determine the sort of EDO structure which would best serve its purpose.

A community should also consider how its efforts will fit into the broader regional economic development efforts. Regional coordination allows a local community to better address broad policy issues (e.g., air quality, tax policy, and public education), sell itself as having access to a larger pool of regional assets, and build name recognition through joint marketing. Regional coordination also allows a community to more easily access sources of state funding through LED. For example, LED's Tier 1 funding provides awards to associations of EDOs pursuing regional economic development strategies.

Strategy determines structure and function

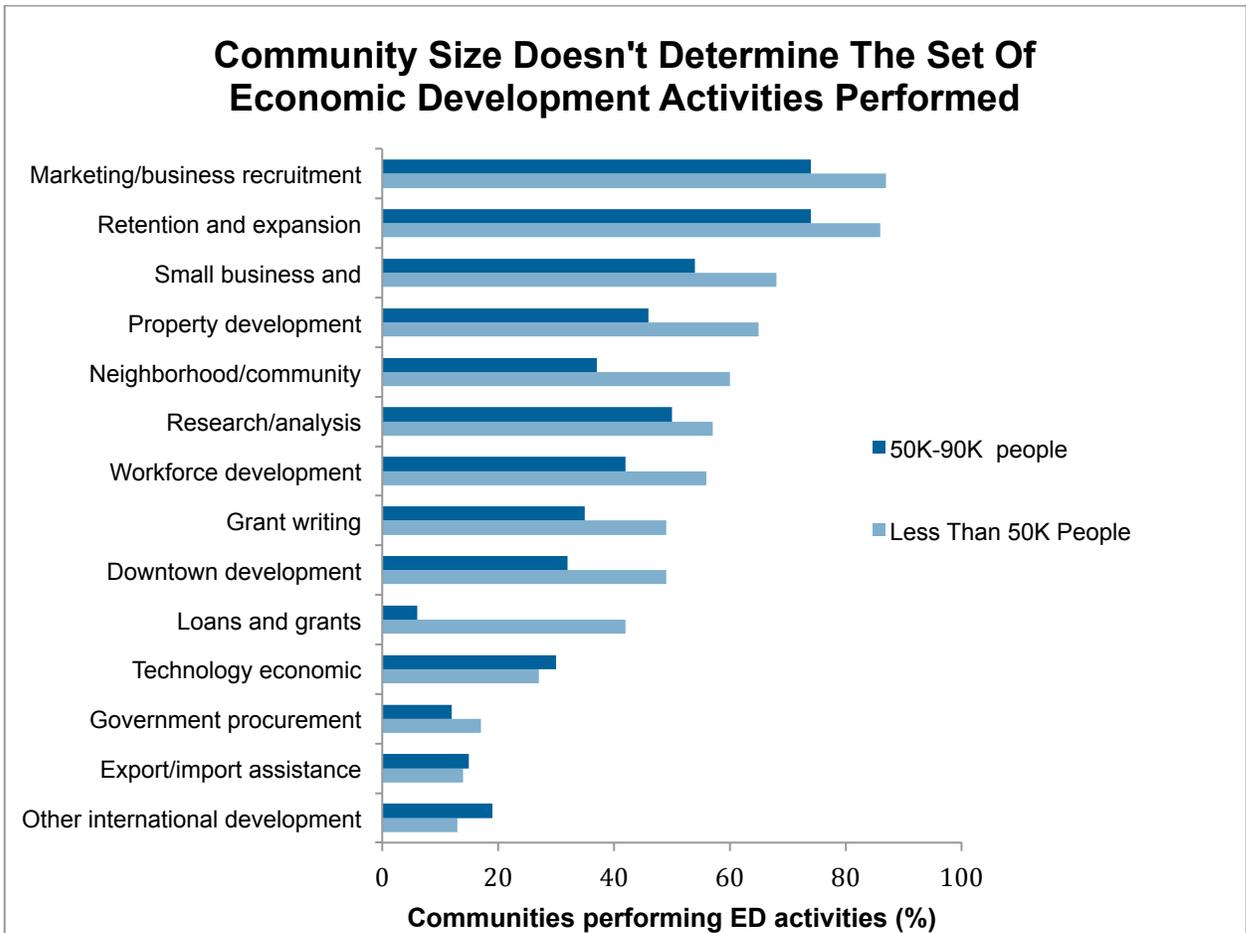
The economic development strategy adopted by the community should determine the structure and function of the EDO established. There is no one-size-fits-all model for an EDO. A community may find that, given the political climate and availability of resources, strengthening an existing organization makes more sense than building an organization from scratch. A community should identify target activities, choose an EDO structure, and then seek appropriate budget and staffing levels for the organization.

