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Economic Development: The Local Perspective

Max Neiman
Daniel Krimm

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This study, undertaken just before the current steep and rapid national economic decline, presents information and analysis of California's local economic development activity. We define such activity as a set of government actions intended to attract, retain, or nurture new businesses of any type—while also recognizing that policy actors in reality will have preferences for certain kinds of businesses over others. Based on a survey of California cities and their respective local economic development officials, our report shows that local governments are very active in economic development.

Our findings:

- The number of specific local economic development activities has increased.
- Although these activities can be categorized into distinct groups, cities that do a lot of activities in redevelopment actions are likely to do more in the other policy categories too.
- Local characteristics such as size, employment base, resources, needs, and location within the state are related to what local governments do in the economic development field; this indicates that communities respond to homegrown forces and circumstances.
- The perception of competition among localities is one driver of local economic development activity and its influence, while observable, may be exaggerated.
- State policies are believed by local officials to accentuate preferences for certain kinds of development, inclining local officials towards retail activity and away from employment growth and manufacturing.

At the conclusion of this report, we offer some general policy recommendations:

- Local governments are very positive, in general, about the effectiveness of their local economic development activities, but there is little formal evaluation of the effectiveness of such policies; more such evaluation would be helpful.
- State legislative and executive branch bodies should institutionalize regular communications and linkages with local governments.
- State government should more systematically focus on barriers that localities report restrain them from full economic development.
- State policy should consider how differing local circumstances regarding wealth, poverty, tax base, and potential for inter-city collaborations might shape state actions.

All technical appendices to this paper are available on the PPIC website: http://www.ppic.org/content/pubs/other/509MNR_appendix.pdf

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1. Introduction: An Unfulfilled Partnership

Since the passage of Proposition 13 in 1978, California's local governments have increased their economic development activity, particularly that related to land development and retail sales activity. Proposition 13 lowered the revenue yielded from property taxes. Consequently, "local jurisdictions began to pay even more attention to the fiscal outcomes of land-use decisions (Chapman, 1998)." In trying to maximize revenues, local governments began favoring retail land uses over other forms of commercial development, triggering what many local officials, legislators, and observers view as excessive competition among local governments for retail revenue.[1] This is the process often referred to as the "fiscalization of land use" (Chapman, 1998; Barbour, 2007).

California in the early 1990s had slipped into a deep economic funk, and despite its secure position as one of the world's most advanced and robust economies, its business and political leaders expressed great concern over what they perceived to be the state's declining economy and its alleged competitive disadvantages. As Dardia and Luk (1999) concluded, Californians' confidence "came to an end when the economy failed to rebound rapidly from the deep recession in the early 1990s." More people were leaving California for other parts of the nation than were arriving, leaving only international immigration and birthrates to keep the overall state population growing. The question of how best to advance the state's economic well-being became a dominating and often contentious and partisan issue at both the state and local levels.

In this economically wary atmosphere, there was a burst of local economic development activity among local governments. The widespread, deliberate effort to focus on incentives and an array of other local policies that were presumed to strengthen the local economic base accelerated during the 1990s.

Meantime, by 2003 the state agency responsible for economic development, the Technology, Trade, and Commerce Agency (TTC) was in deep political trouble. Owing to highly unfavorable news coverage and legislative ire over the cost and effectiveness of its foreign missions, the agency was abolished in the budget negotiations of 2003 (Nicholas and Helper, 2004). Many of its programs ended; its few surviving personnel were scattered among other California agencies, many of them to the Business, Transportation, and Housing Agency (which actually predated the TTC). [2] Even before its demise, the TTC budget had declined

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[1]Attempts have been made to corral this competition: AB 178, enacted into law in 2000, prohibits cities, counties, and redevelopment agencies from offering any financial assistance to an auto dealership or a big box retailer that relocates from one city or county to another in the same market area, unless the receiving community offers a contract to share some of the resulting sales tax revenues with the other city or county. An appellate court ruling in 2004 increased the sweep of this legislation (*City of Carson v. City of La Mirada, et al.*, 125 Cal. App. 4th, 532). More recently, S.B. 103, vetoed by the governor, sought to require all forms of subsidies to be fully disclosed, evaluated, and subjected to public hearings.

[2] Having taken on the task of assessing California's economic development program, the Assembly Committee on Jobs, Economic Development, and the Economy surveyed comprehensively what the state is doing. Their report is heroic, but inevitably reflects the amalgam of disconnected pieces of policies that focus on various elements and targets of economic development, many of which have not been funded

41 percent from its peak of $184 million to $109 million. Although the initial 2008–09 budget for the Business, Transportation, and Housing Agency (BTH) was set at $135 million, that amount is considerably below the peak of the TTC (although BTH does not duplicate services exactly.)

Of course, many state-level actions important to economic development were still in effect at all levels, either through specific programs, such as the Infrastructure Bank, or as geographically based activities, such as enterprise zones. But the death of TTC did eliminate a conspicuous point of contact for local and regional bodies. Since the agency was "the state's primary economic development entity for promoting the establishment, retention, and expansion of business, employment, infrastructure, and international trade in California" (LAO, 2003), its disappearance could well have diminished the focus of local and regional agencies that were used to having a state partner.

Assembly Bill 1721, signed into law in 2007, had the potential to mend this separation. Despite a low media profile, the law had considerable support among local officials, and the potential for providing a framework to improve ways that economic development is conceived and conducted in California.[3] It formalized the primary role of BTH to coordinate and facilitate California's economic development and to work with public and private entities at every government level. Unfortunately, the language that specified the state role in economic development and recognized the role of local governments in this arena was omitted from the final legislation while resolving the 2008 state budget impasse. The current disarray of the national and state economies is likely to accentuate the need for policies to improve the state's economic performance. This report establishes the kinds of economic development that local governments in California engage in, their concerns about the state's actions (and its attitudes toward them), and provide policy recommendations that will contribute to smoother state-local relationships.

This report depends substantially on a web-based survey that was conducted between late February and April of 2008. It was targeted at individual officials from each of 478 municipalities in California who were most appropriately situated to answer questions about local economic development policy. [4]

Survey results were used to develop measures of local economic development policy; to gauge how much economic development was being done; to describe what kinds of activities were being adopted in each locality; and to record the judgments of the respondent officials about how important individual economic development policies were in their communities.

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for several years and would appear to face continued resource deprivation given the state's current fiscal difficulties. See Assembly Committee on Jobs, Economic Development and the Economy, March 27, 2007.

[3] Enactment of a bill like A.B. 1721, along with its language, had been a continuing priority of the California Association for Local Economic Development, which explicitly pushed for this particular bill.

[4] For a detailed description of the survey, its content and implementation, see Technical Appendix A online. The study also used survey results from other studies; these are fully described in Neiman, Andranovich, and Fernandez (2000), and in Lewis and Neiman (2009). In addition, for this study there were approximately 30 detailed personal interviews with individuals active and knowledgeable in the economic development arena, including personnel from the Business, Transportation, and Housing Agency, the California League of California Cities, the California Association of Redevelopment Agencies, the California Association of Local Economic Development, staff members of the California Economic Development Partnership and the state legislature, as well as 10 local economic development staff from various state regions. All interviewees were assured of anonymity.

Survey questions were also designed to elicit assessments of policy effectiveness and of influential groups and stakeholders in the economic development process. The 2008 survey builds on similar work published by PPIC in 2000 (Neiman, Andranovich, and Fernandez, 2000).

Personal interviews and discussions with local, state, and nongovernment personnel were conducted whenever possible to probe further into issues that emerged from survey results and to follow up on some topics not covered in the surveys. Approximately 54 percent of the cities had a respondent in the survey. Details regarding method and response rates are described fully in Technical Appendix A online.

2. Local Perceptions of Economic Development Policy

In the following pages we report survey results on how local governments perceive themselves to be doing. At issue is the criticism by some at the state level that a central objective of local governments for their economic development policies is to boost their sales tax base. Local government officials readily admit that they pursue development to increase their tax base, but say they are acting in line with the incentive structure created by the state.

Among many state officials there is often a sense that local governments are obsessed with chasing retail development, while local officials believe that the state makes it inevitable that local governments will pursue tax-base enhancing development. The result, of course, is an undercurrent of mutual criticism between local and state officials, something that also became apparent during public hearings and personal interviews. It is common, for example, to hear among state officials that the "the only thing locals care about is grabbing auto malls and retail tax base."[5] Among locals the view is "Yes, we care a lot about our local tax base, since the state creates an incentive structure that ensures we chase retail more than we do jobs."[6]

We first explore the views local officials have about their policies, and then we report findings concerning their priorities regarding local economic development policies.

Local Perceptions and Assessment of Policy

Local officials were asked a series of questions regarding their appraisal of their cities' respective local economic development policies. The results indicate that they are fairly sanguine about their activities—despite also reporting very little systematic evaluation of their programs:

- Fifty-eight percent of cities believe that their efforts to improve local economic and business conditions have important effects, with only 33 percent indicating minor effects, and virtually no respondents indicating they think their policies have no effect.

- Only 26 percent of the cities indicate that their cities are guided by an overall economic development strategy for at least three years. Another 18 percent indicate that their city policies have become comprehensive, and 56 percent say their cities have no overall economic development approach and that they address individual opportunities as they arise.

- Despite a substantial majority of cities that believe in the efficacy of their policies, 63 percent indicate that they do no formal evaluation of their respective economic development programs to assess their cost-effectiveness.

[5] Comment made during interview with a state staffer from the executive branch

[6] Comment taken from answer to open-ended question in LED survey. Local officials are, of course, referring to the system of sharing the sales tax, controlled by state law, in combination with the declines in property tax yield, that incline local governments to favor retail and sales-tax generating activity.

- Sixty-three percent of the cities also indicate that increasing the local tax base is a very important objective, compared to only 18 percent who indicate that reducing unemployment is very important.

- Approximately 39 percent of cities report that they do somewhat more or much more than their neighbors to encourage economic development; 35 percent indicate that they do about the same as their neighbors, and 26 percent say they do less.

- Forty percent of the cities' respondents indicate that it is firms with fewer than 25 employees that get most of the attention from their city's respective economic development policies; 24 percent of cities indicate that employers of more than 100 employees are the focus.

- Fifteen percent report that local economic development policy is often controversial, with 45 percent saying they are sometimes controversial, and 27 percent indicating policies are not at all controversial in their cities

- The cities appear divided on the issue of whether competition between them is more beneficial than harmful, with 48% of them indicating that competition is harmful, while 52% of them indicate that it is beneficial. [7]

A large plurality of cities appear to direct their attention to businesses that hire smaller numbers of people. Although optimistic about their economic development efforts, local governments rarely engage in formal assessment of their local policies' effectiveness.

