# HOW CAN WE IMPROVE THE PUBLIC SUBSIDIES DEBATE?

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The polemics surrounding the merits of public subsidies for economic and real estate development projects are highly charged. Public interest and media attention on publicly subsidized projects more along a continuum where the ebb and flow is marked by surprise reactions to project shortcomings or emergency announcements regarding project solvency. Distinguishing features of project cost over-runs, publicly subsidized boondoggles, and lingering public financial commitments for projects falling short of projected performance, are becoming all too common. Public concern with the taxpayer liability created by insolvent or under-performing development endeavors and the resulting obligations that have (or will) cost taxpayers millions of dollars are coming under increased public scrutiny.

Public subsidies for real estate and economic development projects come from several sources. The more high profile subsidies for stadiums or large factories are in part funded through state resources and the smaller corporate and commercial development projects are assisted with tax increment financing, revolving loan funds, and tax abatements created by cities and other units of local government. Federal funding is present in fewer and fewer instances but continues to play a supportive role on the fringe of some projects. It is important to realize that local and state public subsidies have had to increase in response to the decline in federal support.

Public interest and media coverage of the subsidy debate is often driven by the surprise disclosure of project financial shortfalls. The subsidy funding requirement for stadiums and the retention of professional sports teams also brings impetus to the debate surrounding the value of and need for subsidies. Surprisingly, events like comprehensive tax reforms, enactment of corporate welfare laws and subsidy reporting mandates only achieve moderate acknowledgement on the public’s (and media’s) radar screen. Subsidy reform legislation creates major changes in how local units of government fund development and how public sector accountability for project outcomes is determined.

It seems that we are rarely in a comfortable position that enables a meaningful discussion about public subsidies for development. When an opportunity to do so is created the urgency and value for such a discussion is diminished because the issues do not meet the panic level criteria necessary to warrant the public’s attention. In order to have meaningful and productive debates about public subsidies, it seems that we must be confronted with “breaking news” announcements of financial shortfalls that will result in taxpayer bailouts of troubled projects.

Public sector real estate and economic development subsidies have a long tradition in American life. The first subsidies date back to 1791 when Alexander Hamilton obtained approval from the New Jersey Legislature to establish a company for industrial development. Hamilton, armed with state tax exemption, the power of condemnation and extensive water rights, created the first U.S. industrial park on the Passaic River. During the depression of the 1930s, southern states attracted industrial development with tax abatements, plant, land and financing subsidies. Public subsidies for development have continued to be embraced by the public with a generally high level of consensus, expectation and acceptance. Support for the private/public partnership created when subsidies are used has largely avoided critical assessment. Indeed, public support for development subsidies appears to be akin to public support for nuclear deterrence, civil rights, protecting the environment and energy conservation. For most Americans, development subsidies make sense. If this is the case, where have we gone wrong in evaluating subsidies and holding public administrators and the business community accountable for meaningful information and evaluation?

If we consider how we evaluate development projects (hopefully before a panic situation is created) we see a public sector framework that must apply some form of analysis to measure the costs and benefits associated with a proposed project. To better define this matter, I surveyed 1500 municipal public administrators responsible for development activities in the 2600 U.S. cities with populations between 10,000 and 300,000. The survey enjoyed a response rate of slightly over 27 percent and presents an interesting overview of the public sector analysis practices.

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:

Use of Cost Benefit and Impact Analysis Studies by Economic Development Administrators

| Degree Used | Percentage |
|---|---|
| | |
| Never | 7.9 |
| Rarely | 21.3 |
| Sometimes | 28.4 |
| Usually | 25.1 |
| Always | 17.2 |

Notably, about 30 percent of the development program administrators did not use or rarely used any type of cost benefit or impact analysis study to measure and evaluate projects. With the above breakdown in mind, it is insightful to consider the tools and methods employed by the 70 percent of development administrators who did use some type of cost benefit or impact analysis study to evaluate projects. I asked respondents to rank seventeen analytical tools and methods that could be used to evaluate project impacts. There is a range of tools and methods that can be used. It is important to note that the degree to which development administrators used evaluation tools and methods declines from the moderate use of a few key measures to the infrequent use of several methods of evaluating project impacts.

Analytical Tools and Methods Most Frequently Used to Evaluate Community Impacts of Economic Development Projects

| Tools and Methods | Percentage |
|---|---|
| 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 | 20.2 |
| 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 |

The development administrators were also asked to rate the importance of common impacts associated with development projects. As part of this rating, the survey sought information on the degree of importance the respondents felt that their respective municipality or agency placed on collecting and analyzing cost impact data.

Rating the Importance or 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 |

To have a meaningful debate about development policies, subsidies and projects, we must collect and analyze information on the costs and benefits. The idea that completion of the project is a measure of success has little value. In the long run, for development projects to be effective in making real contributions to communities, program outcomes must be clearly measurable as showing material contributions in employment, economic benefits, and have the ability to demonstrate a linkage with the political constituencies with which they are involved.

To accomplish these objectives, public administrators and the development community must be able to provide the subsidy debate with accurate cost benefit analysis measures and be able to discuss the benefits that a particular project or development policy has upon a community. In part, this includes business skills in determining accurate cost and income projections, but in a larger sense an analysis template needs to be created so that both public officials and citizens alike can be in a position to better understand development decision making. To accomplish this goal reporting models like the Cost Benefit Model for Kansas Local Governments or the Minnesota Corporate Welfare Law need to be instituted as tools to assist both public administrators and citizens. Other suggestions for improving our ability to make more beneficial use of public subsidies include creating uniform project evaluation methods and tying the subsidy support to project performance measures.

In order to have a meaningful discussion about public subsidies for stadiums, shopping malls or factories, we need to establish minimum impact and information expectations and standards. Public administrators must move away from the concept of community "boosterism" and provide meaningful data and analysis when reviewing projects. Whatever method is devised to move the public debate on subsidies to a higher level, it is imperative that we remember the admonition of Mark Twain when he appropriately stated for both public administrators and project developers that "it is important to understand the facts before you misrepresent them."