Identifying target economic development activities

A community trying to develop its economy must pursue activities and programs which attract, retain, and grow business. Business recruitment, business retention and expansion, and marketing tend to be the most common and essential economic development activities. Small business and entrepreneurship efforts as well as technology-based economic development play a key role in building a local base of innovative entrepreneurs and companies. Workforce development has the dual purpose of building the skills of local residents in order to help them find jobs and assisting companies in locating the requisite labor pool. Property, neighborhood/community, and downtown development directly target social goals such as area revitalization. Activities such as research/analysis and grant writing support these other areas.

National benchmarks show communities of all sizes engage in the same set of economic development activities. Even smaller communities, which may have less capacity, undertake a

wide range of activities. Business recruitment, business retention and expansion, and marketing tend to be core activities across community sizes, but development efforts centered on specific geographical areas (e.g., downtown or neighborhood/community development) have a more prominent place in smaller communities.



Source: IEDC 2008 National Salary Survey

Core activities: business recruitment/marketing and retention and expansion

Business recruitment is the process of marketing an area and responding to business inquiries in order to attract new business to the area. It is highly competitive; the International Economic Development Council (IEDC) estimates more than 15,000 localities compete for only 100 to 200 major business site selection opportunities each year. It is also the most visible activity carried out by EDOs – a business win has an immediate impact on new job creation and local tax revenues and is easy to publicize. In addition, it is often the most costly since it requires heavy use of marketing and incentives. EDOs should strategically target specific industries in order to diversify the local economy, build clusters of core industries, and attract higher-paying, knowledge-based jobs. Popular targets include tech firms, corporate headquarters, advanced manufacturing, and sports and entertainment. Recent trends in business recruitment include:

- courting site selection consultants, who typically influence 30 to 55 percent of company location decisions
- maintaining a professional-looking website with up-to-date information on local assets and incentives as well as a GIS system with detailed information on available sites
- offering financial incentives to lure larger firms
- investing in product development, such as programs for workforce training and improving quality of life

Business recruitment may bring publicized wins and large-scale job creation to a community, but the majority of new jobs will come from the existing businesses targeted by **business retention and expansion (BRE)** efforts. As communities vie to attract new business to their areas, often at the expense of other areas, BRE must be a focus of a community which wants to play defense. Since most job growth is driven by local business expansion, BRE is higher-yield in terms of job creation than business recruitment activity. BRE typically consists of site visits, surveys, and interviews in order to monitor the health and satisfaction of local business, build relationships, and offer financial or other assistance in order to head off relocations and facilitate expansions. BRE generally doesn't directly provide needed business services but rather links businesses to the right providers. These services include:

- Low-interest loans for land and equipment purchases and for redevelopment
- Bond programs which provide a lower cost of borrowing compared to bank loans
- Workforce training programs
- Tax credits and other incentives
- One-stop permitting centers
- Zoning to create space for industry and reduce sprawl (e.g. Planned Manufacturing Districts)

Economic development **marketing** serves multiple purposes including BRE, business attraction, community brand management, international business development, tourism promotion, and policy advocacy. Web-based marketing – including websites with up-to-date community information and unique domain names – is a critical component; in a 2008 Development Counsellors International survey of executives, “Internet/website” was most widely identified as an effective technique in economic development marketing. Regular newsletters, press releases, and other publications can establish an EDO as the leader in local market intelligence. TV and print ads can be used to target industry clusters or talented workers. Communities are increasingly pooling their resources in order to maximize marketing efforts for the region.

Spurring innovation: technology-based development and small business and entrepreneurship

To facilitate the transition to a knowledge-based economy, communities practice **technology-based development**, which seeks to support tech-based entrepreneurs, create a better business climate for tech-based companies, and facilitate the development of new technology products. Efforts have been traditionally centered on research parks and incubators, but other programs include venture capital funds, technology workforce training, technology infrastructure investment, and incentives targeting R&D and technology transfer activity. The success of these activities is heavily dependent on the presence of universities and other research institutions as well as a qualified workforce. Establishing a technology base or cluster is not easy for a community without existing technology or research assets but has the benefit of potentially significant job growth. For

example, one-third of the country's real economic growth was driven by information technology companies at the end of the last decade.

Small business and entrepreneurship (SBE) efforts target family-run and other traditional small business as well as innovative, early-stage companies with the potential for rapid growth. Since businesses with fewer than 500 employees represent over half of private employment in America, SBE is an important economic development focus. Programs such as Community Development Block Grants, tax increment financing, small business loans and loan guarantees, and incentives to encourage venture capital and angel investment provide much-needed access to capital for small business and entrepreneurs. Business incubators provide work space, consulting services, and administrative services to start-up companies, a service which is especially important in communities seeking to grow biotech, IT, and other knowledge-based industries. Business networking and mentoring is another common component of SBE.

