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Generating Momentum Toward a Sustainable Economy: The Case of Austin Incentives

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In June 2008, Livable City released the report Building a More Sustainable Economy: Economic Development Strategy and Public Incentives in Austin, to suggest a path that will help the City of Austin better balance economic growth with long-term improvements in the quality of life for its residents. The following is a summary of this report.

From a national perspective, Austin's remarkable economic growth over the past three decades is viewed with awe. But for many local residents, it is not clear where Austin's economic development strategy originates, how it is implemented, or what institutions and actors shape economic development policies and programs.

Recently, these local economic concerns have focused on the issue of city incentives. Why should public money be given to private firms? How much is the City of Austin giving? And what is being received in return? Though incentives are just one piece of the city's overall economic development strategy, both policymakers and the public should clearly understand these questions. It is important to

understand the role incentives play in Austin's larger economic landscape in order to make more informed decisions about what will benefit the community as a whole. It is hoped that a discussion of Austin's development incentives, and the procedures for implementing those incentives, might spark review and reflection among planners in cities across Texas about their own municipalities' strategies for economic growth.

In recent decades, the City of Austin has used a variety of incentives to attract business investment and to shape the physical development of its community. In just the last ten years, Austin City Councils have approved over \$100 million for a variety of incentives to private businesses intended to spur economic activity. Economic development incentives, largely in the form of substantial property tax rebates, played a role in stimulating major investments in the high technology sectors that have contributed to Austin's stunning growth since the 1970s. In addition to spurring or guiding growth, city incentives can affect jobs, wages, tax rates, traffic and other factors that influence the community's quality of life.

Table 1

Key Location Factors Affecting Firm Investment

- 1. Labor force quality:** the size and skills of the local workforce.
- 2. Quality and availability of sites:** availability of land and buildings that meet the needs of firms for space, transportation access, and facilities.
- 3. Infrastructure quality:** quality of local utilities and access to markets through highways, air travel, and intermodal terminals.
- 4. Access to business support services:** private legal, accounting, advertising, and information services; and publicly provided services such as training and technical assistance, assistance with regulatory compliance, and business incubation.
- 5. Cost of doing business:** basic labor, utility, facilities and tax costs, and specific public incentives to reduce these costs.
- 6. Quality of life:** neighborhood amenities (quality affordable housing, schools, safety), environmental amenities (climate, clean environment, outdoor recreation) and urban amenities (cultural activities, entertainment, historic or unique urban districts.).

Source: M. D. Oden, Community and Regional Planning Program, The University of Texas at Austin.

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While many have lauded the overall economic development performance of city government, Austin is now experiencing growing tension between continued growth and important aspects of its quality of life. Individual incentive deals have come under increasing criticism, and there is a growing belief that the economic development process is detached from community priorities, secretive, and removed from informed decision-making and accountability.

In response to these concerns, Liveable City (www.liveablecity.com) commissioned a review of Austin's economic development efforts to:

- Examine the city's economic development strategy and its relationship to community priorities and sustainable growth opportunities;
- Identify the major city and civic institutions involved in economic development policy and review the record of public subsidies for private development;
- Evaluate the logic and effectiveness of two major categories of incentives, firm-based and project-based;
- Advance policy recommendations regarding needed reforms for incentives and for the economic development process as a whole.

FIRM-BASED INCENTIVES IN AUSTIN

Firm-based incentives, usually in the form of substantial tax breaks, are subsidies offered to encourage companies to locate or expand in a specific area. From 2000 to 2007, the City of Austin approved five firm-based incentive deals involving tax subsidies totaling more than \$64 million. In the area of firm-based incentives, Austin's lead economic

development institutions – the Greater Austin Chamber of Commerce and city government – do many things well, although certain aspects of this process would benefit from significant reform.

