



## SUSTAINABLE ECONOMIC DEVELOPMENT POLICY OVERVIEW

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### WHAT IS SUSTAINABLE ECONOMIC DEVELOPMENT?

On November 18, 2011, stakeholders in economic development from think tanks, government agencies, law firms, trade associations and universities around the state convened in a roundtable to discuss the topic of sustainable economic development in California. In order to start the conversation, participants identified a working definition. As put forth by UC Berkeley Emeritus Professor Michael Teitz, and modified in subsequent discussion, it read: *Sustainable economic development enhances equitable local income and employment growth without endangering local fiscal stability, degrading the natural environment, or contributing to global climate change. It challenges the model of growth based on pure consumption rather than human happiness, takes into account long-term goals as well as short-term needs and is sensitive to local context and history.*

### WHAT IS THE POLITICAL AND FISCAL CONTEXT?

The California fiscal crisis has left no state program intact, from law enforcement and education to redevelopment agencies, the primary entities coordinating economic development activities on the local level.

At the same time, participants recognized the opportunity inherent in this period of crisis: AB 32, the most ambitious legislation in the country mandating reductions in carbon emissions, and SB 375, a far-reaching effort to align transportation investments, land use planning and affordable housing production on a regional scale. These provide a framework for new and coordinated approaches. The discussion identified three key elements to achieve the objectives of these legislative mandates, revitalize local economies and advance the state's environmental and equity objectives:

- An institutional framework that increases coordination at the regional and state level;
- Policies to facilitate and incentivize a “race to the top” in best economic development practices; and
- Funding to enable policies and actors to translate this vision into reality.

### COORDINATION IS KEY: RE-ENGINEERING HOW WE DRIVE DEVELOPMENT IN CALIFORNIA

Critics of redevelopment, and of economic development programs in California more specifically, argue that fragmentation and parochialism compromise their effectiveness. For instance, over 400 redevelopment agencies working on a sub-local level competed with one another for development and jobs while netting little benefit for the state's economy, especially in cases where redevelopment results in the transfer of activity rather than net new growth. Roundtable participants supported the formulation of a statewide investment strategy to award funds for projects that build California's productive economy while providing high-quality jobs—a strategy that entails a new coordinated approach to economic development that builds on existing institutions.

A new strategy should begin with state- and regional-level coordination that implements a cross-jurisdiction investment strategy. A state-level body is better positioned to ensure that government spending is allocated to projects that both grow the state economy and meet basic sustainability standards. Regional-level bodies—counties or metropolitan planning organizations—can coordinate equitable development strategies that respond to state-level criteria. One viable model is the Community Development Block Grant program already in place.

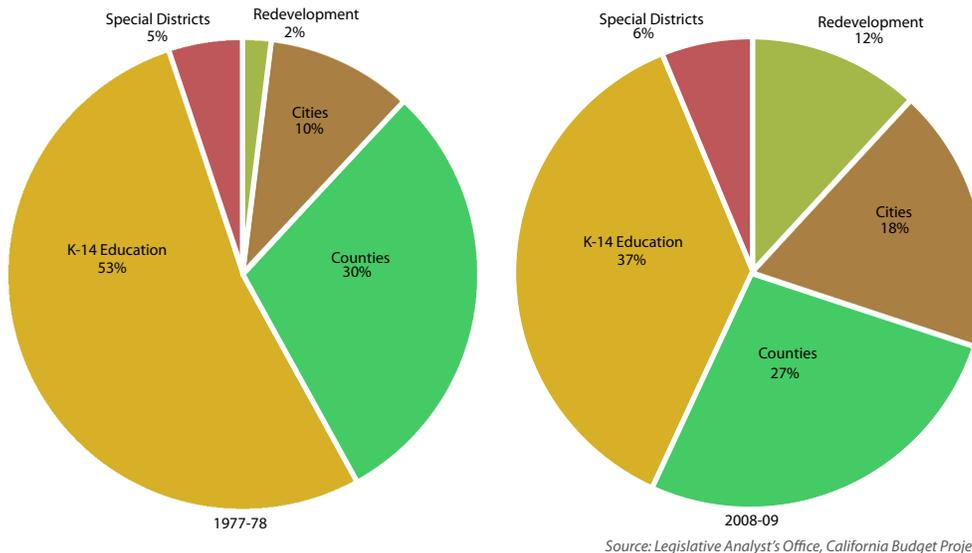


Figure 1. Redevelopment siphoned an increasing share of property taxes; now how should the state re-allocate resources?

Notes: Proposition 13 was enacted following the 1977-78 fiscal year. Redevelopment agencies' share includes some taxes ultimately passed through to local agencies.

Coordination should not come at the expense of local autonomy. The state should institute a competitive process based upon point-scoring criteria that meet principles of sustainable economic development. This would spur local governments to propose projects in a "race to the top."

State-level coordination of government expenditures must incorporate grassroots involvement and small-scale entrepreneurship. In this retooled delivery system, projects are worthy of government investment when they pass muster with local communities, have proven their capacity as innovators in sustainable economic development and job creation and fit into a region-wide strategy. Each level of government has a clear and necessary role in an overarching state investment strategy.