Building a local labor pool: workforce development

Workforce development benefits individuals, who receive training and other assistance, as well as business, who gains a qualified pool of labor. Training can encompass basic math and literacy skills, on-the-job behavior and attitudes, and specialized work skills. Individual assistance includes advice on conducting a job search, direct job placement, and child care and other services. Other programs focus on retaining high-skill workers in the community, designing higher education and technical schools curricula to meet workforce needs, customizing training programs according to the needs of specific employers.

Local development with social and economic goals: property, neighborhood/community, and downtown development and redevelopment

Some economic development activities primarily target social – not just economic – goals such as community revitalization, blight eradication, and quality of life improvements. **Property development/ redevelopment** improves existing property or areas for more productive use through demolition, new construction, and reuse. Since vacant buildings lead to disinvestment, redevelopment for mixed-use projects (i.e., retail, office, and housing) or for office space can lure business back into the area. Retrofitting to allow for open plans can attract IT firms and other business requiring high bandwidth fiber optic cables, room for equipment, and collaborative workspace. Property development/redevelopment activities are a significant part of neighborhood/community and downtown development efforts, which may also encompass marketing, business attraction, and other activities. **Neighborhood/community development** can include crime reduction (often an essential step before further development), minority business development, creation of hubs for services such as youth training, retail initiatives to attract supermarkets and other needed business, and collaboration with local universities and faith-based organizations. **Downtown development** focuses on the improvement of the central business district and surrounding areas through crime reduction, planning, large-scale redevelopment of railroad stations and waterfronts, art districts, public transit and pedestrian/bike pathways, and mixed-use development (e.g., office, residential, entertainment) to ensure constant downtown activity. Communities pursuing these development activities have the advantage of access to federal funding: HUD community development block grants, Economic Development Administration (EDA) public works grants, and loan funds. However, these longer-term projects are often slow to reap economic benefits; studies of EDA projects show the full economic impacts from job creation are only felt six to ten years out. In evaluating these kinds of projects, job creation can only be one of several factors including quality of life improvements and community development, not the primary determinant.

Support activities: research/analysis and grant writing

Research/analysis provides the information needed to effectively carry out the other economic development activities. Areas of focus could include site selection database administration, market intelligence on local demographics and industry, and economic impact and cost-benefit analyses. Research/analysis work could also take a strategic focus by developing economic development policy firmly grounded in the data. Communities with successful grant writing efforts tap into other sources of foundation and government funding in order to support other EDO activities.

Choosing an EDO structure to fit the purpose

Not all communities can or should build an EDO from scratch. It may be easier to refocus or add to an existing organization because resource scarcity or entrenched political interests complicate the issue. A community should be mindful of its strategy and targeted activities as well as the political history of the area when choosing an EDO structure. The EDO should be structured to maximize access to political and financial resources while balancing the need for flexibility and independence. It can fall anywhere on the spectrum between a fully-private and a fully-public organization. Each organizational structure – public, private, and public-private partnership – comes with its own set of funding and governance options.

Public EDOs

Public EDOs can wield local governmental powers and access government resources but may be over-politicized and disconnected from the business community. They are managed and funded by the public sector (e.g., parishes, port authorities, universities and colleges, and municipalities). For instance, at the municipal level an EDO could take the form of a city department or a city-funded independent agency. Public EDOs usually have an assured flow of funding from the public sector and can wield some public powers, but they are also more subject to political concerns.

Pros

- Taps both direct public funding and mechanisms to leverage private investment (e.g., industrial bonds)
- Likely attracts buy-in from public leaders
- Coordinates policy/strategy across the local jurisdiction
- Enables easy access to other local public resources (e.g., research, public works)
- Wields local powers (taxing authority, land ownership, zoning)

Cons

- Frequently changes course due to turnover of elected officials
- Potentially reduces ability to negotiate in confidence, due to disclosure laws
- Generally reduces flexibility in hiring
- Risks lack of coordination with business
- Limits activity to its immediate political jurisdiction
- Restricts amount of debt financing
- Prohibits lending to private sector and other profit ventures

Public EDOs have different powers and areas of concern according to their geographic reach. Both municipal and parish agencies focus on business, community, real estate, and project development; however, municipal agencies, which are generally larger and more compartmentalized than parish organizations, work more with zoning and housing than their parish counterparts. A regional EDO structure coordinates municipal and parish efforts and is essential to both local and regional competitiveness. State EDOs administer tax incentives, channel federal dollars, recruit business, engage in workforce development, and fund major infrastructure projects.