Compared to many other communities, the city and Chamber have demonstrated a sophisticated approach to economic development and have been reasonably disciplined in the granting of public incentives to attract desired firms. The Austin Chamber, through its Opportunity Austin initiative, has substantially upgraded its business recruitment and retention efforts, adding a major new effort to promote retention and expansion of resident firms to its traditional firm recruitment portfolio. The Chamber has also recently identified a new set of potentially fast-growth target industries, such as green industries, to diversify Austin's economy and augment its existing strengths in the microelectronics and computing sectors.

Several positive features are inherent to the structure by which the Chamber and the city provide public incentives to encourage firm investment. The city employs a formal review and scoring process that incorporates reasonable criteria to screen companies seeking incentives. The city also recently set aside its former requirement that incentives only be offered to large establishments, allowing resources to be targeted to small- to medium-sized firms to promote a more varied economic landscape. Another strength of local policy is that most incentives are granted based on the annual performance of the firm that receives them: before the city pays out, the firm is required to meet agreed-upon job creation and investment commitments.

Table 2
Opportunity Austin Target Industries

<u>2003-2007</u>	<u>2008</u>
Semiconductors	Convergence Technologies*
Medical Devices/Biosciences	Healthcare and Life Sciences
Wireless	Creative Media
Automotive	Green Industries
Digital Media	Corporate Headquarters/Offices
Clean Energy	
Corporate/Regional Offices and Headquarters	

* *Convergence technologies are products and applications that combine microelectronics, software and telecommunications technologies in various configurations.*

Source: Opportunity Austin 2.0, "Taking it to the Next Level," Greater Austin Chamber of Commerce, 2008.

A clear and simple accounting of the costs and benefits of project-based deals would provide a crucial element toward ensuring community support for these initiatives.

Though the past use of firm-based incentives has been generally sound, Austin would benefit from a fuller public discussion involving a broader range of stakeholders about overall economic goals to determine when firm-based incentives should be used and how they should be targeted. Such a discussion should include an accounting of the full costs and benefits associated with firm location or expansion, such as the number of jobs created, the number of jobs expected to be filled by immigrants versus Austin residents, income and tax gains as well as added infrastructure costs, environmental impacts and service costs such as healthcare.

Also, the cost-benefit methodology used by the city in judging proposed firm-based incentives should be considerably strengthened. Both the public and the policymakers should have access to clear, concise information about proposed incentives with sufficient time for informed deliberation before decisions are made.

PROJECT-BASED INCENTIVES IN AUSTIN

In addition to firm-based subsidies, the city also employs project-based incentives. These have been used to guide the location of development or, more recently to encourage certain kinds of development – such as mixed use residential and commercial projects – in specific neighborhoods. Incentives of this type have been used to encourage larger businesses, such as Computer Sciences Corporation, to locate in central Austin, rather than in outlying areas, and to promote a new model of denser, mixed-use development on major transit corridors, such as the Triangle project.

City subsidies to encourage denser, mixed-use projects in Austin's Desired Development Zone have had certain environmental payoffs, but the overall record on project-based incentives is decidedly mixed. In general, project-based incentives would benefit from the same thorough public discussion and rigorous cost-benefit analysis summarized above for firm-based incentives. However, project-based incentives involve additional issues that should be addressed more effectively by the city.

While individual projects have been shaped by strong public participation, the city's overall policies on redevelopment or the weighting of community benefits associated with project-based incentives were not the result of an open participatory process. Project-based incentive

policies were established without broad public discussion or consensus about specific community benefits that might warrant direct city incentives. Such discussions would serve to clearly prioritize the community benefits that can be leveraged from new development in the context of larger citywide planning.

At present, even with intensive research of publicly available documents, it is not possible to determine *either* the complete costs of many recent project-based incentives *or* what benefits the city may have derived from these investments of public funds. A clear and simple accounting of the costs and benefits of project-based deals would provide a crucial element toward ensuring community support for these initiatives.

In addition, the continued use of *direct retail incentives* simply to promote mixed-use development should be questioned. At one time, these incentives may have been justifiable to introduce the mixed-use concept to the Austin market. Now that it is established as a profitable and desirable model, the further use of incentives for this purpose should be very carefully considered.

