

IMPACT ANALYSIS PRACTICES IN ECONOMIC DEVELOPMENT

by Thomas A. Musil

This article presents an overview of how economic development administrators evaluate project impacts. The author investigated multiple aspects of the economic development practices and practitioners with a national survey of municipal-level economic development officials working in U.S. cities with populations between 10,000 and 300,000. Understanding how economic development administrators evaluate projects is critical to our collective efforts to advance the field of economic development and to respond to a legitimate demand for the economic development decision making accountability.

INTRODUCTION

Cities use a variety of direct and indirect public subsidies to encourage economic development activities. Public subsidies are provided to the private sector with the understanding and anticipation that the development activities will result in future benefits. The exact analysis performed by municipalities to evaluate community impacts is illusive. The factors involved in the decision making and analysis of project outcomes encompasses a multitude of assumptions regarding community impacts, citizen and political considerations, and project delivery schemes.

Beauregard (1993) insightfully noted that the inherent sensibility, pragmatism, and optimism of eco-

nomics development practices overwhelms intensive questioning, and anyone who questions economic development is seen as an opponent of progress. Indeed, the polemics surrounding economic development activities generally avoids any kind of critical assessment. Eisinger (1988) noted the emergence of an intense preoccupation with economic development and that it has been marked by a level of consensus and expectation unusual in American politics. Because "economic development" is predominantly viewed as sacrosanct, little pressure for project and decision making accountability surfaces.

Haltry, Fall, Singer, and Liner (1989) found that the need to monitor the quality and outcomes of economic development programs has been apparent for many years. Economic development programs, and the benefits they aspire to bring about, are subject to public and political criticism. Indeed, economic development agencies face vast difficulties in developing assessment outcome measures for the complex economic settings in which they work. Accordingly, municipal economic development program administration practices and program outcomes must be examined and reviewed so that economic development activities can be directed to the most appropriate and valuable outcomes to the community.

Previous research (Clinger may & Feiock 1995; Elkins 1995; Goetz 1990; Levy 1990; Reese 1997) that studied the relationship between

public subsidies and community benefits derived from economic development, has found that the more valuable public/private economic development relationship for the community is one that is undertaken by the local unit of government on the most informed level. Economic development administrators planners, citizens, business owners and managers, and politicians, use a variety of methods to evaluate and understand the impacts associated with economic development activities. According to Burchell and Listoken (1978), fiscal impact or cost revenue analysis, and cost effectiveness analysis are common approaches to understanding the impacts of projects. The methods used to evaluate impacts can be expanded to include, according to Schofield (1987), techniques such as the Planning Balance Sheet or Goals Achievement Matrix analysis models. Matrix display models such as these can address multiple forms (economic and non-economic) of impacts and these techniques have the ability to disaggregate the multiple inputs and outputs of complex development projects.

Economic development projects can be evaluated from a variety of perspectives as to how the project will impact the community by creating employment, generating additional tax revenue, and a multitude of other effects, depending on the project and the community. The analyses undertaken by economic development officials to evaluate development impacts also include

the generic concepts of cost benefit analysis, risk assessment, decision analysis, fiscal impact analysis, and environmental assessment.

RESEARCH APPROACH

The research in this article is based on a national survey of municipal economic development officials regarding their views on and practices in municipal economic development. Surveys were sent to a random sampling of economic development administrators in 1500 of the 2600 U.S. cities with populations between 10,000 and 300,000. The survey had a response rate slightly over 27 percent. The economic development administrators completing the survey were identified through the National League of Cities as having management responsibility for the economic development activities in their respective communities. The respondents to the survey fell into the following general categories: economic and community development managers, elected officials, planning and zoning officials and individuals managing public development corporations.

Based on population, the distribution of cities responding to the survey differed in composition from the actual distribution of U.S. cities. There was a lower response to the survey from cities with populations over 200,000 and from cities with populations between 10,000 and 24,999. There was a greater response to the survey than the true percentage of cities from all other city population categories. This difference is shown in Table 1.

TABLE 1
U.S. CITIES BY POPULATION AND SURVEY RESPONDENT

Population	Percentage of	
	All U.S. Cities	Survey Respondents
200,000 or more	3.2	2.2
100,000 to 199,999	4.7	7.2
50,000 to 99,999	13.5	21.0
25,000 to 49,999	25.7	35.5
10,000 to 24,999	52.9	34.2
Total	100.0%	100.0%

FINDINGS

The administrative setting where municipal economic development activities were based was considered in the survey. An economic development agency's organizational setting can provide insight into organizational decision making. For example, if an economic development agency were housed in a planning and zoning department, we could infer based on research conducted by Levy (1990) that the day to day staff motivations are highly structured and quantitative in nature. Additionally, we also could infer that projects under their consideration would involve goals consistent with comprehensive land use plans. The approach to economic development by planners has been described as the "rational model." Economic development program administrators working under the "rational model" would tend to be highly focused on data collection and organizational process related issues.