Since public EDOs are part of municipal, parish, or state government, they answer to public officials and can operate within or outside of the executive office. At the municipal or parish level, governance comes from the executive office, municipal council, or other parish officials.

Public EDOs tend to be organized hierarchically, with heads of geographical, service, and/or subject divisions reporting to the head of the organization. Public EDOs also tend to be larger and more heavily-staffed than private and public-private organizations. According to the IEDC, most have between 10 and 45 employees.

Economic development funds can come from any number of public funding streams, such as general funds and dedicated taxes or fees. Public EDOs can also spur private investment through mechanisms such as tax increment financing (TIF) and bond issues. In addition, foundation

grants, land sales and rentals, bank community development corporations (CDCs), and community events are other potential funding sources.

Private EDOs

Private EDOs are subject to fewer political and bureaucratic restrictions on funding and hiring decisions but may have reduced access to public sector resources. Funding and leadership is drawn from the private sector (e.g., chambers of commerce, community development corporations, community development financial institutions, utility companies).

Pros

- Makes decisions quickly without answering to broad constituency
- Gains greater hiring flexibility
- Serves as intermediary between individuals and government
- Potentially receives donations (only if a nonprofit) and some public funding
- Leverages private market sources of financing
- Enables option for equity investment and profit-generating activities

Cons

- Possibly lacks public sector buy-in
- Devotes significant effort to self-sustainment
- Often lacks capacity to engage in full range of economic development activities, especially risky or large-scale programs
- Lacks eminent domain and other public land management powers
- Possibly pays excise taxes on investment income

Private EDOs can deal with the broad spectrum of economic development activity or focus exclusively on specific areas, such as membership services or financing. For example, chambers of commerce represent the interests of the business community and engage in advocacy, regulatory reform, marketing, and area revitalization. Frequently, a major focus of chambers of commerce is membership services (e.g., networking events, newsletters) for the businesses that pay dues. Community development corporations (CDCs) are created by legislation to address local economic development needs. CDCs can take the form of community cooperatives, nonprofit umbrella corporations, or for-profit corporations with non-profit subsidiaries to draw in federal grants and private donations. They can develop and manage land and property, own or operate businesses, make or guarantee loans and investments, and provide business assistance services. Community development financial institutions (CDFIs) (e.g., banks, credit unions, loan funds, venture capital funds) provide affordable financing to low-income areas and populations and have community development as a primary goal.

Private EDOs can choose a non-profit or for-profit status and generally adopt a corporation structure in order to insulate members for risk. Governance is provided by a board of directors who can contribute legal, financial, and other support.

Funding can come from member contributions, internally-generated revenues, or government funds. Member-based organizations may require membership dues or 'investments.' Publication sales, training seminars, and special events are a way for an organization to generate its own funds. A private EDO can also attract public dollars by winning government contracts to provide certain services (e.g., marketing activities, issue government-backed loans) or creating a non-profit subsidiary to apply for federal grants.

Public-private EDOs

Public-private EDOs benefit from public and private support, input, and resources but may be pulled between conflicting visions and interests. They attract funding and direction from the public and private sectors (e.g., development corporations, some chambers of commerce).

Pros

- Avoids excessive politicization
- Uses public resources without public limitations (e.g., red-tape, civilian review)
- Leverages knowledge, support, and finances of *both* business and government
- Draws on broader range of experience

Cons

- Risks internal divisions when public and private interests diverge
- Possibly wields less influence than a public EDO, as a result of less accountability to the public

Public-private EDOs are designed to address specific economic development projects – especially related to policy, business, and area development – and operate outside of the broader government structure. Where they fall along the spectrum between fully public and fully private EDOs depends on the mix of board representatives, funding streams, and objectives. For example, a public-private partnership could have an all-private board and both public and private funding sources.

Public-private EDOs typically take the form of nonprofit corporations with a board of directors drawn from both the public and private sectors. Board members could include business and labor representatives as well as ex officio government workers. Staff members are usually full-time professionals who are hired by a professional executive director and are indirectly accountable to the public sector through the governing board. Public funding comes from capital revolving funds financed by long-term grants from local government, in the form of annual renewable contracts between the local government entity and the EDO.

Staffing the EDO

The number of staff and how they are deployed should align with the target activities and structure of the EDO. Staffing is often determined by cost considerations (e.g., volunteers or part-time/contract workers cost less than full-time employees). However, without sufficient expertise or manpower, economic development efforts may stall and lose supporters. Communities must weigh the costs of a larger staff against its benefits, namely greater specialization and a broader scope of activity for the EDO. An EDO could employ a single person to focus on a few business outreach activities, an executive director and a business development officer, or a full team of professionals with specialized focus areas (e.g., business intelligence, business development, marketing and communications, public policy/product development, and finance/accounting/legal).