The Local "Obsession" with Tax Base and Retail Development

It is clear that local officials wished that the state public finance system had less influence on local governments, particularly in terms of the state's hand in creating a tax system that, in the view of many local officials, distorts local development policies. Many local officials complain of the way the state has managed the design of the public finance system; in the words of one, "The chase for sales tax has been a factor in driving out manufacturing jobs in California." That there *is* a general local preoccupation with enhancing the retail and tax base is borne out by the data in this study. The perceived result of state policy particularly since the passage of Proposition 13 has been to reinforce and amplify the fixation many cities have concerning revenue-creating development (Barbour, 2007; Lewis and Barbour, 1999; Lewis, 2001).[8]

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[7]This latter finding is particularly important because it appears to undercut the generally negative view regarding local competition. Examining the written comments of the respondents who indicated that competition was beneficial certainly did not celebrate or excuse competition for tax base or businesses. They referred in many cases to how some degree of competition is a good thing, even while recognizing that tax-base poaching and showering resources on some business location prospect was not a good thing. In short, many of those saying that competition was beneficial conceded the harmful effects explicitly, but interpreted the question to give them a chance to refer to some of the good things, such as reducing red tape or producing more information about communities and trying to make them more attractive places to live as well as fostering prudent tax policies. Hardly any of those who indicated that competition was harmful had anything positive to say about competition among cities and repeated at some length how the state distorts local fiscal and development priorities.

[8] In the words of the state's Legislative Analyst's Office (1990), "Under California's system of local finance, cities and counties face various fiscal incentives when deciding how to develop the land within their boundaries. Most

Our study provides strong survey evidence that local officials favor some kinds of development over others. When asked about the relative importance of retaining existing businesses, 57 percent of the respondents indicated that retaining existing businesses was the most important goal in the community, while only 8 percent indicated that incubating and nurturing new businesses was the most important economic development priority.

When asked to rate how important reducing unemployment was as an economic development goal, 49 percent of city officials rated it important and 19 percent rated it very important.[9] On the other hand, 17 percent of respondents indicated that improving the local tax base was important, with 62 percent indicating that it was very important.

If the state's goal is to encourage local officials to deal with unemployment or pursue or nurture new businesses, the data suggest that local officials do not see those goals as top priorities, particularly if they conflict with tax base enhancement.

We also explored more directly the specific type of development that city officials prefer. Survey participants were asked to indicate how likely their respective cities would be to provide a general plan change, rezoning, or financial incentive to the developer or builder of various types of projects.[10] The results indicated that office and retail development were, by far, the most favored of the types of development, with 52 percent indicating that office development would likely receive a land use policy change or financial incentive. Sixty-five percent said that retail development, a major source of sales tax funds to localities, would also likely receive such support. By contrast, fewer than 30 percent of the respondents reported that support or financial incentives for a land use change for single family and multifamily residential and heavy industrial projects would be forthcoming. Light industrial development received less than half of respondents' support.

Local officials' frustration can unfortunately obscure the important ways in which the state constructively affects, facilitates, and enables local economic development. For example, a variety of bonds used by local governments depends on the California Infrastructure and Economic Development Bank (I-Bank), which often works with local authorities at every level, frequently through Joint Powers Authorities. Moreover, the Green/High Tech policies, detailed below, while often inspired by advocacy groups and or green-oriented entrepreneurs, reflect an increasing state-level emphasis as well. These are considered not just a resource conservation

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communities, for example, receive the highest local tax revenues—and face the least demand for public services—from retail developments. These retail developments provide a source of local sales tax revenues, as well as other traditional revenues such as the property tax. Industrial, office, and agricultural land uses, on the other hand, generally yield much lower tax revenues (since they do not provide sales tax revenues). Finally, housing developments frequently do not yield sufficient local tax revenues to offset a community's increased costs to provide services to its new residents. Moreover, *affordable* housing often creates a greater demand for services in a community while providing the least amount of local tax revenues."

[9] The item in the survey was, "If you were to make an overall judgment about the importance in YOUR city of increasing the local tax base as compared to reducing unemployment as objectives for your economic development policies, how important would you rate each? Using a scale from 1 to 7, with 1 meaning not at all important and 7 meaning very important, please rate how important increasing the local tax base is and how important reducing unemployment is." We consider ranking an item as a 5, 6, or 7 to be important, with 7 to be "very important."

[10] They were asked to rank each of the different project types on a scale with 1 indicating "very unlikely" and 7 indicating "very likely." We assumed that a 5, 6, or 7 meant "likely," and that a "7" was "very likely."

and environmental policy, but also as an economic development opportunity. More recently, in January, 2009, the state treasurer's office substantially increased funding for the 2009 Industrial Development Bond program from $120 million to nearly $200 million. This is designed to provide more funds to assist in buying facilities and financing capital expenditures for businesses in California.

The enactment of the Global Warming Solutions Act of 2006 has also stimulated activity on the part of entrepreneurs to explore green-focused business strategies. There have been a host of state sponsored or state administered economic development programs for many years, but these most often require local jurisdictions to craft project applications and are scattered about a host of state agencies involving many different substantive programs (Koehler and Hogan, 1996; California, Assembly Committee on Jobs, Economic Development, 2007).

It is possible that opportunities and resources are simply overlooked by local jurisdictions, who are unaware of their existence or find applying for them too onerous. Indeed a number of interviewees at a statewide conference of local economic development officials in 2008 indicated that they are sometimes simply unaware of state programs and assistance. Having better information about these state programs disseminated more widely was also a topic in the presentation of one key legislative staff member at that statewide meeting.

3. Local Economic Development Activities

To examine both local development activities and barriers to carrying out such activities, we developed a number of community characteristics. That analysis will be the focus of Chapter 4. Doing so not only aids in identifying whether common characteristics are associated with certain activities—and their success or failure—but state policies may also benefit from the knowledge of how local conditions affect and explain differences in economic development

These characteristics include

- Median household income (U.S. Census, 2000)
- City population, natural log (U.S. Census, 2000)
- Percent owner occupied housing (U.S. Census, 2000)
- Percent change in total housing between January 2000 to January 2007 (California Department of Finance)
- Per capita sales tax revenue, 2000 (California State Controller)[11]
- Number of cities within 5 miles of a given city (based on GIS analysis, Lewis, 2001, 2002)

The respondents to the Local Economic Development (LED) survey were asked to rate the importance to their city of 53 economic development activities on a scale from 1 to 5, with 1 indicating "not very important" and 5 "very important." (Activities not taking place in a city were given a zero score.) The list was developed in consultation with local economic development officials. The 2008 results are shown in Table 3.1, and shows how many responding cities indicated that an activity was rated a 4 or 5 and what the average rating for each activity was.[12]

[11] One major incentive for engaging in economic development policy is to enhance local sales tax revenue. So the expectation is that the lower the per capita sales tax revenue in 2000, the more effort is likely to be devoted to economic development. Some might be concerned that our measure of household income and sales tax revenue are highly correlated, raising multicollinearity issues. As it happens, median household income and per capita sales tax revenue are uncorrelated. In fact, none of the measures of higher status, whether focused on occupation, education levels, poverty levels, or unemployment variables were related to per capita sales tax revenue. Median housing value was found to be significantly correlated with sales tax revenue, but the level was very modest (r = .155, significant at .004 level or less).

[12] The lowest rating for each activity, then was a 0, indicating the activity was not being done, and a 5 was the highest rating, indicating that it was being done and was considered very important. A 1 rating indicated that the activity was being done, but it was not considered very important. In calculating the mean rating for each activity, the zero values were included, and so the assumption is that if an activity was not being done in a city, then it had a zero value in importance. Of course, in actuality there might be a variety of reasons for why an activity was not being done by a city, and so this assumption regarding zero values must be considered tentative.

Table 3.1
Local Economic Development Activities, 2008

	Number Rating Activity Important	Average Rating for Each Activity
1. Assuring consistency in development rules	207	4.2
2. Streamlining review of all applications for permits	198	4.1
3. Working with private promotional groups	186	4.1
4. Improving local amenities	203	4.1
5. Contacting/networking with businesses	195	4.0
6. Property site referrals	190	3.8
7. Joint collaboration with other jurisdictions	162	3.7
8. Public improvements to declining areas to stimulate investment	182	3.6
9. Working with area's COGs/regional governments	162	3.6
10. Participating in state funded grant programs	165	3.6
11. Formal customer service training for city staff	155	3.5
12. Community Development Block Grant programs	148	3.4
13. Having single agency to encourage ED	154	3.3
14. Formal overall ED strategy to guide local policy	148	3.3
15. Consolidating all LED programs, including RDA	144	3.3
16. Rezoning land for commercial use	131	3.2
17. Promotion of specific industry or activity or cluster	136	3.0
18. Working with local colleges/universities	122	3.0
19. ED element in city general plan	137	3.0
20. Local government assisted advertising/other public relations	123	2.9
21. Formal "green" policy; making green industry/	111	2.8
22. Tax increment financing	121	2.7
23. Issuance of bonds to support ED projects	124	2.7
24. Ombudsman services for businesses	108	2.7
25. Encouraging industrial parks	107	2.6
26. Joint ventures with other cities to encourage ED	106	2.6
27. Permitting higher densities/building heights	100	2.6
28. Subsidizing on or off-site infrastructure	103	2.5
29. Public acquisition of smaller parcels for resale as larger parcels	107	2.5
30. Technical assistance for small business	99	2.4
31. Formal membership in ED corporation	87	2.3
32. Allocating resources/policies to attract "green" business	91	2.3
33. Government assembly of land/writing it down for private purchase	93	2.2
34. Working with public schools formally to improve education	81	2.2
35. Relief from payment of development fees, license, permits, etc.	68	2.1
36. Subsidy or support for employee training	84	2.1
37. Annexation to provide serviced land for new business	84	2.1
38. Forums with others for venture capital, start-ups, ind. Clusters	75	2.0

	Number Rating Activity Important	Average Rating for Each Activity
39. Reducing cost of licenses	41	1.9
40. Establishment of enterprise zones	76	1.8
41. Low interest loans to businesses	60	1.6
42. Targeting city procurement to local businesses	50	1.6
43. Federal job training programs	46	1.5
44. Locally operated revolving fund	57	1.5
45. Independent EDA, free of RDA	55	1.5
46. Financial grants to businesses	49	1.4
47. Loan packaging targeted for business start-ups	48	1.4
48. Sales tax rebate to business	46	1.3
49. Rebates of other non-sales tax to business	27	1.1
50. Formal certification of industrial or business parks	24	1.1
51. Lower operating costs by subsidizing utility rates	26	0.9
52. Foreign trade zone in city	31	0.9
53. Military base conversion programs	30	0.7

Table 3.2
Top Ten LED Activities in Previous Surveys

1990 Survey	1994 Survey	1997 Survey	2001 Survey
Tax increment financing	Tax increment financing	Facilitate license/ permits	Tax increment financing
Acquire/consolidate land	Facilitate license/permit	Tax increment financing	Streamlining reviews
Subsidize land acquisition	Consistent development rules	Private promotional groups	Consistent development rules
Developer agreements	Establish ED city agency	Consistent development rules	Networking with businesses
Establish ED city agency	Ombudsman service	Property/site referrals	Public improvements to declining areas
Public improvements in declining areas	Public/private cooperation	Networking with business	Working with private promotional groups
Networking with businesses	Networking with business	Assemble land for private use	Property site referrals
Public/private cooperation	Construction in declining areas	Ombudsman service	Improving quality of schools
Subsidize infrastructure	Assemble land for private use	Community develop-ment block grants	Improvement of local amenities
Rebate sales tax	Acquire/consolidate land	Construction in declining areas	Community development block grants

Sources: Neiman, Andranovich, Fernandez, 2000; Lewis and Neiman, 2009

Among the most highly rated local activities in 2008 come under the categories of information-generating, networking, and cooperating activities. A major change from previous years is the decline in the average importance rating of tax increment financing,[13] a key component of redevelopment activities. A 2001 survey using the same metric indicated that tax increment financing had an average rating of 4.3, compared to the 2008 figure of 2.7. From 1990 through 2001, tax increment financing and related redevelopment activities, such as assembling land for private use and consolidating into larger, more commercially attractive parcels, were among the top 10 items (See Table 3.2).[14] By comparison, in the 2008 results, not until item 22 in Table 3.1 do we find tax increment financing, with the rest of the usual redevelopment actions in subsequent rows.