To understand the problems inherent in retail incentives, it is important to recognize that retail activity is generally the result, rather than the cause, of economic growth in a city or region. Aside from tourism revenues, retail activity cannot grow faster than disposable income within a given economy. To the extent that new or expanding retail establishments grow faster than local purchasing power, there will likely be crowding out of existing retail establishments. In many cases, retail incentives simply shift economic activity from one place to another, rather than generating new products or jobs.

As a community, Austin must have an open and informed debate about exceptional cases in which retail incentives might be warranted, such as bringing retail to underserved communities, adaptive reuse of important historic properties or perhaps spaces that support local artists. This discussion is especially crucial in light of the upcoming November ballot initiative to severely restrict incentives for retail development.

REFORMS NEEDED

For all types of incentives, Austin's current process of awarding public subsidies should be reviewed. At this point, neither the public

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nor the city's policy makers have access to clear and concise information about the costs and benefits of Austin's economic development initiatives.

The current process also fails to provide sufficient time or space for serious deliberation of proposed incentive deals by policymakers or the public. Full and accurate information and a more open process are both crucial elements for wise decision-making about allocations of scarce public resources. An economic development process that is more inclusive, rigorous and diversified in its approach would better align economic development policies with fundamental community goals. What kind of jobs and industry growth do we want to encourage? How do we want our city to grow? How do we better balance economic growth with the preservation of our quality of life?

The foundation for future growth in emerging industries, such as clean energy, environmental services and artistic and cultural industries, can be built with the same passion and attention that in past decades was devoted to seeding the microelectronics industry – with the public fully informed and on board. It is important that Austin remains livable for all its citizens, providing equitable and affordable opportunities in housing, employment, education, transportation, healthcare, and other critical areas.

In light of a softening economy and a profound need to reduce the environmental impacts of growth, Austin should undertake a comprehensive community dialogue about an economic future that places sustainable development at the center of the local economic development process.

Other cities, including Rochester, Seattle, Portland, London, and Toronto, have aggressive plans to propel economic growth in ways that conserve water, fuel, air quality, and affordability. Austin's many existing assets and well-founded initiatives to promote green industries can be better leveraged in this effort, both to attract the growing sector of new green industries and to ensure the highest possible environmental standards for the community.¹

RECOMMENDATIONS TO IMPROVE STRATEGIES

Based on a review of local economic development policies and best practice lessons from other cities, the following policy initiatives are recommended to better position Austin for the challenges ahead.

1. Increase Community Involvement and Investment in Local Economic Goals and Strategies. The city has the opportunity to engage a much larger group of institutions and stakeholders in the economic development planning process, as has been successfully done in Atlanta, Georgia, and Rochester, New York. Working with stakeholders, the city should consider creating an ongoing public outreach campaign that includes an annual "Economic Development Summit" to review goals, strategies and specific initiatives, and to forge a new sustainable economic development plan with strong community support.

2. Create a Unified Economic Development Budget. The city's Economic Growth and Redevelopment Services Office (EGRSO) should produce an annual unified economic development budget that maps city departments and sub-departments to specific policies, expenditures and activities directed to economic development. This document would: (1) provide the public with clear information about all the city's activities and spending related to economic development; (2) help the city avoid duplication of effort, allowing it to direct responsibilities and funding to the most appropriate and competent departments; and (3) enable the city to assess performance and returns on public investment to promote more efficient resource allocation. As an additional measure of public accountability and transparency, the city should also produce and publicize an annual report updating progress on all ongoing incentive packages including a performance review of each firm or project receiving incentives and an accurate account of public funds associated with each deal.