Trends in staffing

The general trends in economic development staffing indicate a preference for full-time economic development professionals with higher education. Even though EDOs can reduce costs by hiring contractors without benefits, 80 percent of economic development employees are not on contract. The vast majority of employees, nearly 90 percent, have a bachelor's degree or higher. Though less than a third have a professional certification (e.g., CEcD, EDFP, CCD, etc.), close to ninety percent have received some formal training in economic development, either through a professional course or a college/university class.

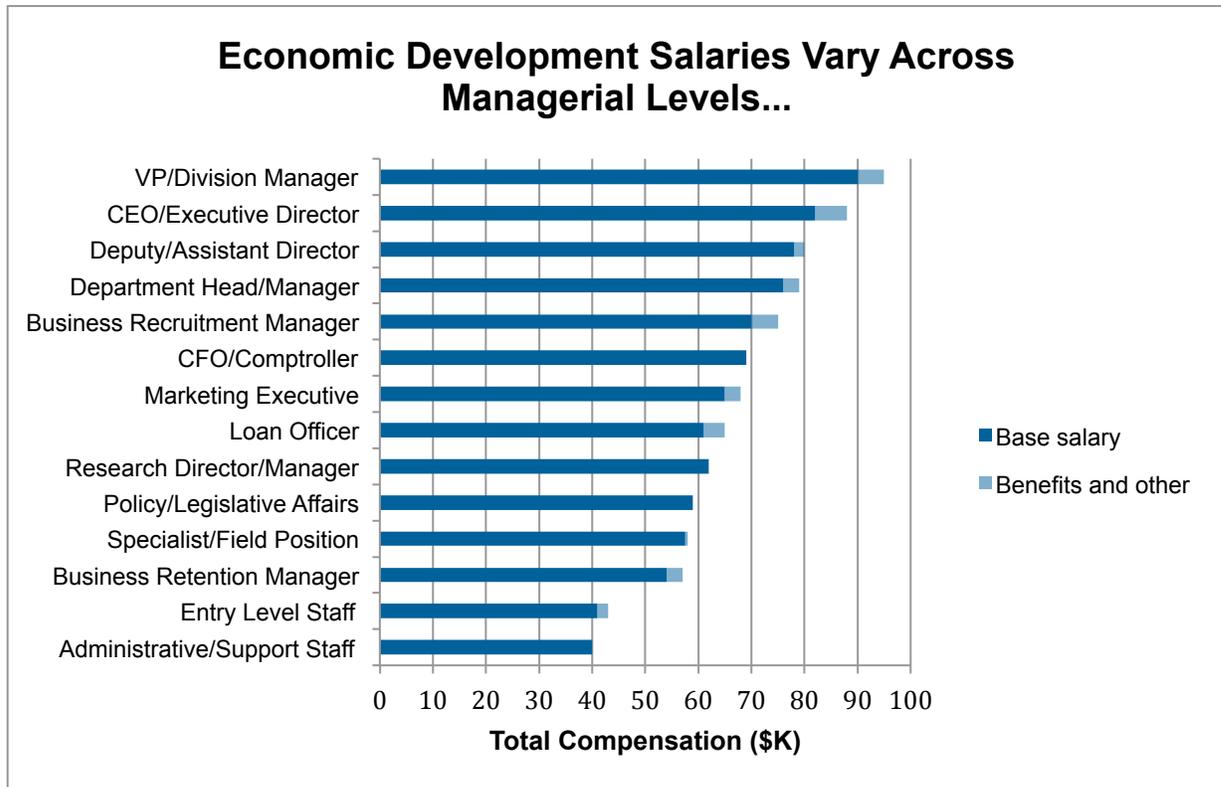
Most EDOs employ a team of professionals. The median number of full-time employees in an organization or division dedicated to economic development is four. Ninety-two percent of EDOs in the smallest communities (less than 50,000 people) have less than five full-time economic development employees. Fifty-six percent of economic development employees supervise at least one other person.

Deploying staff

Economic development staff can be organized along different organizational lines. Staff can be assigned by program or project, department, or functional area. The project or program approach assigns employees to projects according to relevant skills and expertise and is especially common in the public sector. This approach maximizes staffing capacity by using a few people to cover wide subject areas and building a deep knowledge of the project in those people. However, a comparative lack of reporting responsibility can result in internal communications breakdowns. The department approach groups staff members by sector (e.g., the aerospace and aviation industry). These staff members have strong relationships with players in their sectors and a clear knowledge of available resources, but the compartmentalized structure may lead to bureaucratic slowdowns. The functional approach groups staff with specific skills into teams responsible for an entire phase of a project (e.g., a procurement team). These employees enjoy greater ownership of work but may lack structure and direction.