[13] Tax increment financing is a means of financing projects, usually through redevelopment agencies, in which future increases (increments) in land values produce revenue increases that are dedicated to repaying the costs (interest and principal) of borrowing funds to support renewal and public development projects. Usually increases in the values of redeveloped land are monopolized by the renewal agency (again, usually a redevelopment agency).

[14] Neiman, Andranovich, and Fernandez (2000) and Lewis and Neiman (2009). It should be mentioned that if we use only the Southern California counties used in the 2000 study and examine their rankings of LED activities we find that tax increment financing is ranked at the 24th position. In short, including the statewide sample of cities seems not to have been a cause of the lower ranking for tax increment financing in 2008. That is more likely a result of the larger number of policies that are being evaluated and the sense that other policies have also become important.

Clusters of Local Economic Development Activities

The lengthy roster of LED activities in 2008 can be grouped into seven categories, or clusters, through factor analysis. [15, 16] We list the local economic development activities that meet our minimum level of relationship with each cluster in the following table (Table 3.3).[17] This analysis does not show which of the clusters is most important to individual cities. The clusters are simply an indication of which LED activities tend to correlate with one another, and they facilitate a more succinct presentation and analysis.

[15] Factor analysis is a statistical method that uncovers associations between large numbers of variables and arranges them into clusters called dimensions or factors. The factor analysis results reported here indicate, for example, that while the Redevelopment cluster is not ranked as highly among communities in terms of importance, it still seems to account for the most in terms of how communities vary from one another. Also, factors are assumed to measure some underlying variable or characteristic. Factor analysis is used here in an exploratory manner, which means that it is used to search for the underlying structure of the variables. A readily accessible introduction to factor analysis is Kim and Mueller, 1978.

[16] See Technical Appendix B online for details of the factor analysis results. It is important to emphasize that the use of factor analysis here emphasizes its data reduction value. There is no contention here that the clusters of policy activities are independent of one another.

[17] If an item has a correlation of at least .450 with a factor, then it was listed as a "marker" for the underlying factor.

Table 3.3[18]
Seven Clusters of Local Economic Development Activity, Top Loading Measures

I. Redevelopment	II. Economic Support	III. Promotional	IV. Green / High Tech
1. Government assembly of land and writing it down for private purchase 2. Public acquisition of smaller parcels for resale as larger parcels 3. Subsidizing on or off site infrastructure 4. Tax increment financing 5. Improvements to declining areas to stimulate private investment 6. Issuance of bonds to support development projects	1. Membership in economic development corporation 2. Federal job training programs 3. Independent local economic development agency 4. Enterprise zones 5. Subsidy for employee training 6. Joint ventures with other cities to encourage economic development	1. Working with private promotional groups 2. Property site referrals 3. Government assisted advertising and other public relations 4. Improving local amenities 5. Ombudsman services 6. Promotion of specific industry, activity, or cluster 7. Technical assistance for small businesses	1. Allocating resources or having policies to attract green or carbon- friendly industries and businesses 2. Having a formal green policy; making green industry and business a high priority 3. Create forums with others for venture capital, start-ups, and industry clusters 4. Working with schools to improve education
V. Indirect Assistance	**VI. Streamlining**	**VII. Direct Assistance**	
1. Rezoning for commercial use 2. Offering relief from fees, licenses, permits, etc. 3. Annexation to provide land for new business 4. Reducing cost of fees, licenses, permits, etc	1. Assuring consistency in development rules 2. Streamlining project review 3. Working with area COGs and regional governments 4. Formal customer service training for city staff 5. Consolidating all local development programs, including redevelopment	1. Low interest loans to business 2. Locally operated revolving fund 3. Financial grants to businesses 4. Community Development Block Grant programs	

Redevelopment involves actions that are commonly linked to the work of redevelopment agencies.

Economic Support refers to undertakings that do not involve the condemnation or purchase and direct transformation of land, but would seem to complement, inform, and even reinforce redevelopment policies. This cluster includes capacity-building partnerships and

[18] It should be mentioned that 13 activities did not achieve a minimum factor loading of at least ±.450 and so are not listed in any of the seven factors (clusters).

subsidies, where land-use strategies may well emerge as prominent options for implementation.[19]

Promotional Activities focus on publicizing the reputation and relative advantages of a city for some specific industry (such as biotech) or activity (tourism), or because of geography (recreation). Communities touting their readiness to accommodate a shopping center, attempting to leverage properties that are located near transportation hubs, or expressing pride in the community's high-end shopping or recreational amenities are all encompassed by this cluster. [20]

Green-High Tech denotes carbon-friendly policies and activities associated with fostering technologically advanced businesses, such as access to venture capital and educated workers. Although firms and communities might have been doing at least some of these things for a long time, the 2008 survey is the first time they have emerged as a discrete cluster. This cluster also seems to coincide with a more focused discussion of such activities statewide, perhaps most dramatically reflected in the passage of the state's Global Warming Solutions Act of 2006 (A.B. 32).

Indirect Assistance comprises activities that aid, subsidize, or otherwise facilitate construction or increase the supply of land available for commercial use. Included are such things as rezoning land for commercial uses and annexation of additional land, both increasing the supply of land. Eliminating or reducing fees for licenses and permits, reducing the cost of construction, are other included activities

Streamlining refers to consolidation of programs, training city workers to be more customer-friendly, reducing the duration of reviews, and ensuring consistency in procedures (to discourage appeals for exemptions and waivers, all of which slow the development process). Working with regional councils or other such bodies is associated with these activities; this may be a common element of the shared culture of such public-sector communities.

Direct Assistance refers to efforts by the municipality to assist or subsidize firms with lower interest loans, lower-cost revolving funds, grants, as well as resources made available

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[19] Individual activities in the Economic Support cluster can sometimes focus on land uses, and indeed, enterprise zones are often directed at especially hard-pressed areas with relatively depressed land values and difficulty in attracting investment. It would be surprising if, for example, enterprise zones were completely independent of some key redevelopment activity, such as government assembly of land and writing it down for private use. In fact, of the six Economic Support items, the top loading Redevelopment item (government assembly of land and writing it down for private purchase) is significantly correlated with five of the six items—the exception is the establishment of an independent economic development agency independent of the redevelopment agency. Of the economic development items, federal job training programs has the strongest correlation with government assembly of land ($r = .326$, prob. $\leq .000$)

[20] Perhaps California's most notable example of industry clusters are the film and entertainment industry in Southern California and the high tech and knowledge-based industries and research and development located in the Bay Area. Other examples include the steel industry in the Pittsburgh region, automobile manufacture in Detroit, shoe manufacturing in St. Louis, and recording of blues, rock and roll, and country and western in Nashville and Memphis.

through Community Development Block Grants (CDBG). These often involve payment for infrastructure improvements required of a particular development both onsite and off.

Measures of Local Economic Development Policy

Using the seven clusters, we develop local economic development policy measures; these can then be explored to gain some appreciation for the range of factors that explain policy differences among cities. Demonstrating a link between such variables and policy differences would suggest that local governments are responding to localized factors. Insofar as state policy is directed at mobilizing local governments on behalf of state goals—for example, linking local policies to the state's effort to mitigate adverse climate change effects—then knowing why local governments adopt the policies they do should be helpful.

We use two strategies to develop our measures of economic development policy. First, to investigate patterns associated with the seven different LED policy categories, the "top loading" activities for each category are summed to represent that category.[21] Second, we use a summary measure of local economic activity, the Total LED Activities score, a measure of the overall level of community activity, reflected in the number and relative importance of activities as judged by the survey respondent. The LED score is a weighted index based on the sum of the importance ratings for all of the 53 activities divided by the total possible rating score. This allows us to compare the score to previous surveys with fewer items. The LED score theoretically varies between 0.0 and 1.0.[22] The empirically measured range for the 2008 LED score is between 0.0—two communities reported engaging in no economic development activity whatever because there were virtually no commercial property uses within their boundaries—and .89. (We also explored using an even simpler score, which involved simply adding up the number of activities a community engaged in, with scores ranging from zero to 53, but that would have entailed losing information about how important each respondent judged an

[21] It is possible to use more complex composite factor scores for each of the categories. However, the meaning of factors scores is often difficult to discern, and it is conventional to employ variables that correlate the most—"the top loading variable"—with the factor as an unambiguous indicator of that factor. That is the strategy employed here. For each of the respective policy categories the top-loading measures are used, that is measures that have at least a .450 loading on each factor. Each policy cluster then is a summed measure based on the ratings of the measures loading on that factor; that is, each measure on the factor is a score from zero to five and each cluster then is the sum of the scores for each measure.

[22] If tax increment financing is rated a zero, the respondent reports that tax increment financing is not being used in a community. If another respondent indicates that tax increment financing is very important, that score would be 5, and if yet another city's respondent gave an intermediate score it would indicate that tax increment financing had a score of 3. Therefore, the total LED score for a city is the sum of the ratings for each of the 53 activities. Since each activity can have a maximum score of 5 and a minimum score of zero, the minimum score is theoretically zero (the city does none of the 53 LED activities) and the theoretical maximum score is 265, if each of the 53 activities were rated a 5. Each community's total LED score is divided by 265 to produce an LED score that ranges between a theoretical 1.00 to zero. This permits comparisons to the LED scores in previous years when there were considerably fewer activities rated by the communities. Each LED score then is the total of that city's LED ratings divided by 265. Multiplying each of these adjusted scores by 265, of course, converts the score back to its raw score.

activity to be. In any case, the simple, un-weighted additive score is highly correlated with the total, weighted LED score that we did use (r = .874).)[23]

The following is a summary of the policy cluster measures used to describe local economic development policy. These policy cluster measures are also used as the focus for illustrating how varying community characteristics are associated with differing policy emphases.