3. Reform the Process of Evaluating and Granting Incentives. The incentive evaluation process should be made more rigorous and open, without compromising efficiency and timeliness, through adoption of the following measures:

- Disclosure of competing cities by applicant
- Disclosure of all costs by city
- Adoption of rigorous cost-benefit methodology
- Third-party cost-benefit analysis for major deals
- Public hearings with reasonable advance notice

4. Reformulate Goals and Policies on Physical Development and Project-Based Initiatives. The goals animating the city's policies on

project-based incentives including density bonuses should be reviewed and revised through a participatory process involving neighborhoods, developers, policymakers, and other community leaders. City project-based investments should flow from broader community-based planning efforts and not be considered as individual “stand alone” deals. In particular, this reformulated process should limit direct or indirect incentives *for retail* to very exceptional cases where community benefits are clear. Models to be explored include those used by Denver, Colorado and San Diego, California to provide affordable housing in central locations close to jobs. In any case, a new scoring process that includes strong public consensus for project-based incentives would ensure that incentives are linked to the specific benefits most valued by the community.

5. Reform the Process of Evaluating Community Benefits for City-Supported Development Projects. In light of clear problems with the city’s project based incentive policies, the City Council ended public incentives to private developers in a December 2007 resolution. However, the need remains for a much more rigorous and open process to evaluate projects involving redevelopment of public land or other development processes with direct city involvement, such as Waller Creek or the Green Water Treatment Plant. This process should first include the identification of clear priorities about the types of community benefits expected in city-supported development. Once a new set of community benefit priorities are established, an open and deliberative evaluation process could follow, which would include: (1) a thorough cost-benefit procedure that provides accurate and legible information on all direct or indirect incentive costs associated with supporting a development; and (2) a public deliberation procedure similar to that recommended above for granting city firm-based incentives.

6. Prioritize Sustainable Development of Green Industries and Green Jobs. Green industries are widely expected to experience rapid growth in the coming decades, and immediate steps should be taken in order for Austin to meet its published goals and establish itself as a leader in these high-growth sectors. The City of Austin, the Chamber of Commerce and other organizations are engaged in a tremendous push for greener, more sustainable economic development. At the same time, Texas and the Austin region lag significantly in the actual

development of green industries, behind states such as California and New York and regions such as northern California.² Accordingly, the City and Chamber should undertake a major study and planning initiative to help focus resources more efficiently on green industry development, with the goal of building a more diverse, sustainable economy. Austin already boasts many assets in this area that, if leveraged effectively, could help to ensure a truly sustainable future.

CONCLUSION

It should be emphasized that direct incentives to firms and development projects are only a small part of what makes Austin grow and develop in certain ways. As such, incentives themselves must be viewed as one set of tools in a much bigger toolbox. The biggest issue with public incentives is how to use them in the future and for what purpose. While flaws exist in current methods of evaluating incentives, these problems would be relatively easy to repair with reasonable reforms, largely focused on improving the quality of information and creating space in the incentive-granting process for rational deliberation before deals are approved.

Clearly the Austin region has formidable strengths to meet current economic development and growth challenges. With a highly educated workforce, diverse and creative communities, and leading-edge companies, universities, and research organizations, the city region has an incredible foundation to support an economy that is profitable, equitable and sustainable. From this foundation, Austin can reemerge as a pioneer of the technologies of tomorrow while ensuring continued opportunities and a high quality of life for all its citizens.

The full report, "Building a More Sustainable Economy: Economic Development Strategy and Public Incentives in Austin," is available at <http://www.liveablecity.org/IncentiveStudy.pdf>. Printed with permission from Liveable City and Michael Oden.

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Table 3

Austin's Economic Development Goals and Strategies (1980 - 2008)

Goals	Economic Development Strategies
Attract and retain firms in high growth industries paying high wages	Provide incentives to lead firms in target industries conducting research and product development in Austin
Attract and retain firms innovating in their Austin facilities	Build up the local research and development base by investing in universities and attracting public and private research institutions
Attract and retain firms whose activities have limited impact on the environment	Invest in University, Community College, and employment and job training programs relevant to target industries
	Invest in business incubation of small firms in emerging technology sectors
	Maintain and improve environmental and urban amenities

Source: Michael D. Oden, Community and Regional Planning Program, The University of Texas at Austin. See also reference note 3, pg. 5.

Announcement

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