Staff and budgeting

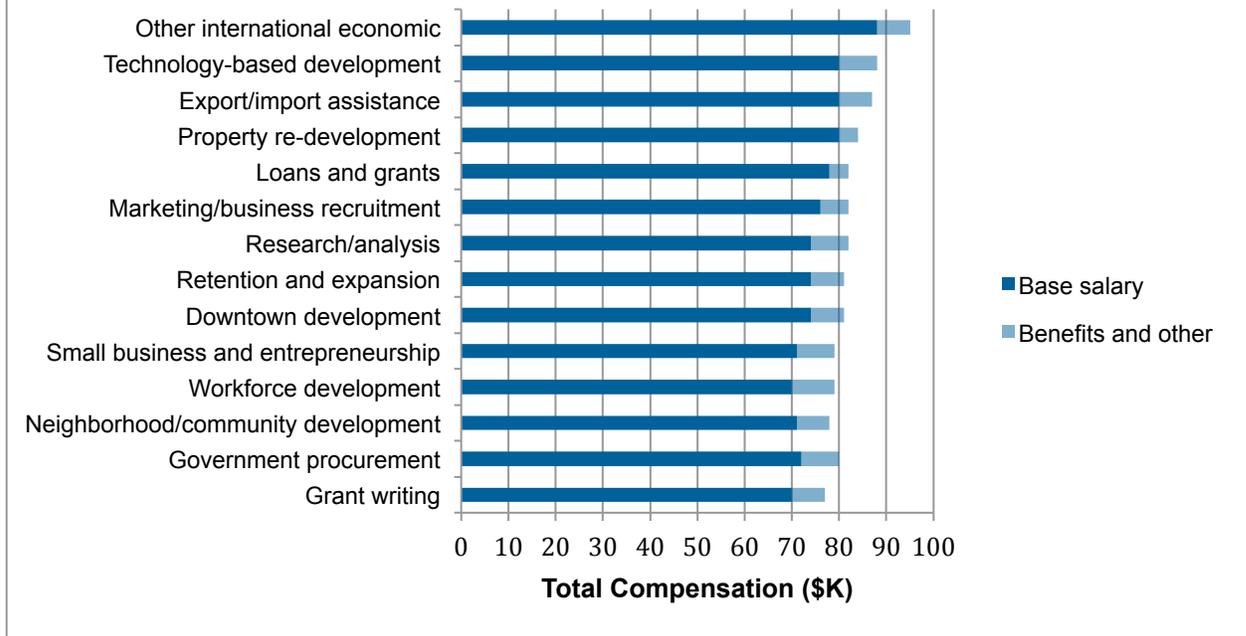
Staff size, the types of positions, and the mix of programs carried out are base indicators of the amount of operating funds needed. Nationally, economic development median salaries tend to range between \$40,000 and \$90,000. The overall median base salary for full-time economic development professionals is \$75,000, and the average is over \$80,000. Over 90 percent of EDO staff are offered medical coverage and/or a retirement plan by their employers. Salary levels in Louisiana are somewhat lower: the median is \$69,000, and the average is over \$78,000.



Source: IEDC 2008 National Salary Survey

Note that the CEO/Executive Director position has a lower median salary than the VP/Division Manager position. Since most organizations, regardless of size or funding capacity, have a head executive position, the CEO/Executive Director position earns a wider range of salaries than the VP/Division Manager position, which is likely found at larger organizations with healthy funding streams.