Table 3.4
Mean Importance Ratings of LED Clusters and Their Relative Dispersion*

	Mean Rating	Coefficient of Variation
Streamlining	3.71	.258
Promotion	3.25	.351
Redevelopment	2.69	.534
Economic Support	2.33	.666
Indirect Assistance	2.32	.516
Green/High Tech	2.28	.652
Direct Assistance	1.95	.731
Total LED Score	2.49	.354

* The mean is the average of the items comprising the cluster score. The coefficient of variation (standard deviation divided by the mean) provides a basis for comparing the relative dispersion of the scores, taking into account the different means for the scores. The mean total LED score is the mean importance rating for all 53 items in the survey. The lower the coefficient of variation, the less dispersion there is around the mean for that score.

[23] Observe that the 2008 LED score is significantly correlated with the 2001 LED score (r = .487, prob. ≤ .000), suggesting that there is a notable tendency for communities that were active in local economic development activities in 2001 to be among the more active in 2008. We also calculated the mean adjusted 2008 score for cities only in the seven counties that were in the earlier surveys, and the mean adjusted score was .48, suggesting that the 2008 results are not likely due to including cities statewide, rather than just in the seven Southern California cities.

4. Barriers to Local Economic Development and their Relationship to Economic Activity

State policies may benefit if they focus on the barriers that local government officials believe impede their local economic development efforts; by addressing such impediments the state may build credibility with local governments. State policies might also benefit from knowledge of how local conditions affect and explain differences in local policy because they could then be better tailored to the differing factors—whether tax base, family incomes, level of education, population, or growth rates—that shape local policy adoptions.

We examined the relationship between the composite scores for local economic development barriers and the following community characteristics. To reiterate, these are:

- Median household income (U.S. Census, 2000)
- City population, natural log (U.S. Census, 2000)
- Percent owner occupied housing (U.S. Census, 2000)
- Percent change in total housing between January 2000 to January 2007 (California Department of Finance)
- Per capita sales tax revenue, 2000 (California State Controller)
- Number of cities within five miles of a given city (based on GIS analysis, Lewis, 2001, 2002)

Respondents to the LED survey were asked to rate how much of a barrier they perceived certain conditions to be to the business climate of their respective cities. The ratings for each condition ranged from 1 (not at all a problem) to 5 (very serious problem). Table 4.1 summarizes the rating for each item, as well as the percentage of respondents indicating that an issue was rated as either a 4 (serious problem) or 5.

According to mean ratings, the top five ranked barriers are:

1. lack of affordable housing;
2. inadequate transportation infrastructure;
3. shortage of land for industrial development;
4. shortage of land for retail/commercial development;
5. opposition from residents.[24]

[24] Some might find the low ranking (18th out of 21) for water supply and quality to be surprising, but it might reflect the fact that California is positioned to be able to manage its foreseeable water supply problems, with the proper policy and infrastructure choices (Hanak, 2005).

Table 4.1
Importance of Local Barriers, Constraints, and Problems, Ranked by Mean Rating

Local Barriers/Constraints/Problems		Mean Rating (1-5)	Percent Serious/Very Serious
1.	Lack of affordable housing	3.2	46.4
2.	Inadequate transportation infrastructure	3.2	34.8
3.	Shortage of land for industrial development	3.1	47.7
4.	Shortage of land for retail, commercial development	3.1	45.8
5.	Opposition from residents	3.1	32.4
6.	High energy costs	2.9	32.7
7.	Lack of workforce skills/training	2.8	41.3
8.	Traffic congestion	2.7	31.8
9.	Restrictive land use regulations	2.6	21.4
10.	Excessive environmental standards/regulations	2.5	22.5
11.	Costly fees enacted by city	2.5	21.7
12.	Costly/complicated permitting	2.5	20.8
13.	Poor K–12 quality education	2.5	17.7
14.	Lack of leadership	2.3	20.6
15.	Lack of broadband technology	2.3	18.0
16.	Burdensome design/aesthetic standards, commercial bldg.	2.2	16.0
17.	Absence of formal ED strategy	2.2	13.3
18.	Water supply/quality problems	2.1	17.2
19.	Lack of quality universities/colleges	2.0	17.9
20.	Crime rates/crime reputation	1.9	13.3
21.	Excessive local taxes	1.9	8.5

A factor analysis, similar to that described in the previous chapter, identifies four distinct categories of local barriers. These are found in Table 4.2, each comprising at least two of the Table 4.1 items.[25]

Table 4.2
Four Factors of Hindrances or Deterrents to Local Economic Development

I. Regulations	II. Land Shortage
1. Restrictive land use regulations 2. Burdensome design and aesthetic standards for commercial building 3. Costly fees enacted by the city 4. Costly/complicated permitting processes 5. Excessive environmental standards and regulations 6. Excessive local taxes	1. Shortage of land for retail commercial development 2. Lack of affordable housing 3. Shortage of land for industrial development 4. Opposition from residents[26]
III. Infrastructure/Skills	**IV. Planning Leadership**
1. Lack of workforce skills/training 2. High energy costs 3. Lack of broadband technology 4. Poor K–12 quality education 5. Inadequate transportation infrastructure	1. Absence of formal economic development strategy 2. Lack of leadership

Only the lack of quality universities and colleges, the problem of traffic congestion, and concern about crime or the reputation for crime fail to cluster with the other categories.

A Closer Look at Local Economic Development Barriers

In a manner similar to our measurement of the LED policy clusters, we measure policy barriers as the weighted sum of the items in each cluster.[27] Table 4.3 provides some summary data for the barriers clusters.

[25] See Technical Appendix B online for details of the factor analysis results.

[26] The clustering of factors might in this case might seem odd at first blush. Why should opposition from residents wind up in this factor? Some consideration makes the set of items fairly sensible. Opposition from residents is more likely in developed communities. It is therefore not implausible to surmise that in more developed communities, with less developable space, that the chances that new projects and economic development proposals are more likely to encounter residents who are opposed or concerned about project proposals. Indeed, there is a significant, positive correlation between how controversial economic development is as a policy area and the land shortage barrier cluster (r = .306, sig. < .000). It is also worth pointing out that there is a positive and significant correlation (r = .338) between the level of controversy and the incomes of households, which accounts for why the lack of affordable housing loads up together on this factor. In short, this suggests that land shortages are not just the obvious physical and economic barrier to development, but the absence of available land, particularly when coupled with higher incomes, is associated with higher controversy levels.

Table 4.3
Mean Barrier Scores and Their Relative Dispersion

	Adjusted Mean	Coefficient of Variation
Land shortage/Housing	3.11	.375
Infrastructure/Skills	2.56	.379
Lack of Overall ED Plan	2.50	.471
Regulatory Barrier	2.35	.372

* The means are the average of the items comprising the individual barrier scores. The coefficient of variation (standard deviation divided by the mean) provides a basis for comparing the relative dispersion of the mean scores, taking into account the different means for the scores. The lower the coefficient of variation, the less dispersion there is around the mean for that score.

Regulations

Among the issues cited frequently by local economic development officials are excessive regulations and fees. Personal discussions with local economic development personnel indicate that sometimes their criticism of excessive regulation results from their own interactions with other local agencies or departments. For example, within a given city, local policies might require close oversight and regulation of development from the planning department. A growth-wary planning department could, for example, lock horns with a business-seeking, aggressive economic department within the same city. Another plausible scenario is that earlier city policies that placed a much lower priority on economic development or that were adopted in a different political climate, are now a barrier in a climate in which retaining or attractive businesses has become a priority. Restrictive land use regulations might have been enacted at a time when residential development was at a fever pitch; now, the community finds a need to rezone land to permit commercial development in former conservation zones. Design and aesthetic standards might have been adopted at a time when the community was largely residential, but after a major annexation, the old standards are now a poor fit with the desire of the community to be more aggressive in attracting commerce. Finally, it is possible that concern about a local regulation is actually a barrier created by state law that happens to be interpreted locally to justify very stringent regulations. This is a charge often made about how the California Environmental Quality Act (CEQA) is used by local constituencies to thwart all kinds of development, commercial and otherwise.

Land Shortage

The shortage of land to expand business, particularly among developed communities, has been a problem for some time and not only for major cities (Grupe, 2000; Rapaport, 2006). Our findings indicate as well that as communities become more developed, local residents and neighborhood organizations become more influential in economic development

[27] Each item can be rated from 1 to 5, with 1 indicating the barrier was not at all important and a 5 indicating that it was very important. So the policy barrier measure is the sum of the ratings for each item in that cluster. So, for example, the five regulation items have a minimum score of zero and a maximum of 25.

policymaking.[28] This cluster also suggests that communities with more expensive housing might have residents who are more generally opposed to expanding commercial development.

Overall, shortages of retail and industrial land were among the top five barriers mentioned in Table 4.2. Established, built-out suburbs or cities with a specialized focus, such as recreation, tourism, housing families, and retirement, are also more likely to indicate that they consider the lack of available land for retail to be an important barrier. Included among cities with little room for additional development are smaller, older, and more picturesque California cities that have been declared historic landmarks, as well as larger, older, more populous communities.[29]

Infrastructure/Skills

The cluster Infrastructure/Skills includes several items of statewide relevance—education, workforce training and labor availability, and transportation infrastructure—Personal interviews and information from meetings with economic development officials indicate that a major concern among them is the inability to achieve local economic development goals because of workforce shortcomings in their community and region and the lack of statewide progress in improving more dramatically California's workforce skills.

Congestion, growth, and funding barriers for infrastructure improvement are being addressed, albeit at perhaps lower than ideal levels, through major state programs, including a sizable capital improvements programs funded by a substantial assemblage of bonds. Many of the infrastructure improvements likely require some coordination with the state's effort to reduce greenhouse gases. Many interests think of this environmental challenge as conflicting with economic development, unless it proceeds incrementally rather than aggressively (Martin, 2006; Downing, 2007; Geissinger, 2008). Indeed, some of these tensions have been apparent in the efforts to resolve the most recent state budget crisis, where efforts to roll out infrastructure spending more rapidly is being seen among environmentalists as a pretext to weaken environmental legislation.[30]

Planning Leadership

The final development barrier category, Planning Leadership, is straightforward. It suggests that our informants sometimes believe that local economic development simply is not

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[28] The data indicate that cities with no vacant land are significantly correlated with ratings for the importance of neighborhood organizations in influencing local economic development policy (r = .237, sig. ≤ .000).

[29] If one ranks the cities on the basis of their Land Shortage barrier score, from highest to lowest, included are some of the state's largest cities, such as Los Angeles and San Diego, as well as developed suburbs such as Burbank, Cerritos, Santa Ana, or Redwood City, and recreation and tourist destinations that have key amenities that are vulnerable to development (e.g., Coronado, a seaside tourist destination and densely developed suburb of San Diego) or that have even been designated as historic districts (e.g. Ferndale). In short, communities can experience land constraints for a variety of reasons, besides being built out at high densities.