If an economic development department is independent of other municipal departments, the underlying motivation towards projects and the reward structure would be based less on the defined rational goals of a rational planning model and more on a definition of success determined by the number of sites promoted and developers contacted. Accordingly, independent economic

development departments can be perceived as more sales oriented in nature. One article (Rubin 1988) about economic development practitioners describes this mindset well—the article is entitled: *Shoot Anything that Flies; Claim Anything that Falls: Conversations with Economic Development Practitioners.*

Economic development activities have also taken on an increased importance in terms of the contribution they make to community planning activities. Eisinger (1988) noted the "virtually universal institutionalization of the economic development function accompanied by a proliferation of policy tools and rapid intensification of their use." Indeed, a critical question regarding the effectiveness of a municipal economic development program in part rests with the organizational relationships that it has with other administrative units of government. The coordination of program interrelationships with other government (and non-government) functions contributes to the ability of an economic development agency to serve broader community goals.

The following composition of organizational settings for economic development departments were found:

TABLE II**MUNICIPAL ECONOMIC DEVELOPMENT ORGANIZATIONAL SETTING**

Form/Placement	Percentage
Independent Department	29.7
Part of Planning Department	23.6
Non-Profit Development Corporation	16.2
Other	13.5
Function of City Manager	10.6
Duties Carried out by Several Departments	9.8
Performed by an Outside Consultant	1.6

TABLE III**INDUSTRIES RANKED AS CRITICALLY AND VERY IMPORTANT TO THE MUNICIPAL ECONOMIC BASE**

Industry	Percentage Response
Retail	83.8
Service Industries	81.7
Manufacturing	72.9
Institutional (Government)	58.0
Office	54.2
Tourism/Recreational	49.0
Warehousing/Distribution	42.7
Arts and Entertainment	27.6
Agriculture	26.3
Import/Export	18.2

TABLE IV**MUNICIPAL ECONOMIC DEVELOPMENT OFFICIALS RATINGS OF VERY IMPORTANT COMMUNITY ADVANTAGES**

Community Advantage	Community Rating as Very Important
1) Quality of life	72%
2) Quality workforce	59%
3) Good schools	55%
4) Work ethic	52%
5) Transportation access	51%
6) Cost of Living	48%
7) Close to markets	48%
8) Public safety	46%
9) Cost of housing	45%
10) Government services	40%
11) Recreational amenities	38%
12) Proximity to housing	34%
13) Environmental quality	33%
14) Low labor costs	29%
15) Cultural amenities	25%
16) Climate	21%
17) CEO preference	20%

Over 73 percent of the economic development officials responding to the survey described their community as having proactive economic development policies and only 26.5 percent of the respondents felt that their community's economic development policies were reactive in nature.

Survey respondents were asked to rank general industry groups by the degree of importance to their respective community's economic base. Retail was the leading industry group with almost 84 percent of economic development officials reporting that the retail industry was critically important or very important to their economic base. Almost 82 percent of the survey respondents identified the service industry as critically or very important to their economic base. Surprisingly, manufacturing (the industry group with the highest income multipliers for a community) was ranked third with only 73 percent of economic development administrators indicating that manufacturing was critically or very important to their community's economic base. Government/institutional industries were ranked by 58 percent, office by 54 percent recreation/tourism by 49 percent of survey respondents as critically or very important to the community's economic base. Table III summarizes these findings.

Municipal level economic development officials rated the following community advantages as very important in attracting new businesses and retaining existing businesses. Table IV identifies the ranking of community benefits to the economic development officials surveyed.

Economic development officials tended to value community advantages that are generally qualitative and abstract in nature. The community advantages rated as important by economic development officials are

difficult to quantify especially in the sense of comparing one community with another. Highly rated community advantages like quality of life, quality workforce, work ethic and good schools are hard to measure. Community advantages that are valued from the private sector perspective have a substantially different composition. Indeed, community advantages to the corporate site selection decision maker include such variables (Conway 1994) as proximity to customers, highway access, pro-business public officials and the presence of reasonable real estate costs, utility rates, wage rates, cost of living and business taxes.

HOW ARE WE MEASURE THE COSTS AND BENEFITS

Economic development administrators were asked how frequently they used cost benefit and impact analysis techniques to evaluate projects. When asked the degree to which their respective agency or department performed a cost benefit or impact analysis study on projects, the following levels of use were reported.