...But Less Across Areas Of Specialization

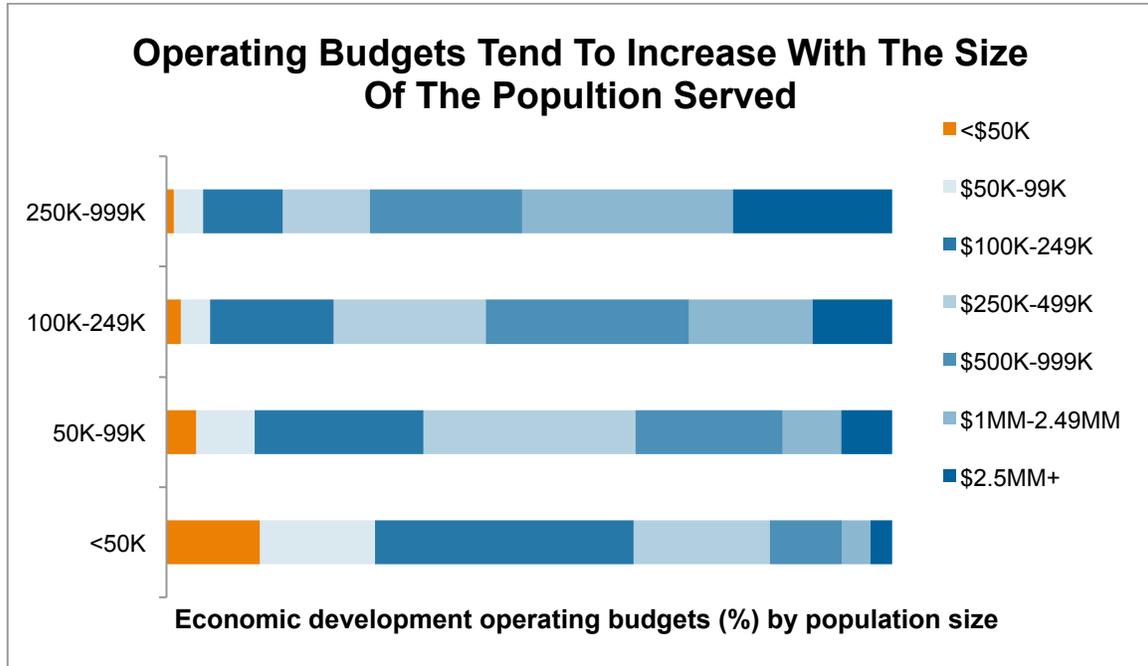


These compensation figures can be used to estimate the personnel costs of the EDO. For example, a small EDO which plans to hire a CEO, an administrative assistant, a business recruitment manager, and an entry-level researcher can roughly expect to spend \$246,000 (\$88,000 + \$40,000 + \$75,000 + \$43,000) on total compensation. Estimates of personnel costs are useful starting point for calculating the amount of operating funds needed to run the EDO.

Operating budgets for the EDO

Estimating individual budget items such as personnel, equipment and overhead, and program costs is the most accurate way of estimating overall operating funds needed. However, the size of the population served by the EDO is also a useful indicator. Over half of the smallest communities (i.e., those with less than 50,000 people) have operating budgets under \$250,000, and 13percent have budgets under \$50,000. The percentage of EDOs with budgets over \$100,000 increases with the size of the population served; larger populations clearly require larger economic development budgets.

Budget benchmarks

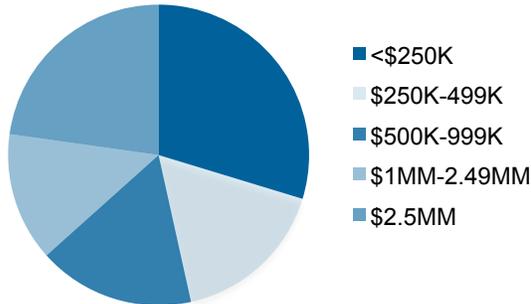


Source: IEDC 2008 National Salary Survey

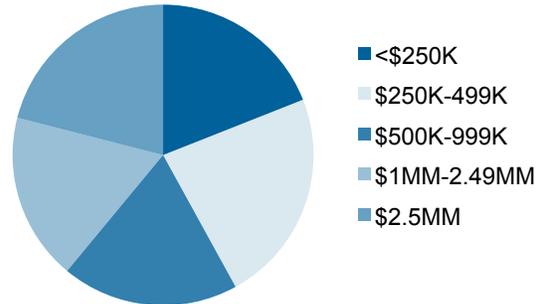
Communities in Louisiana are generally very small. Over 88 percent of Louisiana municipalities have populations under 10,000. However, fewer than 20 percent of Louisiana EDOs have the smallest level of budget, under \$250,000. This suggests that many Louisiana EDOs serve communities beyond a single municipality and that communities are pooling resources at the parish or regional level in order to more effectively carry out economic development activities. Louisiana EDOs follow similar funding patterns as the rest of the South. Approximately two-thirds of EDOs in Louisiana and the South have operating budgets under \$1MM.