[30] As CalTrans Director Will Kempton opined in the *Sacramento Bee* (January 13, 2009: p.15a): "This is why Governor Arnold Schwarzenegger has made economic stimulus a key feature of his 2009–10 budget plan, and why job creation is at the heart of his proposal to relax environmental and permitting requirements for a small number of highway projects that can be moved forward this year." (http://www.sacbee.com/opinion/story/1536736.html)

a priority in their cities, as evidenced by the judgment about the lack of leadership or the absence of a local strategy for economic development.

Barriers to Local Economic Development and Community Characteristics

We analyzed each of the barrier scores using a series of variables, including regional measures, and found a number of factors associated with communities that score high on some of the measures of economic development barriers. There are two reasons why such findings are helpful. First, community barriers provide a focus for state policy in assisting communities with specific problems and second, it shows why tailoring state policies to different communities is perhaps necessary—because different cities often face different circumstances.

The results of the analysis are summarized as follows:[31]

- **Regulations Barrier.** More populous communities, above 100,000 are significantly more likely to express concerns regarding regulatory barriers (beta = .219). Communities with higher proportions of residents in owner-occupied housing tend to have lower scores on the regulatory barriers (beta = .210). [32]

- **Land Shortage Barrier**. Cities in a number of regions express varied but significant positive relationships with their respective scores on the Land Shortage barrier. Cities located outside the Central Valley, Los Angeles, Bay Area, and "other" Southern California were the ones in which the land shortage barrier seemed to be most significant (beta=.285).[33] Being within Los Angeles County was the next most closely and positively related to the scores for the Land Shortage Barrier (beta=.259). Finally, being in a city in Southern California outside Los Angeles County is positively related to the Land Shortage barrier score (beta=.173). Part of this relationship might be attributable to the higher densities associated with this part of California. For example, there is a significant correlation between population density and the Land Shortage barrier score (r = .283). The relationship between being a Los Angeles County city and population density is also notable and significant (r = .440). Population density is also correlated with the other regional measures, positive in the Bay Area and negative with being a Central Valley city.

- **Infrastructure/Skills Barrier**. The analysis indicates that the lower the 2000 median annual household income, the higher the score on infrastructure and skill barriers (beta = -.373). The mean Infrastructure/Skills barrier score among communities with median family incomes below $35,000 was 12.1, while those with family incomes above $65,000 had a score nearly a third lower at 8.3. None of the other c**o**mmunity

[31] We are summarizing only those findings that are significant at the .05 level or less. The analysis was an ordinary least squares regression with each of the community characteristics as a predictor variable.

[32] There is one tradition that views localities with higher proportions of owner-occupied housing as places that are more likely to be opposed to development. (At least here the data are consistent with the story that areas with higher proportions of residents are more likely to be concerned about economic development, since housing tends on average to produce lower levels of revenue.) In any case, cities with high rates of home ownership, then, are apparently places that are judged to have lower levels of barriers to economic development

[33] Many of these communities are fairly small, but developed, and located within rural, less urbanized parts of California and as a result are perhaps limited in their ability or incentive to annex surrounding areas, which are often rural, or in commercial agriculture, or involve state or federal-owned land. A fair number of these communities are located along the central coast and in the areas above the Bay Area and are recreation and tourist destinations.

variables were found to have any statistically significant linkages with this set of economic development constraints.

- **Planning Leadership Barrier.** The score for this set of items is also related only to median family income (beta = -.225), with lower income communities having a stronger sense that not having leadership and a formal economic development policy is hindering their economic development policy efforts. Among the communities with annual family incomes of less than $35,000, the score for the Planning Leadership barrier was 6.0 (out of a possible 10.0), while it was 4.7 for cities with median family incomes above $65,000.

Are Barriers and Policies Related?

Are local barriers and constraints of the kind described here linked to local economic development activity? If so, what are the directions of these associations, and are all the barrier measures coupled with all our policy measures? A statistical analysis of the four policy barrier measures and eight policy measures—meaning 32 possible correlations, including the total economic development score—shows that 24 involve significant correlations, and that seven of the eight remaining non-significant associations involve the land shortage policy barrier (which includes the housing affordability obstacle).[34] The category Streamlining is the only cluster associated with insufficient land or a lack of affordable housing; apparently there is a modest tendency for communities with less available, developable land or a scarcity of affordable housing to stress the importance of streamlining development projects.

On the other hand, as we reported earlier, the more developed a community is, the more likely its neighborhood organizations are perceived by respondents to be influential. One manifestation of this is the exacting invocation of all possible rules and regulations regarding development by such organizations. It is perhaps not surprising that permit and regulation streamlining might be emphasized by economic development officials in more developed locales.

The results also suggest other connections. The Regulatory Barriers score is most strongly associated with the Green/High Tech LED policy cluster (r = .357, significant at ≤ .000). Cities with higher scores in the Green/High Tech policies are more likely to be those expressing concern about the regulatory barriers they face, and there are a number of possible explanations. If we examine one of the components of the regulatory barrier items—burdensome design and aesthetic standards for commercial buildings—when respondents indicate greater importance for this particular item, we note a substantial increase in the Green/High Tech score. Among cities that rated burdensome design and aesthetic standards for commercial buildings a 1 on the scale (not at all important), the Green/High Tech mean score is 7.6. Among cities that rated burdensome design and aesthetics a 5 (a very serious problem) the mean Green/High Tech score was 14.0.

Without further research, reasons for this connection remain hazy. It is possible that the conventional notion applies—that local permitting and development regulations impede development—so that officials who are trying to emphasize green policies or high tech are running into resistance from other departments or from local constituencies who are citing local

[34] See Table C.1 in Technical Appendix C online.

ordinances to block such development. (Often there are issues associated with zoning and building codes that can be used to create obstacles to micro-energy production among individual homes, or interfere with the wider introduction of solar technology. In such communities, the more one tries, the more one is likely to be frustrated by those who get in the way.) Or is it the case that officials would like to see more regulations that would mandate or increase the need and demand for green products?

However, the overall pattern of associations between the LED policy measures and LED policy barriers suggests that the more a community is doing—whether it is simply doing more on all economic development fronts or whether it is strenuously emphasizing one of the seven LED policy clusters—the more likely the economic development officials are to say they face barriers to their policies.

There are also indications that local policy barriers vary in how important they are for particular LED policy clusters, with concern over infrastructure and skills barriers having the highest average correlation with the seven LED policy measures. For example, Economic Support, which entails involvement in the city's regional or county economic development corporation, job-training programs, an independent local economic development agency, the use of enterprise zones, subsidies for employee training, and joint ventures with other cities. Focusing on a lack of workforce skills and training, one finds that cities with respondents who indicate that this problem is "not at all important" have a mean Economic Support cluster score of 8 (out of a possible 20). Those that indicate that the lack of work force skills and training are a "very serious problem" have a mean Economic Support measure of 15.

What the data suggest is that some constraints cited by local officials might be associated more closely with particular policy approaches. Aside from the implications that the existence of such constraints might have for individual communities, they do suggest a possible role for state assistance in ameliorating some of the barriers where feasible.

Illustrating the Influence of Local Conditions

Local governments' economic development policies, as most other kinds of policy, can be expected to reflect many of their respective local community characteristics (Basolo and Huang, 2001). How might city governments' differing economic development emphases reflect the differing environments that they face? We answer this question with simulations of regression results for the summed, additive measures of our categories of local economic development policy. The goal here is to demonstrate that local governments are likely to vary in how they implement local economic development policy due to differing local circumstances. Any state-level effort to implement policy, therefore, will benefit from knowing how key local features can affect how local governments choose to do economic development policy.

We use the same list of community characteristics we used above. They permit us to explore the role of local need, resources, size, region of state, and competition among cities.

For the regional indicators we use dummy variables for whether or not a city is in the San Francisco Bay Area, Los Angeles County, Other Southern California region

(which excludes Los Angeles and Imperial Counties), or the Central Valley. The omitted dummy variable that serves to benchmark the others is Other California and includes largely rural and mountain areas, as well as mostly rural areas along the Central and Northern California coasts. We used the regional categories used by the PPIC Statewide Survey through the year 2006.

Other California cities are considerably lower in population than are those in the rest of the state: the average city size, approximately 21,000, is only 32 percent of the size of non-Other California cities and only 58 percent of the average of Central Valley cities. Other California cities tend to have similar median household incomes as their Central Valley counterparts ($39,000 and $36,000). In comparing Central Valley cities to their Other California counterparts we find that they are similar with regard to a variety of socioeconomic measures. The main differences seem to be that Central Valley cities are more populous and have seen much more housing construction in recent years.

Competition is of particular concern because conventional wisdom holds that it is a ubiquitous motivator among cities.[35] We use the number of cities within five miles as one of our measures of competition—the prevailing measurement strategy used in studies of government competition. However, we also include a composite measure of perceived competition, consisting of two items from our LED survey.[36] The survey asked each city's respondent to "list up to five cities that you believe compete the most with your community for economic development or redevelopment activity." As a result, each city is assessed in terms of the number of other cities it names as competitors and by how many times it is named by others.

A community that reports many cities as competing with it can be viewed as more competitive than can places that name fewer or no cities. Additionally, a community that is mentioned more often by others is obviously viewed as being more competitive. These perceptions might be exaggerated or mistaken, but in the world of policymaking, perceptions are important even when ill founded.

[35] We explored many other variables, including measures of poverty, race, ethnicity, tax base, economic base, and community change. We subjected these variables to factor analysis and used the results to winnow down the list and to minimize redundancy among the independent measures of community characteristics. We then used only those that were found to have statistically significant and independent effects in the context of an ordinary least squares regression. In any case, we are not trying to develop a definitive model of local policy variation. Our selection of the measures we use in the analysis is sufficient to demonstrate the importance of local circumstances in affecting local policy.

[36] Some variation of the number of jurisdictions is the most commonly used measure of competition (Grossman, 1989; Nelson, 1986; Eberts and Gronberg, 1990; Schneider, 1986; Taylor, 2000; and Lewis, 2001, 2002). Our perceived competition measure, however, has also been fruitfully used in Lewis and Neiman (2009).

The sum of these two measures—the number of communities named and the number of times an individual community is named by others—produces a better model fit, and so we use that as a composite measure of competition.[37] As previously noted, we also use this with a traditional competition measure: the number of municipalities within five miles of a city. This is analogous to the variable often used as a surrogate for competition among communities (Taylor, 2000; Basolo and Huang, 2001).[38]

The analysis below is based on ordinary least squares regression. The detailed results for all of the policy measures are found in Technical Appendix C online.