Surprisingly, about 30 percent of the economic development program administrators did not use or rarely used any type of cost benefit or impact analysis studies to measure and evaluate projects. With the above breakdown in mind, it is insightful to consider the tools and methods employed by the two-thirds of economic development administrators who did use some type of cost benefit or impact analysis study to evaluate projects.

Survey respondents were asked to rank seventeen types of analytical tools and methods that could be used to evaluate project impacts. Slightly over 50 percent of the economic development administrators cited their own experience as the

most frequently used tool and/or method used to evaluate community impacts. Table VI shows the range of tools and methods used to evaluate project impacts. Note that the degree to which economic development administrators used the tools and methods declines from the moderate use of a few key measures to the infrequent use of several methods of evaluating and understanding project impacts.

Where the concept of economic development is generally acceptable, there is no shortage of critics of economic development program administrators. This is abundantly

true when the costs and benefits of project decision making come into question. Reese noted (1997) that the "methodologies for assessing economic development goal attainment or outcomes are so problematic that although programmatic efforts are well examined, their impact and effectiveness remain unclear."

Other researchers such as Clark and Gaile (1992) maintain that for many economic development program administrators project completion is in itself a tangible success measure and that attempting to assess economic development

TABLE V
USE OF COST-BENEFIT AND IMPACT ANALYSIS STUDIES BY ECONOMIC DEVELOPMENT ADMINISTRATORS

<u>Degree Used</u>	<u>Percentage</u>
Never	7.9
Rarely	21.3
Sometimes	28.4
Usually	25.1
Always	17.2

TABLE VI
ANALYTICAL TOOLS AND METHODS MOST FREQUENTLY USED TO EVALUATE COMMUNITY IMPACTS OF ECONOMIC DEVELOPMENT PROJECTS

<u>Tools and Methods</u>	<u>Percentage</u>
Individual Experience and Knowledge	50.3
Open Public Meetings	41.7
Tax Impact Studies	38.1
Planning Commission Goals	35.1
Dollars of Private Capital Invested	35.1
Project Hearings/Board Review	34.7
New Business Starts	29.2
Company Sales Increases	16.9
Employment Impact Studies	15.5
Income and Wage Multiplier Impacts	14.8
Increases in Company Productivity	11.8
Worker Training Studies	10.8
Business Special Interest Group Views	10.6
Neighborhood Advisory Group Views	9.5
Citizen Special Interest Group Views	6.9
Survey of Citizens	6.7
Contribution to Firm's ROI	5.0

strategies is a "quagmire of good intentions and bad measures." Concern for economic development program/impact analysis is accompanied by the challenges of public budget tightening, fiscal accountability, increased public economic development expectations and an increased focus on investment in human capital has, according to Giloth (1992) posed a serious challenges to the economic development community.

Indeed, as economic development issues become more complex and move away from the simple answers contained in the "brick and mortar" and "employment only" solutions, economic development program administrators will have to develop more refined and insightful techniques with which to understand their community development needs and environment. Bartik (1994) identified an evaluation continuum for economic development programs which is comprised of six stages with the knowledge of each stage building on the preceding stages. The stages of economic development program evaluation move through (a) daily economic development task monitoring, (b) assessing program activities, (c) enumerating outcomes, (d) measuring effectiveness, (e) evaluating costs and benefits, and (f) assessing the community impacts of economic development program activities.

As part of my research, economic development administrators were asked to rate the importance of common impacts associated with economic development projects. As part of this rating, the survey sought information on the degree of importance the economic development program administrators felt that their respective municipality or agency placed on collecting and analyzing cost impact data related to economic development projects. Table VII summarizes the project

TABLE VII
RATING THE IMPORTANCE OF ECONOMIC DEVELOPMENT COSTS

Impact/Cost Area	Percentage Rating	
	Very Important	Somewhat Important
Infrastructure Costs	65.5	30.5
Environmental Quality	50.8	42.7
Traffic Congestion	44.7	41.0
Police and Fire Service	38.5	50.7
Financing Costs	35.3	46.4
Employee Training	21.6	49.7
Property Taxes Forgone	20.8	43.7
Assessments	19.8	51.8
Retention of Managers/Engineers	18.6	34.3
Transit Impacts	12.2	35.9
Social Service Costs for New Workers	4.9	29.2

costs and impacts by the percentage ratings of very important and somewhat important development costs and impacts.