Louisiana Follows The Same Funding Patterns As The Rest Of The South

Southern EDOs* (n=1,526)



Louisiana EDOs* (n=78)



Operating budgets sizes (%)

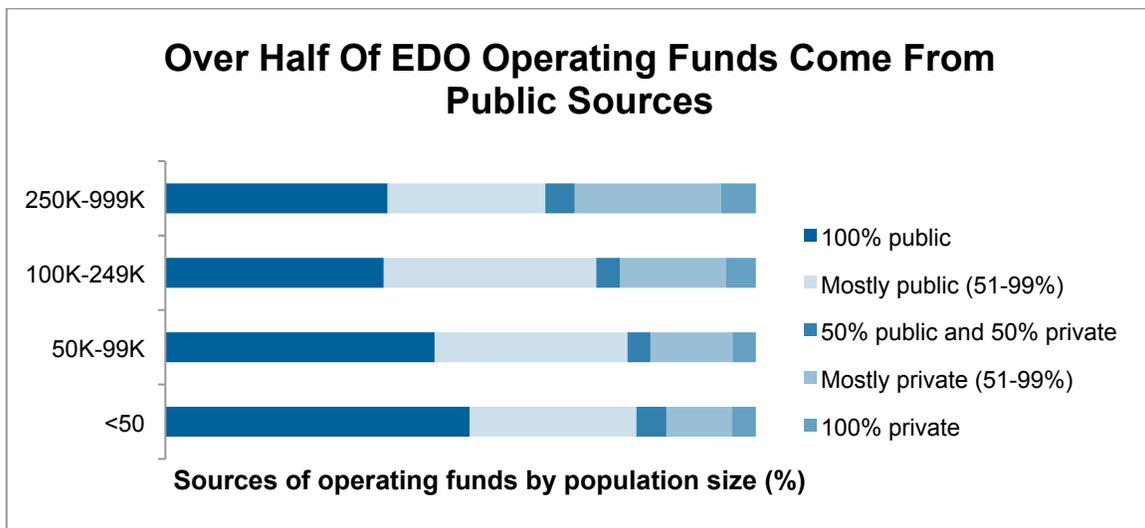
*includes DC, DE, FL, GA, MD, NC, PR/VI, SC,VA, WV,AL, KY, MS,TN, AR, LA, OK and TX.
Source: IEDC 2008 National Salary Survey

Sources of operating funds

The structure of the EDO determines its sources of operating funds. A public EDO can be funded with tax revenues and by other public financing schemes, but the law may restrict how much of its funding can be internally-generated through fees for services. In addition, a public EDO generally won't attract nonprofit, foundation, or private business funding. A private EDO has greater freedom to generate its own funds through events, publications, and services and can sometimes qualify for nonprofit grants. However, a private EDO generally cannot access government funds, except through contracts. A public-private partnership has the widest range of funding options, but these depend on the exact composition of the EDO (i.e., where it falls along the spectrum between a public and a private EDO). In general, however, over half of EDO operating funds, across different sizes of EDOs and populations served, come from public sources.

FUNDING OPTIONS VARY ACCORDING TO THE STRUCTURE OF THE EDO NOT COMPREHENSIVE

Funding source	Description	Public	Private	Public-private
General funds	• Regular government operating funds from taxes and other revenues	✓		✓
Dedicated taxes/fees	• Taxes and fees expressly levied for economic development activities	✓		✓
Tax increment financing	• Sales/use and other taxes collected in a defined area and used to pay bond debt financing for developments in the area	✓		✓
Land sales and rentals	• Income from sale and lease of property	✓		✓
Community events	• Admission fees and sponsorships for banquets, award ceremonies, and other events		✓	✓
Membership dues	• Dues paid by businesses in order to gain access to networking services/opportunities and events		✓	✓
Investments	• Funds invested by businesses who expect a return from economic development activities		✓	✓
Publication sales/ training seminars	• Income from educational events and materials		✓	✓
Government contracts	• One-time contracts, annual renewable contracts, and capital revolving funds		✓	✓



Source: IEDC 2008 National Salary Survey

Conclusion

Since communities trying to create jobs and develop the local economy are operating in an increasingly competitive environment, they must take a strategic approach to economic development. A thorough assessment of local assets, capabilities, and weaknesses can help identify the target areas and activities for local economic development efforts.

Economic development efforts in the most competitive communities are run by formal EDOs staffed by full-time professionals with specialized functions. Once the targeted activities are identified, the community should choose a structure for the EDO which maximizes its access to resources as well as its organizational flexibility. There is no one-size-fits-all model for an EDO; a community should take the history of the area and the local political situation into account when designing the EDO.

The EDO should be staffed and funded according to its function and structure. Hiring full-time, specialized staff may cost more, but communities should balance the cost of adequate staffing against the risk of stalling economic development activities. Staff size and type is a basic indicator of amount of operating funds needed, but operating budgets can also be benchmarked according to the size of the population served. Sources of EDO operating funds vary according to the EDO structure, but well over half of EDO operating budgets derive from public sources of funding. While local political, financial, and economic climates are important factors for consideration for communities seeking to establish an EDO, using national benchmarks will help position the community competitively for economic development opportunities.

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