Redevelopment Activity

Figure 4.1 represents the effects of the predictor variables described above on the Redevelopment score.[39] Each variable's relationship to the dependent variable, in this case the Redevelopment score, is expressed in terms of how much change there is as each independent variable moves one standard deviation above its respective mean, while the other independent variables' values are held at their respective means. Only those results that are statistically significant at the .10 level or less are reported.[40] In the case of the regional dummy variables, their reported effects are those compared to the omitted category, Other California cities.[41] In assessing whether the included regional variables have significantly different effects from one another, we assess the statistical significance of the differences in their regression coefficients. This is the approach we use in all of the following examples as well.

[37] The simple, bivariate correlation between these two measures is significant but modest (r=.121, prob. ≤ .004). It is worth mentioning that cities with higher composite competition scores are also significantly more likely to believe that their local economic development policies are effective (r = .238, prob. ≤ .000), that they are doing more than their neighbors are with regard to economic development (r = .268, prob. ≤ .000), and that their policies are more comprehensive and strategic (r = .277, prob. ≤ .000). Additionally, there is a modest but significant correlation between our composite competition score and the number of cities within a five-mile radius of our responding cities (r = .100, prob. ≤ .035)

[38] We also checked to see if there were some possible interaction effects between the number of jurisdictions near a city and perceived competition that might improve our assessment of competition. No such effect was discernible.

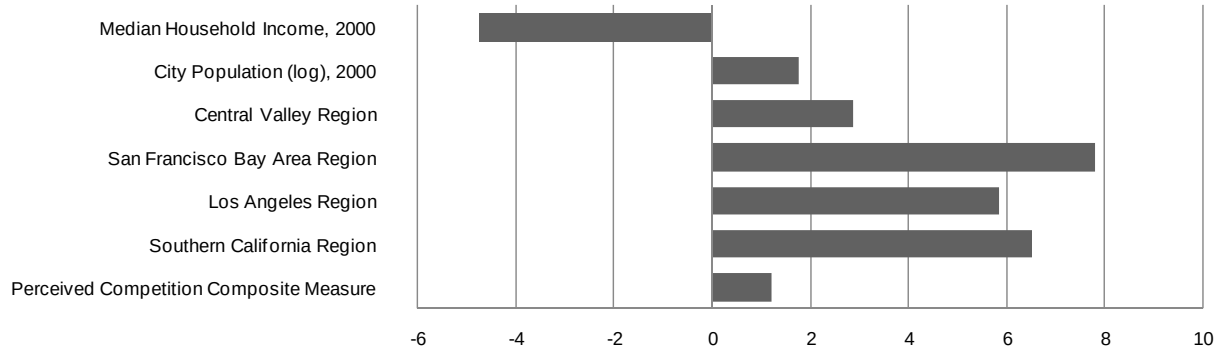
[39] Only significant relationships are reported in the figures. The detailed results are reported in the regression tables in Technical Appendix C online.

[40] We use Clarify statistical software, which simulates the effects of our predictor variables in simple form (Tomz, Wittenberg, and King, 2001). The bars are only for those predictor variables that were at significant at least at the .10 level in order to minimize clutter in the figure. In any case, all of the regression models are fully reported in Technical Appendix C online. Recall that the Redevelopment score is composed of ratings for actions involving traditional redevelopment activities, including assembly of land, resale to private parties, the use of tax increment financing, improvements to declining areas, and issuance of bonds to support development projects.

[41] The cities in the Other California category are located in the following counties: Del Norte, Siskiyou, Modoc, Lassen, Trinity, Humboldt, Mendocino, Plumas, Sierra, Nevada, Lake, Mendocino, Amador, Alpine, Calaveras, Tuolumne, Mono, Inyo, Mariposa, Imperial, Ventura, Santa Barbara, San Luis Obispo, Monterey, San Benito, and Santa Cruz.

Figure 4.1

Effects of Predictor Variables* on the Total Redevelopment Score (range: 0–30)



* Full description of regression results found in Technical Appendix C online.

Not surprisingly, the data indicate that California cities not in the Other California category (the category omitted from the equation) are somewhat more active in participating in the Redevelopment activity score, but that Central Valley cities are somewhat less active in Redevelopment activity than are the Bay Area and Other Southern California cities.[42] The figure suggests that there are some regional influences associated with the Redevelopment policy score. For example, a city in the San Francisco Bay Area region tends to be associated with somewhat higher levels of redevelopment activity. In fact, being in the Bay Area is associated with about an 8-point increase in the Redevelopment policy score, compared to cities in the Other California region, while cities in the Los Angeles and Other Southern California regions are associated with slightly smaller increases. Central Valley cities are related to about a 3-point increase in the Redevelopment activities score. In addition:

- Moving one standard deviation from the mean city population is associated with almost a 2-point increase in the Redevelopment score;
- Perceived competition is associated with about a 1-point increase in the Redevelopment score;
- The simulation also suggests that median household income is fairly important as well, although in the direction of reducing Redevelopment activity by more than 4 points.

Economic Support

Figure 4.2 illustrates the simulation for the Economic Support score, made up of a variety of activities that involve participation in a fairly broad variety of activities, marked by

[42] The differences in the coefficients of the dummy variables for the Bay Area, and non-LA Southern California Cities and the Central Valley cities are all significant at the .05 level or less. The difference between the coefficients for the Central Valley and Los Angeles County cities is not significant.

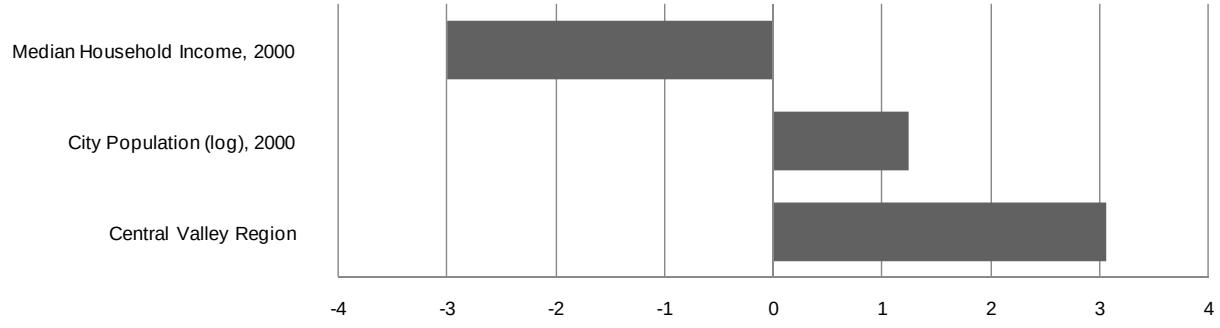
their emphasis on involvement with federal programs and in activities with other localities.[43] The results indicate that

- A one standard deviation increase in household income is related to a 3-point decline in the Economic Support score;
- An increase in city population is associated with about a 1-point increase in the score;
- Being in the Central Valley region is associated with about a 3-point increase in Economic Support activities compared to the generally more rural, smaller, slower growing cities in the Other California category.

We wish to remain cautious about differences among the regions we have included in the equations. For example, in this instance, the only significant difference in the regression coefficient between the Central Valley cities and the other regions in the equation is the difference in the coefficients for the Central Valley and non-Los Angeles Southern California cities. The fact that the Central Valley region variable stands out modestly for the Economic Support policies score may also reflect the fact that the Valley has been the target of both federal and state programs. Indeed, the California Partnership for the San Joaquin Valley, launched in 2005 by Governor Schwarzenegger, builds on long-time programs and efforts that have focused on workforce development, housing agricultural workers, air quality, and health care, among others.[44]

Figure 4.2

Effects of Predictor Variables* on the Total Economic Support Score (range: 0–30)



* Full description of regression results found in Technical Appendix C online.

[43] The activities were: membership in an economic development corporation, federal job training programs, establishing enterprise zones, subsidies for employee training (largely federally funded programs), joint ventures with other cities, and having an independent economic development agency not affiliated with the redevelopment agency.

[44] The Great Valley Center, established in 1997 with support from key private foundations in California (Packard, Irvine, and Hewlett), was a very effective institutional mechanism that aggregated the Central Valley's interests and produced a number of successful applications for both federal and state programs. In short, the region has a stronger sense of identity and is more unified about its regional interests than many other regions in California.

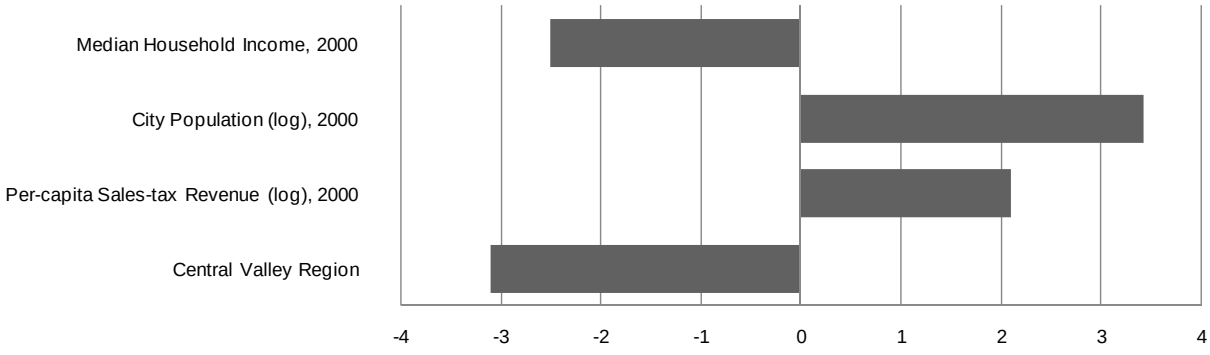
Promotional Activity

Figure 4.3 shows actions designed to publicize and manage the dissemination of information about communities. [45] We find:

- Larger cities and cities with a higher sales tax base are more likely to engage in Promotional activities.
- Central Valley location is associated with somewhat lower Promotional activity than found in Other California cities.
- Higher incomes are associated with declines in the Promotional activities score.

Figure 4.3

Effects of Predictor Variables* on the Total Promotional Score (range: 0–35)



* Full description of regression results found in Technical Appendix C online.

Green-High Tech Policies

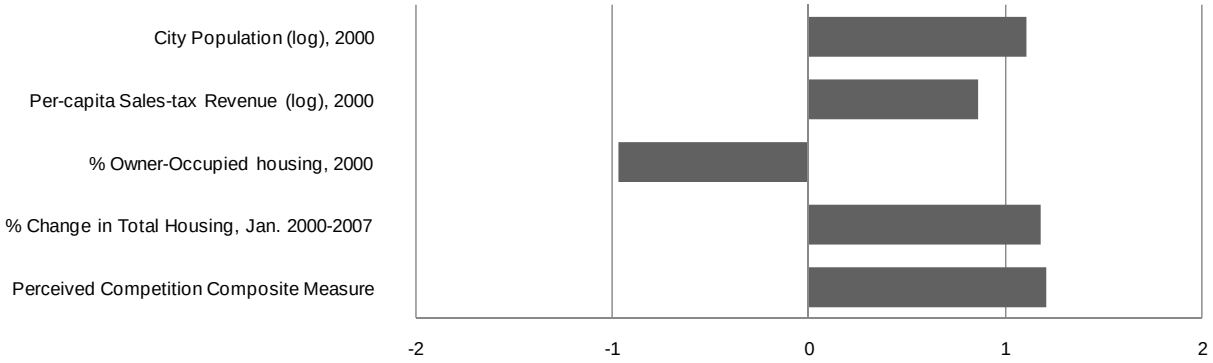
Figure 4.4 shows results for the Green-High Tech score.[46] The findings indicate that perceptions of competition, growth in housing stock, city population, and per capita sales tax revenue are positively associated with increases in Green-High Tech policy activity. It is the only policy cluster not negatively related to household income.