## INCENTIVES TO UNLEASH ENTREPRENEURSHIP, INNOVATION AND SUSTAINABILITY

Next, we need to establish an incentive structure that unleashes the private sector's entrepreneurial spirit and rewards companies that are innovating, employing sustainable practices and creating jobs across skill levels. This strategy could encourage cross-sectoral collaboration on a regional scale and spur competition for government investments and subsidies in clean and green enterprises. Participants suggested the following policies as compatible with this approach:

- **Reward effective public-private partnerships.** As exemplified by LA Metro's Public-Private Partnership Program, the strengths of such partnerships are not just in raising capital but in non-tangible aspects, such as providing increased certainty for developers.
- **Replace the previous redevelopment "but for" analysis with one that advances viable, thoughtful projects.** Instead of "blight," criteria for funding should demonstrate commitment to economic development and sustainability aims as well as track community value created by the investment. For instance, redevelopment funding might be used to make higher-density development outside of California's core cities more economically viable.
- **View cities, counties and regions as locations of strategic entrepreneurial action.** Local governments should be proactive in pursuing certain enterprises and private-sector partners to leverage investment that plays to an area's strengths. In this process, regions could evaluate current growth opportunities, such as the knowledge and food sectors, based on a region's assets and potential. The business plan developed for San Bernardino County provides a model.
- **Develop data systems that measure sustainable economic development outcomes,** such as development of local supply chains, targeting of firms with the greatest potential to generate long-term family-supporting jobs and reduction of carbon emissions.

- **Assess the effectiveness of Enterprise Zones as catalysts for economic development.** Reform efforts should be based on clear job or sectoral growth objectives and should eliminate retroactive tax credits for hiring.
- **Bolster sustainability efforts on the ground through legislative mandates or planned targets.** For instance, connect legislative mandates for carbon emission reductions and smart communities with economic development programs already in place.
- **Encourage long-range planning and investment.** As in the 30/10 initiative in Los Angeles, fiscal stability and sustainability may be attained by envisioning projects beyond the penciling, pre-development process.
- **Facilitate the collaboration of varied agencies.** State economic development agencies should reach out to those agencies charged with management of resources and the environment that are making substantial investments in infrastructure. For example, the California Public Utilities Commission, California Energy Commission and CalRecycle should be involved in policy setting and discussion of economic development policies and incentives in the programs they administer. Investments in green jobs and technology should yield outcomes across agencies, and therefore should be an inter-agency undertaking.
- **Support CEQA reform along the lines of SB 226,** providing exemptions for urban infill projects that are supported by transit, or meet other sustainable economic development criteria.
- **Streamline local permitting** for projects that meet sustainable economic development criteria.



Photo credit: Noe Noyola

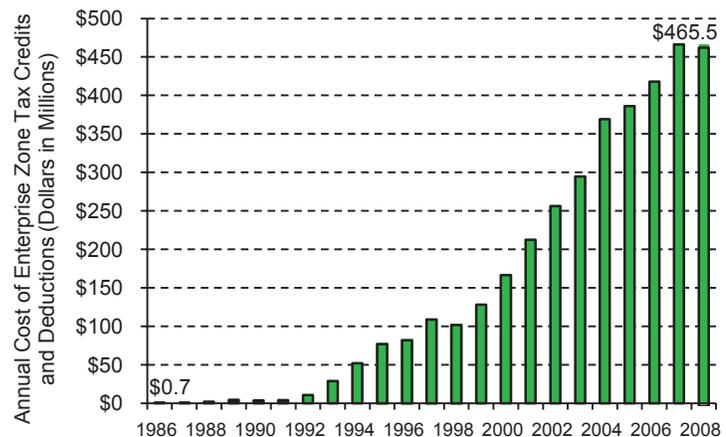
Figure 2. San Francisco's Mission Bay exemplifies how public-private partnerships can provide infrastructure, attract cutting edge industry and spur job growth.

## FINDING THE PRIZE: WHERE WILL THE FUNDING COME FROM?

Identifying and securing funding will be a significant challenge in launching this “race to the top.” The obvious and perhaps best resource is tax increment financing (TIF), which is still a stable, predictable and effective source of funding (and one that is easily recognized on the bond market). Infrastructure Financing Districts utilize TIF and will likely take on an increasingly important role in the absence of redevelopment. But, any statewide development strategy should also rely on TIF as a foundational funding source.

Alternative proposals put forth included:

- **Utilize existing funding tools and mechanisms,** such as the State Infrastructure Bank and AB 857, which links infrastructure planning to compact development.
- **Use the foreclosure crisis as an opportunity to build and harness the value and power of land.** Strategically facilitating homeownership, especially among first-time buyers through tax credits or other incentives (as was done on the federal level), may serve to stimulate the local economy and align with the regional land use objectives of SB 375.
- **Design funding mechanisms that require inter-agency collaboration.** Propositions 1a, b and c delivered crucial funding for affordable housing and infrastructure development, and helped dismantle silos between state agencies.



Source: Franchise Tax Board, California Budget Project

Figure 3. The cost of enterprise zone tax credits and deductions has skyrocketed.

- **Engage with models from beyond the public sector.** Venture capital funding, crowdsourcing and microfinance provide models for innovative funding schemes. Pilot projects may also test ideas and expose stakeholders to them.
- **Connect funding sources to sustainability targets.** Road and congestion pricing, a regional gas tax or a tax based on the amount of waste generated could help influence behavior by incentivizing actors to reduce their footprint and to raise funds for critical projects to achieve sustainable economic development.

## CALL TO ACTION

- **Be proactive.** Stakeholders must not wait for the next crisis for reform or depend on state government to initiate effective changes.
- **Rebuild trust in local government** by making development policies and processes more transparent and systematically evaluating and monitoring outcomes.
- **Re-evaluate and adapt existing economic development tools** (e.g., Enterprise Zones, incubators, manufacturing extension programs) to support sustainable development outcomes.
- **Use existing institutional arrangements,** like the Strategic Growth Council, to drive state-level coordination of sustainable economic development.
- **Engage communities** in the process of analyzing their comparative advantages, their existing jobs and business base and institutional assets as a starting point for a sustainable economic development strategy.

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