CONCLUSIONS

This research has provided a brief snapshot of economic development impact analysis practices used in U.S. municipalities. Previous research in economic development practices by several researchers (Bartik 1991; Eisinger 1988; Flora, Flora and Wade 1993; Reese 1997; Wolman 1988) have evaluated the multiple impacts of state and local economic development policies using factors other than employment and income created from economic development. Clearly, there is no doubt that for the most part, job creation and income are the most critical factors used in defining the success of local economic development efforts. If local economic development administrators fail to develop projects that create jobs and other associated benefits, their local economic development programs, they would not be viewed as successful.

But there is more at stake here for the economic development com-

munity than jobs and income creation. Surely we want to achieve meaningful goals with our economic development activities but in a larger sense the practice of economic development needs to set standards for the establishment of meaningful measurement practices that are applied on a regular basis. Reese (1997) noted that the literature on why certain cities engage in certain types of economic development techniques tends to be fragmented, contradictory, and focused only on a few independent variables at a time. Other researchers, such as Goetz (1990), have stated that the analysis of economic development policies has largely been concentrated on initiatives undertaken by the public sector to increase private sector investment. I would argue that few methods of economic development project analysis measures are being applied in a meaningful way on a regular basis by U.S. municipalities.

In the long run for economic development programs to be effective in making real contributions to their communities, program outcomes must be clearly measurable as showing both material contributions in employment and economic benefits as well as demonstrating social and political advantages to their

constituencies. The findings of my research show a major shortcoming in what economic development programs are doing in measuring project impacts in relation to hard quantifiable employment outcomes, community economic measures and the data collection on citizen views about project benefits. More frequent use of measurable outcomes by economic development program administrators will create a more insightful perspective regarding project benefits and ultimately provide broader community support for economic development activities and practitioners.

REFERENCES

Bartik, T. 1991. *Who benefits from state and local economic development policies*. Kalamazoo, MI: Upjohn Institute.

Bartik, T. 1994. *Can economic development programs be evaluated?* Unpublished manuscript.

Beauregard, R. 1993. Constituting economic development: A theoretical perspective. In R. Bingham, & R. Miet. (Eds.). *Theories of local economic development* (pp. 267-284). Newbury Park, CA: Sage.

Burchell, R. & Listokin, D. 1978. *The fiscal impact handbook*. New Brunswick, NJ: Rutgers.

Clarke, S. & Gaile, G. 1992. The Next Wave: Postfederal Local Economic Development Strategies. *Economic Development Quarterly*, 6 (2), 187-198.

Clingermayer, J. & Feiock, R. 1995. Council views toward targeting of development policy benefits. *Journal of Politics*, 37 (27), 508-520.

Eisinger, P. 1988. The rise of the entrepreneurial state: State and local economic development policy in the

United States. Madison, MA: University of Wisconsin Press.

Elkins, D. 1995. Testing competing explanations for the adoption of type II policies. *Urban Affairs Review*, 30 (6), 809-839.

Flora, C., Flora, J., & Wade, K. 1996. Measuring success and empowerment. In N. Walzer, (Ed.), *Community strategic visioning programs* (pp. 57-74). Westport, CT: Praeger.

Giloth, R. 1992. Stalking Local Economic Development Benefits: A Review of Evaluation Issues. *Economic Development Quarterly*, 6 (1). (pp.80-90).

Goetz, E. 1990. Type II policy and mandated benefits in economic development. *Urban Affairs Quarterly*, 26 (27), 170-190.

Haltry, H., Fall, M., Singer, T., & Liner, E. 1989. *Monitoring the quality and outcomes of economic development programs*. Washington, DC: The Urban Institute.

Levy, J. 1990. *Economic development programs for cities, counties and towns*. Westport: Praeger.

Levy, J. 1990. What local economic developers actually do: Location quotients versus press releases. *American Planning Association Journal*, 56 (2), 153-160.

Reese, L. 1997. *Local economic development policy*. New York: Garland.

Rubin, H. 1988. Shoot Anything That Flies; Claim Anything That Falls: Conversations with Economic Development Practitioners. *Economic Development Quarterly*, 2 (3), 236-251.

Schofield, J. 1987. *Cost benefit analysis in urban and regional planning*. London: Allen & Unwin.

Wolman, H. 1988. Local Economic Development Policy: What Explains the Divergence Between Policy Analysis and Political Behavior? *Journal of Urban Affairs*, 10 (1), 19-28.

BIOGRAPHY

Dr. Thomas A. Musil is Director of the Center for Real Estate Education in the Graduate School of Business of the University of St. Thomas in St. Paul, Minnesota. He can be reached at tamusil@stthomas.edu.

ECONOMIC DEVELOPMENT REVIEW:
ECONOMIC DEVELOPMENT AND 'SMART' GROWTH



American
Economic
Development
Council

Volume 17

Issue 4