[45] The Promotional activity score comprises working with private promotional groups, property site referrals, advertising and other public relations, improving local amenities (e.g., shopping, entertainment, and recreation), ombudsman service for business, promoting a particular industry or cluster (e.g., high-tech, tourism, film, sports, or health), and technical assistance for small business.

[46] This cluster comprises allocation of resources to attracting green or carbon friendly industries or businesses, having a formal green policy and making green industry a high priority, and working with venture capital.

Figure 4.4

Effects of Predictor Variables* on the Total Green Score (range: 0–20)



* Full description of regression results found in Technical Appendix C online.

All of these have roughly similar effects, hovering a bit below or above a 1-point increase in Green-High Tech policy when there is a one-standard-deviation increase from the means of these community variables. We also note that an increase in the percentage of owner-occupied housing is negatively associated with a decline of almost a point in the Green-High Tech policies score. We find that the percent owner-occupied is associated with a generally lower level of need or inclination to do economic development activity, since the higher the proportion of owner-occupied housing, the lower the crime rate, poverty rate, unemployment level, and Hispanic population, and the younger the community. On the other hand, higher levels of owner-occupied housing are also strongly associated with higher levels of household income (r = .644) and strongly and negatively associated with Democratic Party registration (r = -.375). Indeed, income and Democratic registration are also significantly and negatively related (r = -.272). In short, there is a suggestion that the percentage of owner-occupied housing works to push down modestly the rate of involvement in Green-High Tech policies, perhaps because of partisan inclination. This is suggested by the significant and modest link between partisanship and Green-High Tech policy activity (r = .204, prob. ≤ .000 level).[47] Again, we think of these findings as suggestive and illustrative of our main point, which is that local governments are tend to be responsive to their local circumstances—physical, social, and political.

[47] When we included the percentage of Democratic party registration as an explanatory variable in the regression, it tended to be insignificant when included with income and owner-occupied housing as variables, suggesting that insofar as partisanship is related to policies, it operates through its association with other variables, rather than having an independent influence.

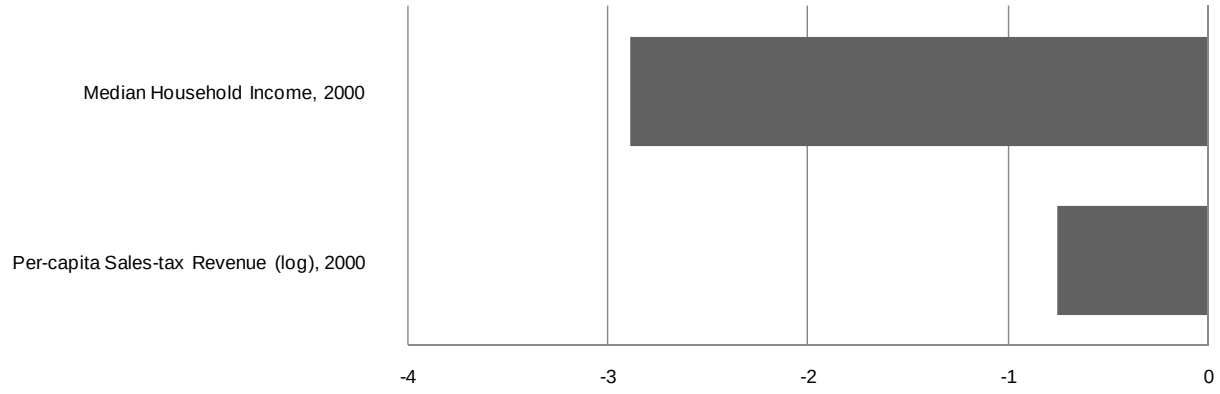
Direct Assistance

Figure 4.5 illustrates the findings for the Direct Assistance policy score.[48] Only two of the community characteristics—median household income and per capita sales tax revenue—have an independent and statistically significant association with Direct Assistance policy, with the effects of income apparently far more apparent. Population size seems not to be related with either direct or, as is reported below, indirect assistance. These are the only two policy measures in which city population is not related.

An increase in household income of one standard deviation is associated with a nearly 3-point decline in the Direct Assistance score, while a decline of less than one point is related to a comparable increase in per capita sales tax revenue. Apparently, communities that are doing well with respect to household income and which have higher sales tax revenues are less inclined to be active in such activities as providing direct assistance to businesses, with the influence of median family income particularly notable.[49]

Figure 4.5

Effects of Predictor Variables* on the Total Direct Assistance Score (range: 0–20)



* Full description of regression results found in Technical Appendix C online.

[48] This composite score is made up of the following items: low interest loans to business, locally operated revolving fund, financial grants to business, and grants from the Community Development Block Grant Program.

[49] In examining the correlation between median household income and the four items that comprise the Direct Assistance cluster we find fairly strong, significant negative coefficients: -.357 (low interest loans to business); - .355 (locally operated revolving fund); -.245 (financial grants to business); and -.411 (Community Development Block Grant Programs). All of these are significant at less than the .000 level.

Indirect Assistance

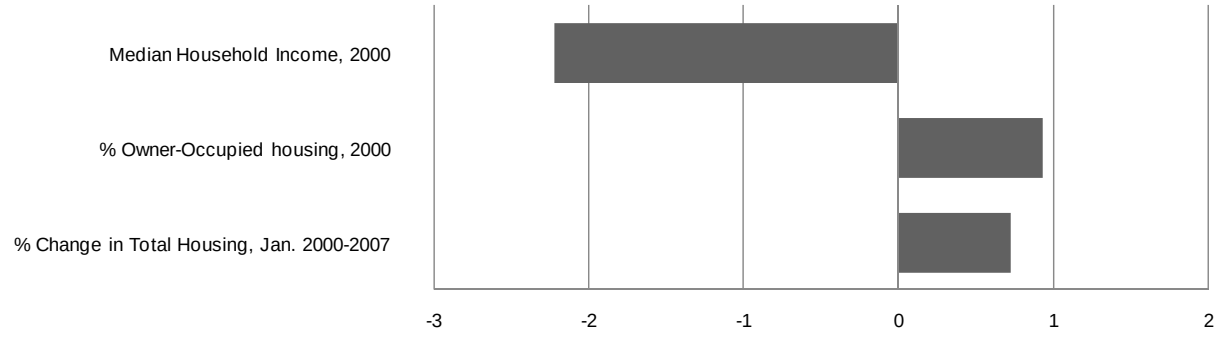
Figure 4.6 portrays the results of the Indirect Assistance score, made up of the local policies that involve rezoning, reducing permitting costs, and increasing the supply of land for business via annexations and rezoning.

We again find family income playing a significant, negative role, with a decline of slightly more than 2 points in the Indirect Assistance score with a standard deviation increase in income.

Both the percent of owner-occupied housing and growth in the number of housing units are associated with an increase of less than 1 percent in Indirect Assistance.[50] In fact, the percent change in total housing between 2000 and early 2007 is strongly associated with annexation to provide land for new businesses. This finding is consistent with the possibility that communities with large increases in housing stock may believe they need to improve the balance between residential and commercial land uses.

Figure 4.6

Effects of Predictor Variables* on the Total Indirect Assistance Score (range: 0–20)



* Full description of regression results found in Technical Appendix C online.

Streamlining Policies

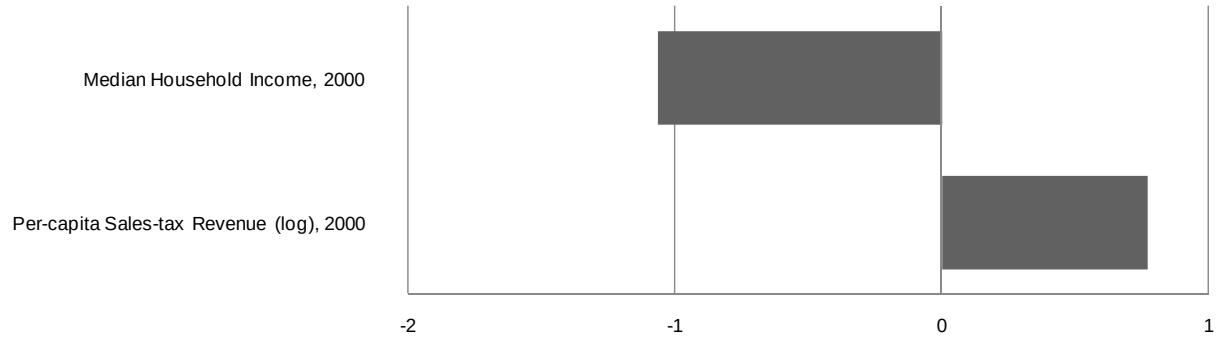
Figure 4.7 depicts the results of the analysis for Streamlining activities. These include making the development review process more efficient, assuring consistency in development rules, formal customer service training for city staff, consolidating local development programs, and working with area's regional governments.

[50] For example, higher household income is negatively and significantly correlated with each of the items comprising the indirect score, and the housing variables are associated both positively and significantly with several of the Indirect Assistance items, particularly the activity of annexation of land for new businesses.

The negative influence of household income appears here, although the effect is modest, with a slightly more than 1-point decline in the Streamlining score. On the other hand, the local per capita sales tax is associated with a nearly 1-point increase in streamlining activity.

Figure 4.7

Effects of Predictor Variables* on the Total Streamlining Score (range: 0–25)



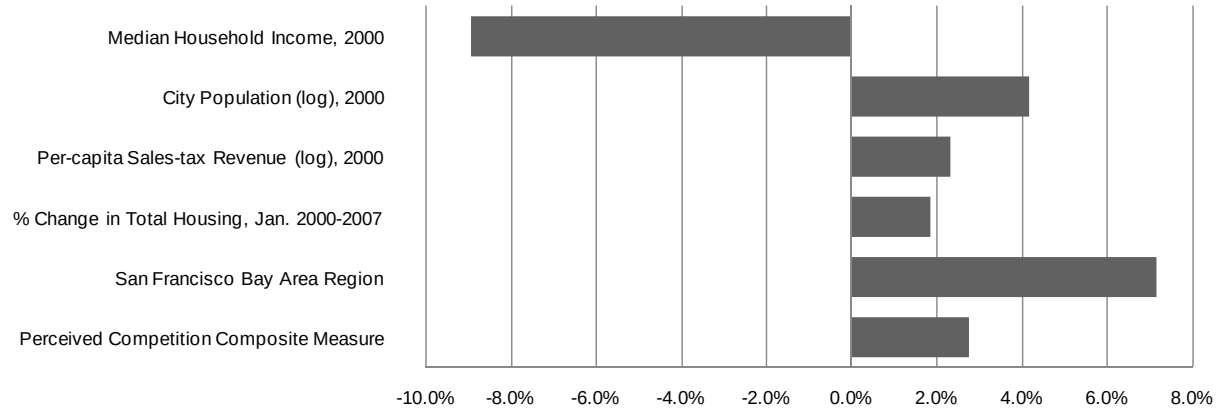
* Full description of regression results found in Technical Appendix C online.

Overall Economic Activity Level

Figure 4.8 illustrates the results for the total Economic Development Score. Household income has a very substantial negative association with the overall Economic Development score, indicating a greater than 8-percent decline, with an increase of one standard deviation in household income.

Figure 4.8

Effects of Predictor Variables* on the Total Local Economic Development Score (in Percentages)



* Full description of regression results found in Technical Appendix C online.

The figure indicates that being in the Bay Area is associated with a 7-percent increase in the total Economic Development score, suggesting that cities in the Bay Area are somewhat more active in economic development than cities in the omitted category. To be clear, this does not indicate that Bay Area cities are doing the most important or effective things, but simply that they are doing more across the range of local economic development activities surveyed in this project. City size is associated with about a 4-point increase in total economic development activity, and there are smaller, but significant, increases associated with higher per capita sales tax revenue, housing stock growth and perceived competition.

Summing Up

The models of local policymaking are useful in making some key points. First, a number of local circumstances clearly seem to be related in consistent ways to local economic development policy outcomes. Second, these local factors—such as the numbers of neighboring cities and the presence of regulatory barriers—have consistent linkages across policies. Third, perceived competition among cities is likely a factor driving some policies, but its influence on local policy is much less than is perhaps warranted by the amount of attention it gets.

Our analysis indicates that to some extent local impulses, reflecting local political, demographic, economic, and social conditions are likely to affect what local governments do in the area of local economic development policy. Particularly notable is the pervasive, consistent, negative relationship between city median household income and economic development policy. In each case household income increases are associated with declines in policy scores; it appears that one major factor shaping local activity is the level of local need, at least expressed as family income. Wealthier cities, all other things equal, do less in the economic development field. That relationship might also be due partly to the fact that higher income municipalities are less likely to use government for business development. Such places are less likely to be afflicted with the problems that create the demand for such programs, or might be more dominated by owner-occupied housing land use, with homeowners opposed to the incursion of commercial land uses.

We can only conjecture, albeit plausibly, given the exploratory and tentative nature of the data and analysis we use here. There are other local factors that might be important in shaping economic development policy, but which we have not included, such as the presence of a seaport or airport, a railroad terminus, a regional shopping mall, or being located at a major freeway hub. Local governments, then, have not only specific interests but also manifest factors reflecting their stage of development or location—whether within a densely developed, highly populated region or at the leading edge of a new suburban area, formerly agricultural. The mix of circumstances and local factors can elicit different local policy responses.

Local governments are to some important degree likely to operate in particular ways because of their local circumstances. Insofar as these shape or affect what they are inclined to do, state policies might benefit from greater efforts to tailor state policy to categories of communities.

5. State Policy Recommendations: Building on Local Actions and Addressing Local Barriers

Our survey results indicate that there are important barriers or constraints on local economic development activity. These include the lack of affordable housing, inadequate transportation infrastructure, high energy costs, lack of an appropriately trained workforce, traffic congestion, and restrictive land use regulations. While the state often struggles generically with policies in these areas, it does so without systematically tying these concerns to local or even state economic development objectives.[51] Instead, they are often subsumed into other, sometimes unrelated, substantive areas, such as education, transportation, public finance, or workforce development.

A.B. 1550, enacted in 2006, requires that applicants for and participants in geographically targeted economic development programs (i.e., enterprise zones) must develop comprehensive economic development programs that link myriad issues, including housing, transportation, redevelopment, and workforce training. Since the areas involved tend to be older, distressed, needier places, this legislation provides an example of the state, in effect, obliging the city, county, or even a multi-county region, to connect the dots across a host of frequently disparate programs. The state, in turn, might provide greater advice, assistance, and even resources in addressing some of the specific barriers that communities face to do economic development.

Finally, notwithstanding the scarcity of funding for many state-sponsored or state-administered programs relating to economic development, it is unlikely that all the relevant and useful programs will be combined in a single place or that procedures will be sufficiently simplified to make these resources readily accessible to all communities—even if they have seasoned grant writers, and many do not. Interviews and survey responses suggest that substantially more state effort is needed to provide equitable outreach and assistance for applications and information dissemination regarding programs available to local governments. Many communities have little grant-seeking ability or access to the skills and resources required for grant competitions.

Mitigating Locally-Felt Barriers to Economic Development

Focused state attention on mitigating the barriers noted in preceding pages and earlier sections of this report would also tie in nicely to other key state policy areas, such as infrastructure, education and workforce training, regulatory reform, and housing policies.

Places with little or no vacant space on which to develop anything find themselves at a substantial disadvantage. As our results have demonstrated, these communities include not only large urban places, but also long-established, smaller, isolated locales, some of them agricultural.

[51] Notable exceptions can be found in the area of workforce development, where some cities, counties and community colleges and the state have worked systematically in the face of budgetary problems to improve the supply of quality workers.

California is a major recipient of federal economic stimulus package funds. Together with a variety of state and local bond measures for capital projects, these funds can translate into opportunities to address a number of the key barriers to economic development. Clearing and preparing land for economic development, targeting unemployed workers for workforce training, and improving inadequate transportation infrastructure are core economic stimulus activities, and the state should link federal and state resources to an economic development strategy that reduces local barriers to economic development.

Use, Nurture, and Expand Local Institutions and Local Leadership

Cities, counties, and community college districts, as well as local and regional economic development corporations have a fairly stable existence, and they are not subject to dramatic institutional changes when there is a shift in state administration or switches in legislative leadership. In short, local governments are there for the duration, and they have a large number of people, programs, and resources devoted to economic development. It should be a priority, therefore, for the state to build on and use the ongoing expertise and experience that resides among local governments. Because of the multiplicity of small, more isolated communities, regional bodies need to evolve or expand and used to focus and convey their concerns to the state. The California Partnership for the San Joaquin Valley, part of the state's Economic Development Strategy organization, may serve as a good example for other parts of the state.

The Need to Align Incentives for Local Governments

Our interviews with and observations from state officials indicate that many of them see local government as mainly interested in corralling specific businesses or competing with their neighbors. To the extent this is true—and we believe that local motivations are too often oversimplified— it stems in significant degree from the incentives that the state's fiscal system has evolved. If the state prefers to reduce competition among cities, then the state should provide grants and build on models that reward cooperation among cities (Thurmaier and Wood, 2002). However, many communities find competition among jurisdictions to have certain benefits. These include the generation of information about developable land, greater "customer" friendliness, and more prudent local fiscal policies. If inter-city competition is to be reformed, it should not be at the expense of these positive elements. Insofar as the state's fiscal structure creates wasteful or unfair efforts to attract development or if it biases local policies toward certain kinds of economic activities only, reform is justifiable—if extremely challenging.

However, California now faces a severe economic downturn, with rising unemployment and diminishing retail sales. It might provide the kind of political climate that makes at least modest fiscal reform more possible.

Regular Legislative-Executive Branch Interactions with Local Governments

There are many things that the state of California does that affect virtually every facet of local economic development activity. Regulatory policy, loan and bond pools, infrastructure project scheduling, workforce training, and information gathering and dissemination are some of the things that the state does and that it can do a lot better. Many of the interviews conducted

with local officials and discussions with state legislative staff strongly suggest that state-local relations might be improved considerably by having a durable state-level focus – in the legislature or the executive branch -- for California's economic development activity, which addresses and publicizes more effectively the interrelations among these disparate activities. The fact that many localities are unaware of many state programs is very unfortunate; a better clearinghouse is apparently needed.

There are many ways for the state to find resources to support such activities. These range from a publicly funded entity, located in either the legislature or in some state agency, to a state-managed fund to which private parties, such as businesses, and individuals might contribute.

The current administration is publicizing the statewide, facilitative role that BTH hopes to play in the economic development arena, and members of BTH staff indicate that they are being aggressive in fostering discussions and lines of communication between city, county, and regional entities. BTH aspires to be the single point of entry for state economic development activities: while aggregating and summarizing statewide communications from economic development actors, it assumes responsibility for larger issues, such the state's business climate, and information and assistance to the local and regional level.

This kind of state activity should be reinforced and supported, and institutionalized in statute; it addresses the concerns of local governments regarding communication and respect and should help create a genuine partnership with the state going forward.

In addition, the current role that cities, counties, and economic development corporations are being asked to play in developing the variety of federal economic stimulus approaches in California seems to be the kind of role that they want to fill. (Bonner, 2008).[52]

This report has found that most cities do not evaluate formally what it is that they do in the local economic development arena and they tend not to be guided by a general, strategic approach. A mandate to create a carefully designed assessment and evaluation would be in the interest of both the state and local governments, presumably because only activities whose benefits exceed costs should be supported. It is also possible that the cost of such activities for local governments may diminish, if they approach such activities with a more general, strategic plan, rather than through a catch-as-catch-can, opportunity-by-opportunity approach.

[52] The document involved explicitly harkens back to Assembly Bill 1721 and discusses the role that the state will play in cultivating local and regional economic development organizations, including those in the private sector.

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About the Authors

Max Neiman is a senior fellow and an associate director of research at the Public Policy Institute of California, responsible for research in governance-related topics. His research interests include government performance, urban growth and development, disputes over managing growth, the politics of race, ethnicity, and immigration, and political models of policymaking. He has received awards from the National Science Foundation, The Haynes Foundation, the California Endowment, and the Department of Housing and Urban Development. He is an author and editor of six books and numerous articles and conference papers. His latest book, co-authored with Paul Lewis, is *Custodians of Place: Governing the Growth and Development of Cities*, published this year by Georgetown University Press. He holds a Ph. D. in political science from the University of Wisconsin, Milwaukee.

Daniel Krimm is a research associate at the Public Policy Institute of California, specializing in governance. Before joining PPIC, he was a Global Policy Fellow at IP Justice, addressing issues in information and communication technology and Internet governance. He holds an M.P.P. degree from the University of Southern California and a B.A. from Princeton University in the History and Philosophy of Science.

PUBLIC POLICY INSTITUTE OF CALIFORNIA
500 Washington Street, Suite 600
San Francisco, California 94111
phone: 415.291.4400
fax: 415.291.4401

PPIC SACRAMENTO CENTER
Senator Office Building
1121 L Street, Suite 801
Sacramento, California 95814
phone: 916.440.1120
fax: 916.440.1121

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